

Avon Pension Fund Committee

Date: Friday, 7th December, 2018

Time: 2.00 pm

Venue: Kaposvar Room - Guildhall, Bath

Bath and North East Somerset Councillors: David Veale (Chair), Patrick Anketell-Jones, 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), Richard Orton (Trade Unions), Shirley Marsh (Independent Member) and Pauline Gordon (Independent Member)

Co-opted Non-voting Members: Cheryl Kirby (Parish and Town Councils) and Wendy Weston (Trade Unions)

Chief Executive and other appropriate officers

Press and Public



Sean O'Neill

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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings:-**

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<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

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Additional information and Protocols and procedures relating to meetings

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Avon Pension Fund Committee - Friday, 7th December, 2018

at 2.00 pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 8.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 21ST SEPTEMBER 2018 (Pages 5 - 18)

8. PENSION BOARD MINUTES: (Pages 19 - 28)
9. REVIEW OF GOVERNANCE ARRANGEMENTS (Pages 29 - 54)
10. APPROVAL OF INVESTMENT STRATEGY STATEMENT (Pages 55 - 82)
11. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 83 - 210)
12. UPDATE ON BRUNEL PENSION PARTNERSHIP (Pages 211 - 254)
13. 2018 INTERIM VALUATION UPDATE (Pages 255 - 302)
14. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 303 - 316)
15. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER (Pages 317 - 368)
16. GMP RECONCILIATION - VERBAL UPDATE (Pages 369 - 376)
17. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER AND RISK REGISTER (Pages 377 - 418)
18. BUDGET AND CASH FLOW MONITORING 2018/19 (Pages 419 - 428)
19. UPDATE ON LEGISLATION (Pages 429 - 448)
20. WORKPLANS (Pages 449 - 462)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 21st September, 2018, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Patrick Anketell-Jones, 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), 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) and Ross Palmer (Mercer)

Also in attendance: Howard Pearce (Chair of the Pension Board), Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Geoff Cleak (Pensions Manager)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

22 DECLARATIONS OF INTEREST

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

25 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

26 MINUTES: 22 JUNE 2018

The public and exempt minutes of the meeting of 22 June 2018 were approved as a correct record and signed by the Chair.

27 PENSION BOARD DRAFT MINUTES: 19 JULY 2018

RESOLVED to note the draft public and exempt minutes of the Pension Board meeting of 19 July 2018.

28 PENSION BOARD ANNUAL REPORT

Howard Pearce, Chair of the Pension Board, presented the report. He began by reminding Members of the role of the Board, as set out on page 2 of the report (agenda page 35) and that the Board had existed for 3 years. Members noted the work and forward plan of the Board (pages 8-11/agenda pages 41-44) and reminded themselves of the advice given and recommendations made to the Fund (Appendix 1).

A Member noted the concern expressed by the Board at the very low attendance at the Fund's employers' conference and asked what steps could be taken to encourage them to do so. Mr Pearce suggested that the Fund could arrange smaller training sessions and employers to allow relevant staff a day off work to attend. The Fund should give early notice of forthcoming events and encourage employers to attend the annual conference. The Head of Business, Finance and Pensions said that the holding of an annual conference is good practice. The Fund did hold quite a number of other engagement sessions for employers and tried to reach as many employers as possible, though this could be very difficult with the small employers. Replying to the Member, he said that the Fund tended not to hold events in the evening; the last time this had been done was in 2014 to explain the changes to the LGPS being implemented at the time.

A Member asked whether the Board had received the list of repeat late payers that it had requested. Mr Pearce replied that the Board was receiving regular reports on late payers. The Board took assurance from the last report in which there were no repeat late payers and from which it appeared that late payments occurred by accident or oversight.

A Member said the Board's report was useful and helpful. However, she did have a concern that there might be duplication between the work of the Board and that of the Committee and wondered how this could be minimised. Mr Pearce agreed that there was a risk of duplication, since the respective Terms of Reference for the Board and the Committee had similarities. The agendas for the Board and the Committee did need to be co-ordinated, but the Board's focus was on the governance of the Fund and its overall decision making process, not low-level detail.

Replying to another Member Mr Pearce said that the report would be presented to the Council and sent to Fund members. It would provide to the Council as

administering authority an independent assessment of the governance and administrative efficiency of the Fund.

RESOLVED to note the Pension Board Annual Report 2017/18.

Mr Pearce withdrew from the meeting.

The Head of Business, Finance and Pensions advised the Committee that at its last meeting the Pension Board had requested that the Chair (with the possibility of substitution by another Board member) be accorded observer status at meetings of the Committee, which would include the right to attend exempt sessions. This would require an amendment to the Committee's Terms of Reference, which could be implemented in time for the December meeting. He invited Members to express their views about this.

Members discussed the request in depth including:

- whether attending exempt sessions would cause conflicts of interest and confusion of roles;
- whether in order to scrutinise the governance process, the Board needed to attend exempt sessions and listen to the Committee's deliberations;
- that the minutes should provide adequate sight of the process and decisions.

The overriding concern was that this could lead to a confusion in roles and initial conclusion was that the functions of the Committee and Board were best kept separate to avoid potential conflicts of interest. The Head of Business, Finance and Pensions said that he would discuss the matter further with the Chair of the Pension Board and report back.

29 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investments Manager presented the report.

She drew attention to the draft minutes of the Brunel Oversight Board (BOB) meeting of 18 July 2018. The next meetings of BOB would be in September and November. The November meeting would discuss the business plan and budget for 2019/20 to be submitted to the shareholders for approval. The transition to the passive equity portfolio was completed in July in line with the timetable, so BlackRock are no longer managing the Low Carbon Fund; it is now managed by Legal & General using the same benchmark index. The selection process for two active equity portfolios, UK Equities and Low Volatility, is reaching the final stage. Mercer has confirmed that the new portfolio will meet Avon's strategic objectives. As far as private market investments were concerned, Avon had made commitments to the Secured Income and Infrastructure portfolios in line with its strategic asset allocations of 7.5% and 2.5% respectively. Mercer had again confirmed that these portfolios will meet the Fund's strategic objectives. Brunel was creating an Authorised Contractual Scheme (ACS) which would give Brunel greater power to impose its own voting policy. This is a positive for the Fund as currently we adopt the voting policies of our fund managers.

A Member referred to item 5 of the BOB minutes (agenda page 57) and asked whether this was a move by Brunel to manage private market investments in-house. He also wondered whether the request for additional funding for this function indicated that the original budget estimate bid had been insufficient. The Investments Manager replied that the private markets were a complex area to model in the original business case. Certain assumptions had been made in the business case, but having set up the private market team and launch initial private market portfolios, Brunel realised they need middle office support for each portfolio. The extra resource will allow the savings to be delivered. The Business case always assumed that private markets would eventually be managed in-house where there was expertise. Indeed setting up the private market portfolios is ahead of the business case plan.

A Member asked whether the remuneration report, which was the subject of item 4 of the BOB minutes, could be shared with the Committee. The Head of Pensions replied that as it is a special reserved matter which requires unanimous approval of the shareholders. It might be possible to share it with Members at a later date, but this could not be done within the decision-making cycle.

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 during the consideration of exempt appendices 2a, 2b, 4 and 5 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 it was **RESOLVED** to note:

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

30 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGY

The Investments Manager presented the report.

A Members' workshop had been held before the meeting in preparation for this first annual review of the Risk Management Framework. At its meeting on 10 September 2018 the Investments Panel had recommended that the current trigger framework for the LDI portfolio be maintained as detailed in paragraph 4.4 of the report.

Before considering the Mercer Risk Management Framework Overview report, the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with section 100(A)4 of the Local Government Act 1972, that the public be excluded during the discussion of the exempt appendix to this item, and that the reporting of this part of the meeting be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

After discussion, the Committee returned to open session and **RESOLVED**:

1. to agree the Panel recommendation that the existing trigger framework for the LDI strategy should be maintained, subject to further review by the Panel;
2. to delegate the decision whether to use dynamic hedging in the equity protection strategy to the Investment Panel;
3. to delegate to officers in consultation with the Chair of the Panel restructuring of the equity protection strategy as advised by the investment consultant;
4. to note Mercer's report reviewing the strategies and collateral position.

31 DRAFT INVESTMENT STRATEGY STATEMENT

The Investments Manager presented the report.

Members noted that final version of the Investment Strategy Statement would return to the Committee in December after it had been reviewed by the Pension Board.

RESOLVED:

1. to approve the draft Investment Strategy Statement for consultation with the Pension Board;
2. to agree to review the ISS annually and delegate operational updates to officers in between reviews.

32 GMP RECONCILIATION

The Committee having been satisfied that the public interest would be better served by not disclosing relevant information **RESOLVED**, in accordance with section 100(A)4 of the Local Government Act 1972, to exclude the public for the discussion of this item and to prevent the reporting of this part of the meeting, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12 A of the Act as amended.

After discussion it was **RESOLVED** to approve a course of action in relation to this matter.

33 CORPORATE BOND HEDGING STRATEGY

The Committee having been satisfied that the public interest would be better served by not disclosing relevant information **RESOLVED**, in accordance with section 100(A)4 of the Local Government Act 1972, to exclude the public for the discussion of this item and to prevent the reporting of this part of the meeting, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12 A of the Act as amended.

After discussion the Committee **RESOLVED** to approve the recommendation.

34 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

RESOLVED to note the minutes of the Investment Panel meeting on 10 September 2018 at Appendix 1 and Exempt Appendix 2.

35 INVESTMENT STRATEGY AND PERFORMANCE

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

Mr Turner presented the Mercer Quarterly Investment Review.

RESOLVED:

1. to note the information set out in the report;
2. to note LAPFF Quarterly Engagement Report at Appendix 4.

36 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager presented the report.

He said that during the reporting period an additional 57 employers had joined the Fund, the majority being academy conversions and associated admitted bodies. There were a potential 60+ new employers in the pipeline.

The report showed an overall downturn in performance against SLA compared with the previous quarter, owing mainly to staffing levels and significant training requirements for new staff and existing staff acting up into more senior roles. Performance against statutory deadlines was on target in all areas. The project to clear the backlog of inter-fund transfers had been completed, and work had started on clearing the backlog of Aggregation cases; 800 of the near 4,000 cases had been cleared since the project began in mid-July. The project to roll out IConnect solution across employers had made excellent progress, with almost two thirds of active members now covered by monthly data returns. Of the missing member cases identified by the address tracing process about 20% had updated their contact details. This project is ongoing. The TPR data score at 30 June was calculated 94.48%, slightly up on the previous quarter, mainly as a result of the year-end data reconciliation exercise. Errors identified are reported quarterly to employers. Errors in TPR data were up slightly on the previous quarter.

RESOLVED to note:

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

37 BUDGET AND CASHFLOW MONITORING

The Investments Manager presented the report.

RESOLVED to note:

1. the administration and management expenditure incurred for 4 months to 31 July 2018.
2. the Cash Flow Forecast to 31 July 2018.

38 UPDATE ON LEGISLATION

The Pensions Manager presented the report.

He said that there had been little movement on issues, but the Treasury had recently issued draft amendments to the guidance to GAD on public sector pension scheme valuations

(see <https://www.gov.uk/government/publications/public-service-pensions-2016-valuations-supplementary-documents>)

Treasury have issued draft amendments to Directions relating to the scheme valuation and cost management process for public service schemes, proposing to move all LGPS Funds in the UK to a quadrennial cycle from 2020 to enable GAD to facilitate comparison with other public sector schemes.

RESOLVED to note the current position regarding the developments that could affect the administration of the Fund.

39 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.35 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 8th November, 2018

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Steve Harman (Employer Representative), Tom Renhard (Member Representative), David Yorath (Member Representative) and Tony Whitlock (Employer Representative)

Also in attendance: Jeff Wring (Head of Audit West), Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Geoff Cleak (Pensions Manager) and Alan South (Technical Manager)

43 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

44 APOLOGIES FOR ABSENCE

Apologies were received from Mark King.

45 DECLARATIONS OF INTEREST

There were none.

46 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair reminded Members of the role and purpose of the Board, which is to help the administering authority to secure compliance with LGPS Regulations and the requirements of the Pensions Regulator, and to ensure the efficient and effective governance and administration of the Avon Pension Fund scheme.

The Chair announced that since the last meeting he had attended a meeting with other Local Pension Board chairs and the Chair of the Scheme Advisory Board. There had been discussion about the need for effective communications between the national SAB and local pension boards. The Chair of the SAB had agreed that further work needed to be done to integrate the work of the SAB and LPBs and to clarify their roles. A copy of the first of a new series of post-meeting communiques for pension boards and pension committees, which had been issued after the February SAB meeting, had been forwarded to Members.

47 ITEMS FROM THE PUBLIC

There were none.

48 ITEMS FROM MEMBERS

There were none.

49 MINUTES OF PREVIOUS MEETING: 19 JULY 2018

RESOLVED that Mark King be added to the apologies for the meeting, and that Steve Harman, Mark King and Tony Whitlock be removed from the attendance list of the exempt minutes, and that the public and exempt minutes be approved subject to these amendments.

Matters arising

Item 26, agenda page 7, first paragraph: training for Board Members on the accounting, auditing and reporting of cost savings from pooling: the Chair suggested that this be picked up in 2019.

Item 28, agenda page 7, fifth paragraph: attendance of Board Members at exempt sessions of the APF Committee and Investment Panel: Members noted from the APF Committee minutes for the 21st September that this had been discussed at that meeting. The Chair and the Head of Business, Finance and Pensions had further discussions subsequently, and they had agreed that Board Members should not be able to attend exempt sessions of the APF Committee and Investment Panel. A Member asked if information had been sought about the practice of other LPBs and pension funds. The Head of Business, Finance and Pensions said that this would probably vary. Where LPB Members were active on pension committees, it gave rise to the potential for conflicts of interest. The Chair reminded Members that they have access to all APF Committee and Panel papers and are able to observe open sessions.

Item 33, paragraph 3: SAB project on academies: the Chair reported that the SAB consultation had ended in September.

50 AVON PENSION FUND COMMITTEE: MINUTES OF THE MEETING OF 21 SEPTEMBER 2018

It was agreed that the Chair should not be classified as an “adviser” in the attendance list.

Before discussing the exempt minutes, the Board having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded during the discussion of AFP Committee exempt minutes of the 21 September 2018, 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 discussion it was **RESOLVED** to note the public and exempt minutes of the meeting of the Avon Pension Fund Committee of 21 September 2018.

51 AVON PENSION FUND COMMITTEE INVESTMENT PANEL: MINUTES OF THE MEETING OF 10 SEPTEMBER 2018

RESOLVED to note the public and exempt minutes of the meeting of APF Investment Panel of 10 September 2018.

52 BRUNEL OVERSIGHT BOARD: MINUTES OF THE MEETING OF 18TH JULY 2018

A Member asked when the government might renew pressure for funds to invest in infrastructure. The Head of Business, Finance and Pensions said that infrastructure appeared to be moving up the Government's list of priorities. For funds it was a matter of finding the right opportunities and investment vehicles.

The Chair suggested that it might be another year before it became clear whether cost savings had been made through pooling. The Head of Business, Finance and Pensions agreed that it would take at least a couple of additional transitions to get a better picture. The asset composition of the funds within the pool was changing, so it is not a case of comparing like with like.

Summing up, the Chair said that it appeared that the Brunel Oversight Board was offering an effective challenge to Brunel on governance issues and that APF was maintaining a robust process in relation to pooling; the Board should be reassured by this. The great unknown was whether pooling would deliver significant cost savings, and this would only become apparent at a later date. He thanked officers for their hard and able work in support of pooling.

RESOLVED to note the minutes of the meeting of the Brunel Oversight Board of 18th July 2018.

53 PENSION BOARD ACTION LOG

Administration strategy

The Pensions Manager reported that this would be presented to the next meeting of the Board in March 2019.

SAB Review of Local Pension Boards

The Chair said that he had investigated what is happening with the SAB survey of LPBs. He had found that after the survey had been completed, SAB had produced a very brief statistical analysis, which is available on their website. Some of the results of the survey were incorporated into the guidance to local pension boards about best practice, but SAB is not going to produce a full report. He therefore suggested that this action should be deleted from the log. Members agreed to this.

Missing Scheme Member Addresses

The Pensions Manager reported that some responses had been received from other funds in response to a request for information about their missing address statistics. The Chair requested that responses for funds who had not replied should be chased up.

54 EXTERNAL AUDIT UPDATE: AUDIT FINDINGS REPORT

The Chair was pleased to note that the external auditors had found that the Fund was compliant and that there were no major issues of concern.

A Member said that he would have found it helpful to have had a one-page cover report from officers stating that External Audit had found no cause for concern. This would also have been useful for any scheme member or member of the public who took an interest in the affairs of the Fund.

A Member asked about the delay in the confirmation of the final audit opinion. The Chair explained that the auditors had to be satisfied that the financial accounts were consistent with the text of the Fund's annual report, which is produced later than the financial accounts. The annual report would be presented to the next meeting of the Council. Next year there would be additional requirements for the accounts and the annual report, which would further complicate matters. CIPFA will publish three new guides: on annual reporting, on administration reporting and on costs of pooling.

The Chair thanked officers for their work, which had resulted in a clean report from the external auditors in relation to a £4bn fund.

RESOLVED to note the report of the external auditors.

55 LGPS UPDATES

The Technical Manager presented the report.

The Treasury had reported that all public sector schemes are below the cap floor. The problem for unfunded schemes is that they cannot adjust the level of contributions. SAB has its own cost management process, which will allow changes in benefits to be taken into account before the Treasury process begins. SAB has a sub-group working on a package of benefit changes which will be put to the full SAB for agreement.

There is a move to put all public-sector pension schemes on a 4-year valuation cycle. Any scheme amendments implementing this would take effect from 1st April 2019, so the next valuation period would be 2019-2023.

The Chair said that he believed that there would be little movement on most pension issues in the near future, because so much Government resource was tied up with the Brexit process.

The Chair said that TPR had made a presentation to the Wiltshire LPB, which he also chairs, and suggested that it would be useful for them to meet the Avon Board next year, either in a training session or under an agenda item at a main meeting.

RESOLVED to note the report and latest developments.

56 ISS CONSULTATION

A copy of an email containing the Chair and LPB Members' comments on the draft APF Investment Strategy Statement (ISS) was circulated to Members.

The Head of Business, Finance and Pensions presented the report. He said that he believed that overall the ISS complied with requirements. The Chair suggested that

the Fund should consider whether it had demonstrated engagement with the Local Pension Board. The Head of Business, Finance and Pensions replied that the Committee had agreed to delegate to officers any further non-material changes in the ISS to reflect Brunel Transition. The Fund would be working closely with Brunel, who are managing investment on behalf of the Fund. In addition the APF would be reviewing its ESG strategy in 18 months or so, and he requested the Board consider whether there were any aspects of the issues they had raised that would really add value.

Members discussed this. One Member said that he wondered how materiality would be judged, but he was not able at present to suggest an answer. The Head of Business, Finance and Pensions felt that there was a need for a common understanding of issues, and that in future joint training should be undertaken with the Committee.

The Chair summed up his understanding of what officers were proposing, namely that routine non-material amendments to the ISS proposed by Board Members should be dealt with through emails and a more formal process only be followed for material amendments. Members indicated that they would be happy with this. The Chair said that he felt this arrangement would demonstrate engagement with the Board and comply with 7(2)(e) of the Investment Regulations. It appeared that there was now a common understanding in connection with 7(2)(e) that the Board should focus on long-term material, non-financial factors that might affect investments. It would be useful for Board Members to have further training and engagement about ESG and Responsible Investment when those came up for review.

RESOLVED to note the draft Investment Strategy statement for compliance with the regulations.

57 ANNUAL BENEFIT STATEMENT UPDATES

The Pensions Manager presented the report.

Members noted that all employers had been contacted in January 2018 in preparation for the issue of this year's Annual Benefit Statements. The performance of this exercise this year had been better than last year, reflecting a higher level of engagement with both employers and employer payroll providers throughout the process. Looking ahead, the planned receipt of monthly data returns from all employers should ensure a high level of data accuracy in future years.

Members note the failure rate of 10.1% for deferred employees, which was due to missing addresses. The Chair said that Wiltshire's failure rate was lower and suggested that comparative information should be obtained from other funds in the Brunel pool.

RESOLVED to note the report.

58 COMPLIANCE REPORT

The Pensions Manager presented the report.

A Member said it was good to see progress with IConnect, which was really making a difference to performance.

A Member said that he was very pleased to see by how much performance had improved since the Board began reviewing it. The reports were now very comprehensive, and he was confident as a Board Member that compliance was being taken seriously. He was, however, concerned by the performance of Bristol City Council. The Pensions Manager stated that the particular performance issue was related to a third-party payroll provider. Nonetheless as employer they retained the responsibility for compliance. The Chair wondered whether they should be reported to TPR. The Pensions Manager felt this would not be appropriate at this stage, because the data they provided was of good quality; it was a question of the timeliness of their data provision. A Member asked whether there were any plans to roll out IConnect to third parties. The Pensions Manager said this was not straightforward, and would have to be carefully considered. Payroll providers were not part of the Fund and employers frequently changed them. The Head of Business, Finance and Pensions said that Multi-Academy Trusts were required to harmonise their payroll arrangements.

The Chair noted there was good progress on tracing missing addresses and that the Fund had sufficient resources for this project. He suggested that priority should be given to missing members over 55, as they have a statutory right to withdraw their money from the Fund. He also noted that the legal position that pension overpayments should be reclaimed, though he acknowledged this was challenging from a pragmatic point of view.

The Chair thanked officers for the quality of information provided to the Board and the improvements in performance.

RESOLVED to note:

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

59 RISK REGISTER UPDATE

The Pensions Manager presented the report.

A Member asked whether Brexit might be added as risk. Officers suggested that there were many potential risks from Brexit and that they were so comprehensive and uncertain as to make adding them to the Risk Register unhelpful.

RESOLVED to note the report.

60 TRAINING AND WORKPLAN UPDATE

The Head of One West presented the report and invited Members to reflect on what training they might require between now and next July.

The Chair suggested training on new CIPFA guidance on annual accounting and annual reporting, including asset pooling costs/savings.

A Member suggested training on Fund processes and procedures.

The Head of Business, Finance and Pensions reminded Members that some Members' terms of appointment would end on 30 June 2018. There was some governance work to be done in relation to the Board and the Committee before then.

RESOLVED to note the report.

61 FORWARD LOOK

It was agreed that all relevant issues had been covered elsewhere on the agenda.

62 DATE OF NEXT MEETING

Noted that the next meeting is scheduled for 7th March 2019 in the Council Chamber, Guildhall, Bath at 14:00.

The meeting ended at 4.06 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	7 DECEMBER 2018
TITLE:	Review of Governance Arrangements
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Proposed Terms of Reference of Avon Pension Fund Committee Appendix 2 Proposed Terms of Reference of Avon Pension Board Appendix 3 Current Terms of Reference of Avon Pension Fund Committee Appendix 4 Current Terms of Reference of Avon Pension Board	

1 THE ISSUE

- 1.1 The existing Governance arrangement including Committee and Investment Panel structures have been in place since 2006 with very little material change. However the environment within which the Committee operates has changed dramatically including increased regulatory oversight via the Pensions Regulator, Scheme Advisory Board and our own Local Pension Board, the introduction of Pooling and formation of Brunel Partnership, the need to be MIFID II compliant and an overall increase in regulatory requirements. The LGPS itself has undergone two fundamental changes, there has been a significant increase in Fund Employers and the investment strategy is increasingly technically complex.
- 1.2 It is therefore timely to review the existing governance arrangements to ensure the Fund remains fit for purpose, has sufficient capacity to focus on key strategic issues and can operate efficiently in what has become an extremely complex and dynamic environment

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1 **Agree to the 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**
- 2.2 **Agree to the establishment Brunel Working Group as an informal sub group of the Committee**
- 2.3 **Agree to the proposed changes to Terms of Reference of**

- a) **The Avon Pension Fund Committee**
- 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**

3 FINANCIAL IMPLICATIONS

- 3.1 There will be a small impact on costs to fund an additional independent advisor in the region of £20,000 per annum

4 CONTEXT

- 4.1 The environment within which the Avon Pension Fund operates has changed rapidly over recent years, a trend which seems set to continue. Scrutiny, regulation and compliance requirements have had a significant impact on workload and the continuing development of the Funds Investment and Risk Management Strategies, together with the advent of pooling have further increased the work of both the Committee and Investment Panel. At the same time the Committee is dealing with the challenges represented by an increasingly fragmented and growing employer base and work with the Local Pension Board to ensure administrative compliance.
- 4.2 It would seem there will be no respite from this dynamic environment for some time to come as pooling transition extends into 2021 and agendas of the Scheme Advisory Board, Pensions Regulator and indeed CIPFA seek to improve standards across public sector pensions overall. It should also be noted that the Fund will undertake the triennial valuation in 2019/20 and comprehensively review its Investment Strategy at the same time.
- 4.3 This “dynamic” creates a number of ongoing challenges for the Fund which now need to be addressed viz:
 - a) Ensuring the Committee has sufficient capacity and enhanced capability to deal with all the strategic challenges it faces. MIFID II requires the Fund to demonstrate its overall competency to become a “professional” investor
 - b) Ensuring there is sufficient oversight of core strategy and policy development and implementation; Administration, Funding and Investment including managing the relationship with Brunel and Brunel Oversight Board
 - c) Having sufficient time to consider emerging and crystallising issues of national and global significance issues and their strategic impacts
 - d) How to ensure the committee remains representative of its employer interests, reflecting the changing composition of the employer base within the Fund. The Fund is only partially compliant with this aspect of the Governance Compliance statement
- 4.4 In considering these issues and in particular working towards a more efficient governance structure, consideration needs to be given to the role of the Committee, Investment Panel, the Local Pensions Board and indeed officers in achieving this.
- 4.5 Furthermore the Fund has a track record of operating in a highly transparent and open manner which should remain a key principle underpinning any changes to governance arrangements. Finally the Committee should consider how digital communications could also play a role in efficient operations.

5 STRENGTHENING REPRESENTATION & CAPABILITY

- 5.1 The design (from 2006) of the Committee as it currently stands represents an employer base dominated by fewer large employers. Whilst it is still the case that large employers still reflects a substantial part of the membership, the actual employer base has grown by several hundred in over the past twelve years due in large part to growth of Academies and associated admission bodies, together with ongoing Council outsourcings.
- 5.2 Administratively, Academies represent the funds single biggest logistical challenge and as an employer group is likely to undergo significant transition over the next few years.
- 5.3 It would be expedient to extend Committee representation to the academies sector to both mitigate Governance Compliance Statement issues and enable a focal point to support improved communications and operational relationships with Academy employers
- 5.4 In 2006 the Fund also sought to manage its continuity challenges with the appointment of two independent members. This has been successful in bringing additional knowledge and experience to the Committee. At a time when the Funds Investment strategy is increasingly complex and the Funds regulatory compliance requirements are equally challenging, it is recommended that the Committee would benefit by strengthening its position with the addition of a further independent member, which would also support retention of the Fund's professional investor status.
- 5.5 To ensure the Committee remains manageable and to reduce the exposure of the Committee to the vagaries of the electoral cycle (the Fund still has 2/3 of its Committee subject to the Electoral cycle), it is recommended that the number of Local authority representatives on the Committee be reduced by limiting the B&NES representation to three voting members.

6 REFLECTING THE DEVELOPING BRUNEL RELATIONSHIP

- 6.1 The Brunel Partnership is now fully engaged in the asset transition programme and the Brunel Oversight Board is fully engaged in ensuring this happens. The relationship with Brunel is complex, the Administering Authority having a role both as Shareholder and Client Fund. At present, engagement with Brunel is undertaken primarily by the Chair of the Committee, Head of Business Finance and Pensions and the Investments Manager through their roles on Oversight Board and Client Group and to date this has primarily been around issues of business start-up and transition planning.
- 6.2 Whilst the transition of assets by Brunel will be monitored and reported on by the Investment Panel (and in time, the monitoring of the Brunel portfolios), the Fund has broader responsibilities particularly in relation to the role of the Shareholder over which the Committee needs to gain assurance. In order to achieve this in a pragmatic way it is recommended that an informal working group of the Committee is formed to include Oversight Board Representative, named Oversight Board substitute plus the Chair and/or Vice Chair if not the BOB representative / substitute plus an independent committee member.
- 6.3 The purpose of the Working Group would be to consider matters of material interest in respect of the structure, operations and contractual arrangements with Brunel including reserved matters informally and advise Committee and/or Shareholder as necessary.

7 CREATING CAPACITY & IMPROVING EFFICIENCY

7.1 The workload of the Committee is significant and has been growing annually. Many of the reports provide the Committee with information to enable the Committee to undertake its oversight role and are for comment or noting, whilst only 30% are for decisions. There is also significant duplication between the Committee and Board particularly in respect of Administration.

7.2 In order to improve the efficiency of the Committee and generate some capacity to better manage the workload it is proposed to

- a) Change the terms of reference of the Avon Pension Board to make better use of that resource and remove duplication
- b) Move some regular reporting to an informal accessible format; this will enable the Committee and Panel to focus on strategy and policy at meetings
- c) Formalise reporting arrangements from the Investment Panel and Avon Pensions Board to the Committee
- d) Amend the Terms of Reference to accommodate the above changes and clarify the Officers role in relation to operational investment matters

7.3 Specifically the intention is to;

- a) Enable the Pensions Board to monitor the implementation of the Administration Strategy and associated projects, together with the monitoring of compliance, providing the Committee with an update of progress and issues
- b) Formalise the arrangements between the Investment Panel and Committee to enable the Panel to regularly update the Committee on Strategy Implementation, developments and matters of strategic importance
- c) Provide a repository for information reports which can be disseminated on an informal basis whilst still affording discussion at Committee as necessary
- d) Maintain the high levels of transparency by ensuring that information remains publicly available via the Fund Website

8 TIMETABLE & PROCESS

8.1 The changes proposed to the Committee membership should be consulted on with Employers early in 2019; likewise the changes to the Avon Pension Board should be consulted with the Board.

8.2 This will allow the Committee to take a final decision in March 2019 and propose any changes to Council at the Annual General Meeting in May 2019. Implementation will then follow thereafter.

9 RISK MANAGEMENT

9.1 The proposals contained in this report are intended to strengthen the Governance arrangements of the Committee particularly in relation to increased compliance requirements and the developing relationship with Brunel Pension Partnership Limited.

10 EQUALITIES

10.1 An Equality Impact Assessment has not been completed.

11 CONSULTATION

11.1 Discussed in report.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Tony Bartlett, Head of Pensions (Tel: 01225 477302)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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TERMS OF REFERENCE

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund.

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel Pension Partnership Ltd (BPP Ltd) will gradually become responsible for implementing the Fund's Investment Strategy. The Fund's assets will transfer to portfolios offered by Brunel from April 2018 with most of the quoted assets transferring within 3 years. Once Avon's assets are within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of BPP Ltd. The Terms of Reference reflects this transition.

Function and Duties

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, the investment strategy and the investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Having taken appropriate advice determining the following:
 - a. the investment strategy and strategic asset allocation
 - b. the administration strategy
 - c. the funding strategy.
2. Monitoring the performance of the investment strategy, scheme administration, and external advisors.
3. Ensuring that the investment strategy can be delivered by the portfolios offered by BPP Ltd. If not, agree alternative arrangements. In relation to Brunel Pension Partnership:
 - a. Monitoring the performance of BPP Ltd in delivering investment services to the Fund. Make representations to the Brunel Oversight Board on matters of concern regarding the service provided by BPP Ltd and the performance of its portfolios.
 - b. Monitoring the governance of Brunel Pension Partnership and making recommendations to the Brunel Oversight Board. Terminating the Service Agreement with BPP Ltd.

4. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
5. Approving the annual budget and 3 year Service Plan and resource requirements to deliver the work plan.
6. Approving variances to budget within a financial year.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's work plan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
9. Making representations to government and responding to consultations as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative (and named substitute) from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

Delegations

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out in Sections 2 & 3 below.

Membership of the Committee

Voting members (12)	3 elected members from B&NES (subject to the rules of political proportionality of the Council) 3 independent members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated from the Academy bodies 1 nominated by the trades unions
Non-voting members (3)	1 nominated from the Parish Councils Up to 2 nominated from different Trades Unions

The Council will nominate the Chair and Vice Chair of the Committee. The Vice Chair will be the Chair of Investment Panel.

Meetings

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Quorum

The quorum of the Committee shall be 5 voting members who shall include at least 1 member from Bath and North East Somerset Council

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the performance of the investment and risk management strategies
3. Report matters of strategic importance to the Committee.

And have delegated authority for:

4. Monitoring the transition of assets to the Brunel portfolios and allocate assets to the relevant portfolio offered by Brunel
5. Approve and monitor tactical positions within strategic allocation ranges.
6. Approve allocations to emerging opportunities within the strategic allocations.
7. Approve commitments to Brunel's private market portfolios at each commitment cycle to maintain strategic allocations.
8. For Risk Management strategies, monitor the implementation of the structures, consider strategies for restructuring, and monitor collateral requirements.
9. For assets held outside Brunel:
 - a) Implement investment management arrangements in line with strategic policy..
 - b) Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
10. Monitor the investment performance of the portfolios managed by BPP Ltd and report to Committee on investment matters with specific reference to strategy delivery.
11. Delegate specific decisions to Officers as appropriate.

Panel Membership

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 2 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

The Council will nominate the Chair of the Panel.

Panel Meetings

Though called a “Panel”, it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

Panel Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is a Bath & North East Somerset Councillor.

Panel Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Panel Minutes

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

3 Brunel Oversight Board (Board) Representative

Brunel Oversight Board is the primary governance body within the Brunel Pension Partnership. Each Fund within the partnership has a representative on the Board and this representative represents the Committee when discharging its duties.

Acting for the administering authorities in their capacity as shareholders in BPP Ltd., the Board has responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling across the Brunel Pension Partnership.

Subject to the terms of reference for the Board and the applicable shareholder documentation, the Board’s role is to consider and address relevant matters on behalf of the administering authorities. These include the monitoring and strategic oversight functions necessary to its role, as well as acting as a conduit and focus of shareholder requirements and views.

Consistent with this role, the Board’s duties include reviewing and discussing any matter which it considers appropriate in relation to BPP Ltd including BPP Ltd.’s services, performance, operations, governance, strategy, financing and management.

The main duties of the Board Representative are:

1. To represent the Committee and Shareholder on the Brunel Oversight Board.
2. To ensure that the Committee's views are communicated to the Board and BPP Ltd.
3. To ensure the Fund's and shareholder's interests are protected within Brunel in line with the legal framework within which Brunel operates.
4. To report back to the Committee and Shareholder all relevant issues discussed by the Board and recommendations to the Brunel Client Group and/or the Shareholders.
5. To seek the consensus view of the Committee for Shareholder and Board matters where necessary.
6. To raise issues with the Board at the request of Committee members, the shareholder representative or Head of Pensions.

4 Brunel Pension Partnership Working Group

This is an informal group of Committee members whose role is to consider in greater detail any issues arising from Brunel Pension Partnership with Officers, for example Reserve Matters, papers to be discussed at BOB. This would not include routine investment matters which are monitored by the Investment Panel.

This group will consist of the BOB Representative, named BOB substitute plus the Chair and/or Vice Chair if not the BOB representative / substitute plus an independent committee member. As a working party it would meet informally, on an adhoc basis, normally via conference calls.

5 Officer Delegations

Officers are responsible for:

1. Implementation and day to day monitoring of the administration, investment and funding strategies and related policies.
2. Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
3. Implementing investment management arrangements in line with the strategic policy as follows:
 - a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel.
 - b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio.

4. Restructuring the risk management strategies as required where sensitive to market prices or technical in nature, having taken expert advice.
5. Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.
6. Representing the Fund on the Brunel Client Group to develop Brunel investment strategies and policies which effectively support the interests of the Fund.
7. Commissioning Elective Services from BPP Ltd and issuing instructions as permitted by the Brunel Service Agreement to BPP Ltd.
8. The appointment of specialist advisors to support the Committee and Officers in discharging their functions.
9. Determining policies that support the investment and funding strategies having taken expert advice.
10. Authorising expenditure from the Fund in accordance with the annual budget.
11. Admitting new admitted bodies into the Fund subject to them meeting Fund policy.
12. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
13. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
14. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
15. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

TERMS OF REFERENCE FOR THE PENSION BOARD FOR AVON PENSION FUND

Function and role

The regulations state that the role of the local Pension Board (the “Board”) is to assist the administering authority.

- a) to secure compliance with:
 - i. The LGPS (Amendment) (Governance) Regulations 2014 (the “regulations”)
 - ii. Any other legislation relating to the governance and administration of the Scheme
 - iii. Requirements imposed by the Pensions Regulator in relation to the Scheme; and
- b) to ensure the effective and efficient governance and administration of the Scheme.

The Board has an advisory role in assisting the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision making role with regard to strategy or policy nor will it ratify or challenge decisions made by the administering authority. Its role is to have oversight of the governance process for making decisions and agreeing policy and assisting the Avon Pension Fund Committee in improving its governance and administrative arrangements.

The Board will exercise its responsibilities in the following areas:

1. Through monitoring and progress reporting to the Committee including making recommendations on the following activities;
 - a. Implementation of the Pensions Administration Strategy
 - b. Implementation of the Communications policy including the emerging digital strategy.
 - c. Monitoring compliance with the relevant legislation and Codes of Practice as set out by The Pensions Regulator;
 - d. Reviewing all new and emerging regulatory issues and themes and identifying material implications for the Fund
2. That governance arrangements and controls are in place to;
 - a. Ensure strategies policies and processes are in place to deliver the objectives of the Avon Pension Fund Committee
 - b. Policies and processes are in place to achieve Employer and Fund compliance with their obligations under the Scheme and regulations

- c. Monitor the administration performance, including implementation of compliance and improvement projects
 - d. Review Internal and External audit reports and other external inspection reports
 - e. Recommending improvement actions on the above to Committee where necessary.
3. From time to time the administering authority may consult the Board or ask assistance on specific issues.

The costs of the Board will be met by the Avon Pension Fund (as set out in the regulations) subject to approval of their annual workplan and budget. This may enable the Board to commission independent advice as appropriate. It is important that the Board maintains its independence from the Avon Pension Fund Committee's decision-making process in order to effectively scrutinise the decision-making process.

Board Membership

There will be seven Board members comprising three member representatives, three employer representatives and an Independent Chairperson. Member representatives can be drawn from the membership and are not restricted to Trades Union representatives. Employer representatives should be representative of the employers within the scheme. No officer or councillor of the administering authority who is responsible for the discharge of any function under the LGPS regulations can be a member of the Board. In respect of the Chairperson the term independent means having no current employment, contractual, financial or other material interest in either the Council or any scheme employer in the Avon Pension Fund, and not being a member of the Avon Pension Fund. The Chairperson can delegate to another Board member if unable to attend a meeting.

Appointment process

The Avon Pension Fund will facilitate the nominations process for all Board members; the appointment process will be undertaken by the Strategic Director of Resources. The appointment of the Chair will be following an advertised competitive process, which shall be subject to the Board's approval of the successful candidate.

The selection process for employer and employee reps will take into account their capacity to fulfil the role as set out in the Role and Person Specification.

Role of advisors

The Board may appoint professional advisors as appropriate to their work plan. The cost will be met within the budget approved by the administering authority. Where possible the advisors should be independent from those used by the administering authority.

Role of officers

Democratic Services will be responsible for providing secretariat services to the Board. The Strategic Director of Resources will ensure appropriate officer support is provided to the Board. Avon Pension Fund officers will be required to provide information to the Board for the Board to fulfil its task.

Frequency of meetings

Meetings will be held quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Voting rights

The objective is to reach consensus on all issues; however, each employer and employee rep has one vote. The Under Regulation 106 (7) of the LGPS Regulations 2013 the Independent Chairperson is explicitly excluded from having the right to vote.

Board Quorum

The quorum of the Board shall comprise three members who shall include at least one member and one employer representative.

Substitutes

Substitutes will not be permitted as they would have to be nominated as part of the appointment process.

Sub-committees

Sub-committees will not be permitted.

Board work plan and Budget

The Board will agree its work plan annually and the budget required to deliver it. As the expenses of the Board are to be met by the Avon Pension Fund the Board's workplan and budget, having taken advice from the Strategic Director of Resources, will be submitted to the Avon Pension Fund Committee for approval annually. The Board will be required to operate within the approved budget and approved budget purposes. It is envisaged that the Board will review aspects of the pension fund over time rather than react to the regular monitoring cycle of the pension committee.

Access to Board papers

Board meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated in advance of meeting in line with council policy. The minutes of meetings will be recorded and published in line with Council policy.

Term of office

Two of the initial appointments (one employer representative and one member representative) will be for a two year period. All other appointments will be for a four year term with the maximum term of Board membership limited to two terms.

Code of Conduct

Board members are required to adhere to the Council's Code of Conduct

Declarations of Interest and Conflicts of interest

Board members are required to adhere to the Council's policy for declarations of interests. Members must provide information that the administering authority may reasonably require from time to time.

The Board is required to act within its Terms of Reference. The Board should ensure that in addition to the Council Policy it has its own policy for managing conflicts of interest in line with any further stipulations from the Pensions Regulator and members must abide by this policy.

Removal from Board

A Board member can be removed from the Board in the following circumstances (but not limited to):

- A poor attendance record;
- If a member does not undertake training as requested by the administering authority; If a member is in breach of Council's Code of Conduct / Declarations policy; If a member has a conflict of interest that cannot be managed in accordance with the Board's conflicts policy;
- If a representative member ceases to represent his constituency e.g. leaves the employer so no longer has the capacity to represent the Fund's employers. If there is an unsatisfactory annual review of individual members

If there is a vote of no confidence in the Chairperson by the Board then the Administering Authority will conduct a process to appoint another Chairperson

The Council's Standards Committee and Monitoring Officer will determine any removal from the Board.

Expenses

The pension fund will meet reasonable meeting expenses, reasonable training expenses relevant to discharging the role and independent advice required to support work agenda (including legal, technical and other professional advice).

Allowances

An annual allowance will be paid to the Independent Chairperson.

Knowledge and understanding

The Board are required to agree and maintain a policy and framework to address the knowledge and understanding requirements, as set out in various legislation and the Pension Regulator's Code of Practice, that apply to its members. The knowledge and understanding requirement applies to each Board member individually rather than to the members as a collective group. The policy and framework will be considered in light of the role of the Board; however, Board members will need to understand the duties and obligations of the administering authority in order to be able to assist it.

Board members will be required to undertake training to ensure they acquire the appropriate level of knowledge and understanding and keep a record of the learning activities of individual members and of the Board as a whole.

Reporting

The Board will publish an annual report to Council containing any recommendations on process or governance. This should be circulated to members and employers.

The annual report will cover:

- i. summary of the work of the Board
- ii. details of areas the Board has investigated and how they have been dealt with
- iii. details of conflicts of interest that have arisen in respect of the Board members and how have been managed
- iv. whether there are any risks or other areas of potential concern which the Board wishes to raise with the Administering Authority
- v. details of training a future training needs
- vi. the work plan of the last year and draft work plan for following year
- vii. details of expenses and other costs incurred and anticipated expenses for forthcoming financial year.

Direct reporting line if the Board has material concerns – The Director of Finance

The Board minutes will be circulated to administering authority (the pension committee) S151 Officer and Monitoring Officer.

The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator.

Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pensions Committee) the Board shall:

1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board
2. Enable the Chair of the Committee to review the issue and report back the Board on the breach
3. The Board will determine action and if sufficiently material will report the breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.

Data protection and Freedom of Information

For legal purposes the Board is considered a committee of and part of the administering authority legal entity. Therefore the Board must comply with the Council's Data Protection and Freedom of Information policies.

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TERMS OF REFERENCE

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund.

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel will gradually become responsible for implementing the Fund's Investment Strategy. The Fund's assets will transfer to portfolios offered by Brunel from April 2018 with most of the quoted assets transferring within 3 years. Once Avon's assets are within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of Brunel. The Terms of Reference reflects this transition.

Function and Duties

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy. For assets managed by Brunel this is limited to allocating to the relevant portfolio offered by Brunel.
4. Monitoring the performance of investments, scheme administration, and external advisors. Monitoring the performance of investment managers for assets held outside Brunel pool. Monitoring the performance of Brunel and its portfolios.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's workplan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.

9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

Delegations

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out in Sections 2 & 3 below.

Membership of the Committee

Voting members (12)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 2 independent members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

The Council will nominate the Chair of the Committee.

Meetings

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Quorum

The quorum of the Committee shall be 5 voting members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges that are not managed within Brunel pool.
5. Approve investments in emerging opportunities within strategic allocations that are not managed within Brunel pool.
6. For assets held outside Brunel, implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
7. Approve amendments to investment mandates for assets held outside Brunel pool within existing return and risk parameters.
8. For assets held outside Brunel, monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Monitor the transition of assets to Brunel and the investment performance of the portfolios managed by Brunel.
10. Delegate specific decisions to Officers as appropriate.

Panel Membership

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

The Council will nominate the Chair of the Panel.

Panel Meetings

Though called a "Panel", it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

Panel Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Panel Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Panel Minutes

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

3 Officer Delegations

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. Approve investments in emerging opportunities within strategic allocations, to be managed within Brunel pool, in consultation with the Investment Panel.
3. Implement investment management arrangements in line with the strategic policy, including the setting of mandate parameters and the appointment of managers to be managed within Brunel pool, in consultation with the Investment Panel.
4. Appointment of specialist advisors to support the Committee in discharging its functions.
5. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
6. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
7. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
8. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
9. Through delegations from Council, the S151 Officer has authority to progress the development of Brunel Pension Partnership pool.

Approved by Avon Pension Fund Committee 22 June 2018

TERMS OF REFERENCE FOR THE PENSION BOARD FOR AVON PENSION FUND

Function and role

The regulations state that the role of the local Pension Board (the “Board”) is to assist the administering authority.

a. to secure compliance with:

- i. The LGPS (Amendment) (Governance) Regulations 2014 (the “regulations”)
- ii. Any other legislation relating to the governance and administration of the Scheme
- iii. Requirements imposed by the Pensions Regulator in relation to the Scheme; and

b. to ensure the effective and efficient governance and administration of the Scheme.

The Board has an advisory role in assisting the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision making role with regard to strategy or policy nor will it ratify or challenge decisions made by the administering authority. Its role is to have oversight of the governance process for making decisions and agreeing policy.

The Board will exercise its duties in the following areas:

- i. Compliance with the relevant legislation and Codes of Practice set by The Pensions Regulator;
- ii. Policies and processes are in place to deliver the objectives of the pension fund;
- iii. Policies and processes are in place to ensure that employers comply with their obligations under the Scheme and regulations;
- iv. The processes for setting strategy, policy and decision-making are robust;
- v. A framework of controls is in place to ensure fund and employer compliance;
- vi. From time to time the administering authority may consult the Board or ask assistance on specific issues.

The costs of the Board will be met by the Avon Pension Fund (as set out in the regulations) subject to approval of their annual workplan and budget. This may enable the Board to commission independent advice as appropriate. It is important that the Board maintains its independence from the Avon Pension Fund Committee’s decision-making process in order to effectively scrutinise the decision-making process.

Establishment

The Board is to be established by 1 April 2015 and must be operational by 31 July 2015. The Terms of Reference must be approved by the Administering Authority and formally adopted by the Board once it is established.

Board Membership

There will be seven Board members comprising three member representatives, three employer representatives and an Independent Chairperson. Member representatives can be drawn from the membership and are not restricted to Trades Union representatives. Employer representatives should be representative of the employers within the scheme. No officer or councillor of the administering authority who is responsible for the discharge of any function under the LGPS regulations can be a member of the Board. In respect of the Chairperson the term independent means having no current employment, contractual, financial or other material interest in either the Council or any scheme employer in the Avon Pension Fund, and not being a member of the Avon Pension Fund. The Chairperson can delegate to another Board member if unable to attend a meeting.

Appointment process

The Avon Pension Fund will facilitate the nominations process for all Board members; the appointment process will be undertaken by the Strategic Director of Resources. The appointment of the Chair will be following an advertised competitive process, which shall be subject to the Board's approval of the successful candidate.

The selection process for employer and employee reps will take into account their capacity to fulfil the role as set out in the Role and Person Specification.

Role of advisors

The Board may appoint professional advisors as appropriate to their work plan. The cost will be met within the budget approved by the administering authority. Where possible the advisors should be independent from those used by the administering authority.

Role of officers

Democratic Services will be responsible for providing secretariat services to the Board. The Strategic Director of Resources will ensure appropriate officer support is provided to the Board. Avon Pension Fund officers will be required to provide information to the Board for the Board to fulfil its task.

Frequency of meetings

The Frequency to be determined by Board once agreed workplan, with a minimum of three meetings annually.

Voting rights

The objective is to reach consensus on all issues; however, each employer and employee rep has one vote. The Under Regulation 106 (7) of the LGPS Regulations 2013 the Independent Chairperson is explicitly excluded from having the right to vote.

Board Quorum

The quorum of the Board shall comprise three members who shall include at least one member and one employer representative.

Substitutes

Substitutes will not be permitted as they would have to be nominated as part of the appointment process.

Sub-committees

Sub-committees will not be permitted.

Board work plan and Budget

The Board will agree its work plan annually and the budget required to deliver it. As the expenses of the Board are to be met by the Avon Pension Fund the Board's workplan and budget, having taken advice from the Strategic Director of Resources, will be submitted to the Avon Pension Fund Committee for approval annually. The Board will be required to operate within the approved budget and approved budget purposes. It is envisaged that the Board will review aspects of the pension fund over time rather than react to the regular monitoring cycle of the pension committee.

Access to Board papers

Board meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated in advance of meeting in line with council policy. The minutes of meetings will be recorded and published in line with Council policy.

Term of office

Two of the initial appointments (one employer representative and one member representative) will be for a two year period. All other appointments will be for a four year term with the maximum term of Board membership limited to two terms.

Code of Conduct

Board members are required to adhere to the Council's Code of Conduct

Declarations of Interest and Conflicts of interest

Board members are required to adhere to the Council's policy for declarations of interests. Members must provide information that the administering authority may reasonably require from time to time.

The Board is required to act within its Terms of Reference. The Board should ensure that in addition to the Council Policy it has its own policy for managing conflicts of interest in line with any further stipulations from the Pensions Regulator and members must abide by this policy.

Removal from Board

A Board member can be removed from the Board in the following circumstances (but not limited to):

- A poor attendance record;
- If a member does not undertake training as requested by the administering authority; If a member is in breach of Council's Code of Conduct / Declarations policy; If a member has a conflict of interest that cannot be managed in accordance with the Board's conflicts policy;
- If a representative member ceases to represent his constituency e.g. leaves the employer so no longer has the capacity to represent the Fund's employers. If there is an unsatisfactory annual review of individual members

If there is a vote of no confidence in the Chairperson by the Board then the Administering Authority will conduct a process to appoint another Chairperson

The Council's Standards Committee and Monitoring Officer will determine any removal from the Board.

Expenses

The pension fund will meet reasonable meeting expenses, reasonable training expenses relevant to discharging the role and independent advice required to support work agenda (including legal, technical and other professional advice).

Allowances

An annual allowance will be paid to the Independent Chairperson.

Knowledge and understanding

The Board are required to agree and maintain a policy and framework to address the knowledge and understanding requirements, as set out in various legislation and the Pension Regulator's Code of Practice, that apply to its members. The knowledge and understanding requirement applies to each Board member individually rather than to the members as a collective group. The policy and framework will be considered in light of the role of the Board; however, Board members will need to understand the duties and obligations of the administering authority in order to be able to assist it.

Board members will be required to undertake training to ensure they acquire the appropriate level of knowledge and understanding and keep a record of the learning activities of individual members and of the Board as a whole.

Reporting

The Board will publish an annual report to Council containing any recommendations on process or governance. This should be circulated to members and employers.

The annual report will cover:

- i. summary of the work of the Board
- ii. details of areas the Board has investigated and how they have been dealt with
- iii. details of conflicts of interest that have arisen in respect of the Board members and how have been managed
- iv. whether there are any risks or other areas of potential concern which the Board wishes to raise with the Administering Authority
- v. details of training a future training needs
- vi. the work plan of the last year and draft work plan for following year
- vii. details of expenses and other costs incurred and anticipated expenses for forthcoming financial year.

Direct reporting line if the Board has material concerns – The Strategic Director of Resources.

The Board minutes will be circulated to administering authority (the pension committee) S151 Officer and Monitoring Officer.

The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator.

Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pensions Committee) the Board shall:

1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board
2. Enable the Chair of the Committee to review the issue and report back the Board on the breach
3. The Board will determine action and if sufficiently material will report the breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.

Data protection and Freedom of Information

For legal purposes the Board is considered a committee of and part of the administering authority legal entity. Therefore the Board must comply with the Council's Data Protection and Freedom of Information policies.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 DECEMBER 2018	AGENDA ITEM NUMBER
TITLE:	Draft Revised Investment Strategy Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Draft Investment Strategy Statement		
Appendix 2 – Regulations checklist		
Appendix 3 – Pension Board comments		

1 THE ISSUE

- 1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), require administering authorities to publish and maintain an Investment Strategy Statement (ISS). There is also guidance accompanying the Regulations.
- 1.2 The regulations state that the ISS must be kept under review and revised from time to time particularly when there is a material change in risk, and reviewed at least every three years. The current statement has been revised to include changes made to the Investment Strategy (specifically the Risk Management Framework and Equity Protection Strategy) and the Brunel Pension Partnership.
- 1.3 The Pension Board have reviewed the Draft ISS for compliance with the regulations. The Committee is asked to consider the Board's comments before agreeing the final version of the ISS for publication.

2 RECOMMENDATION

That the Committee:

- 2.1 **Notes the conclusion from the Pension Board that the Draft ISS complies with the regulations and statutory guidance.**
- 2.2 **Notes 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 5.6 below.**
- 2.3 **Approves the ISS for publication.**

3 FINANCIAL IMPLICATIONS

- 3.1 There is provision in the 2018/19 budget for the advisors to review the Investment Strategy Statement.

4 INVESTMENT STRATEGY STATEMENT

- 4.1 The regulations provide a prudential framework within which the Fund is required to manage the investment assets in the best long term interests of scheme members and other stakeholders.
- 4.2 The ISS must be consistent with the Funding Strategy Statement to ensure that there will be sufficient funds to meet the pension benefit payments as they fall due over time.
- 4.3 The ISS will be reviewed regularly during the transition of assets to Brunel, at least annually. Officers will update the investment mandates (Appendix 1 to the ISS) and any other implementation aspects as required between annual reviews.

5 REVIEW BY PENSION BOARD

- 5.1 The Pension Board is responsible for ensuring the Fund complies with the regulations, including those relating to its statutory documents such as the ISS.
- 5.2 The Board's comments are in Appendix 3 with the responses from Officers which were discussed with the Board at their meeting on 8 November 2018. The comments fall into 3 categories
- a) drafting and presentational;
 - b) queries regarding our Environmental, Social and Governance policies and
 - c) how the Board engages on such issues in the future.
- 5.3 The Board confirmed that the draft ISS complies with the regulations and statutory guidance.
- 5.4 In addition, the Board has a statutory role under LGPS Regulation 7 (2) concerning how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention, and realisation of investments.
- 5.5 The statutory guidance on this regulation is as follows:
- In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority
 - a) must take proper advice
 - b) **should explain the extent to which the views of their Local Pension Board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
 - c) must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments
 - d) should explain their approach to social investments.
- 5.6 Most of the Board's comments refer to this guidance. The Board have highlighted policy issues around Environmental, Social and Governance factors which would need to be discussed within the full Responsible Investing Policy

(RIP). It was agreed to invite the Board to relevant strategic review meetings in order that

- a) They understand the context of the Fund's RIP,
- b) They understand the issues debated by the Committee and how these are considered within the wider strategic policy framework
- c) Their views can be taken into account on non- financial factors.

5.7 It was agreed that the Board would only review the ISS when material changes were made to the strategic policy (normally following a strategic review). The ISS will be circulated informally following revisions due to implementation changes including the transition of assets to Brunel, in line with Committee arrangements.

5.8 The Draft ISS is in Appendix 1 for Committee to approve. It has been revised following comments from the Board to clarify and improve understanding.

5.9 A checklist against the regulations and guidance is set out in Appendix 2.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6.2 The Investment Strategy Statement is the main investment document that addresses the management of the investment risks identified in the Risk Register.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 Pension Board; Investment Consultant.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Set out in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	LGPS Regulations and Government Guidance
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Investment Strategy Statement

1. Introduction

- 1.1 The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the **Avon Pension Fund Committee** (the Committee), which is its formal decision making body. Members of the Committee represent a cross section of the Fund's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.
- 1.2 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues (including the selection, monitoring and termination of mandates) and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to officers.
- 1.3 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.
- 1.4 This statement sets out the principles that will guide the Committee when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets which is consistent with the funding strategy, as set out in the Funding Strategy Statement.
- 1.5 The Investment Strategy Statement (ISS) is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. This statement will be reviewed by the Committee at least triennially or more frequently should any significant change occur. There is ongoing quarterly and annual monitoring of the strategy which enables the Committee to take advice as to whether a review is needed at any time.
- 1.6 The Avon Pension Fund is a participant in **Brunel Pension Partnership** which is fundamentally changing the way in which the Fund's strategic asset allocation is implemented. This is a long term strategic partnership of ten LGPS funds. How pooling impacts the Fund's investment arrangements and the authority delegated to the new company is explained in detail in this statement.

2. Investment Beliefs

- 2.1 The Fund is a long-term investor whose aim is to deliver financially sustainable returns to meet the future pension benefits of its members. The Committee has a fiduciary duty to act in the best interest of the Fund's members. This includes managing Environmental, Social and Corporate Governance ('ESG') issues that may be financially material to the Fund.
- 2.2 The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.
 - **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.

- **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.
- **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
- **Long term approach to investing.** The strength of the employer covenant¹ and funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long term view of investment strategy.
- **Diversification of assets is an important element of the risk management framework.**
- **Environmental, Social and Governance factors** are important drivers of the sustainability of investment returns over the long term and they can have a material financial impact if not managed appropriately.
- **Active management can add value to returns, albeit with higher short term volatility.**
- **Value for money from investments** is important, in terms of net returns. Asset pooling is expected to help reduce costs over the long term, whilst providing more choice of investments, and therefore have the potential to enhance Fund returns.

3. Approach to Asset Pooling

- 3.1 The Fund participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.
- 3.2 The Avon Pension Fund, through its Committee, retains responsibility for setting the detailed strategic asset allocation for the Fund and allocating assets to the portfolios provided by Brunel. Brunel, established in July 2017, is wholly owned by the ten administering authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed strategic asset allocations of the participating funds (the 'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it researches, procures and selects the external managers or pooled funds required to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.
- 3.3 As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Avon Pension Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.
- 3.4 The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. Acting for the administering authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the administering authorities, but does not have delegated powers to

¹ The Employer covenant is the employer's financial ability to support its legal obligations arising from its defined benefit pension scheme now and in the future

take decisions requiring shareholder approval. These are remitted back to each administering authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

- 3.5 Brunel Oversight Board is supported by the Client Group, comprised primarily of investment officers drawn from each of the administering authorities but will also draw on Administering Authorities finance and legal officers as required. It has a primary role in reviewing the implementation of pooling by Brunel, including the plan for transitioning assets to the portfolios, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Brunel Oversight Board to fulfil its monitoring and oversight function. Once the assets are managed within the Brunel portfolios, the Client Group will monitor Brunel's performance and service delivery. The Committee and Investment Panel will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.
- 3.6 The proposed arrangements for asset pooling were formulated to meet the requirements of the Regulations and Government guidance. Regular reports have been made to Government on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool could proceed as set out in the proposals made.
- 3.7 Bath & North East Somerset Council approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and is expected to be completed (except for legacy private market assets) during 2021. A transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as transitions take place, the Avon Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with Brunel where appropriate.
- 3.8 Following the completion of the transition plan, it is intended that all of the Avon Pension Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid private market and fund of fund investments which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned. It is also recognised that the implementation of the Fund's Liability Risk Management Framework and Equity Protection Strategy, via Brunel, will need to be carefully considered, when appropriate.

4. Investment Objective

- 4.1 The Fund's investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating return consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.
- 4.2 The investment strategy is reviewed at least every three years to reflect the changing liability profile of the Fund. At the date of the 2016 actuarial valuation, the Actuary's assessment of future investment returns for the investment strategy generated a best estimate average expected return of CPI +3.5% per annum. In setting the funding strategy a margin for prudence is taken on these expectations. As a result, to achieve 100% funding for the 2016 valuation, a minimum return of

CPI +2.2% per annum (the discount rate) over 16 years was assumed in the Funding Strategy.

- 4.3 The Investment Strategy was last reviewed in 2017. Following changes made to the asset allocation and given the fall in bond yields since the 2016 valuation, the minimum return target to achieve 100% funding reduced to CPI +2.1% per annum.²
- 4.4 The Fund adopts a more prudent investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities. The assets are invested in corporate bonds and the liabilities are valued using the yield on the corporate bonds as the discount rate. As this portfolio of assets grows in size, a bespoke investment strategy will be explored to match cash flows and hedge inflation and interest rates more efficiently. The objective will be to reduce the volatility in employer contributions.

5. Investment strategy and the process for ensuring suitability of investments

- 5.1 The long term nature of the liabilities means the Fund can allocate a larger weighting to assets expected to generate a higher return (or growth assets) which may introduce volatility in the short term but are ultimately expected to generate higher returns than the other assets in the long term. The investment strategy takes into account the expected risk-reward profile of each asset class and is flexible enough to take advantage of short term opportunities to achieve its strategic returns and fulfilling its fiduciary duty to members.
- 5.2 The Fund invests across a diversified portfolio of investments to reduce investment risk. The majority of the investment portfolio is invested in a diversified range of return seeking assets which aim to generate capital growth and income, constructed in a way to achieve the required investment return.
- 5.3 However, as the liability profile of the Fund matures, the Fund has begun to increase its exposure to assets that better match the cash flow profile of its pension liabilities. This includes the allocations to Secured Income and Infrastructure where inflation linked income is a significant driver of return on these assets.
- 5.4 The Fund has also implemented a Liability Risk Management Framework (LRMF), which uses the Fund's allocation to Index Linked Gilts more efficiently to increase the certainty of achieving its return objective. It does this by structuring the Index Linked Gilts and derivatives in a way that better matches the pension benefit cash flows that the Fund will pay out in the future. This strategy is explained in more detail in the Risk Management section.
- 5.5 As the Fund nears full funding, the asset allocation reflects a lower risk appetite, particularly a reduction in equity risk; however, there remains a need for sufficient equity exposure to sustain the investment return within the funding strategy. As there was a significant improvement in the Funding Level at the time of the 2017 Investment Review, an Equity Protection Strategy (EPS) is in place to protect the improvement in the funding level from future falls in the equity markets. This strategy uses synthetic equity instruments, specifically options on global equity indices. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to restore a funding deficit caused by a fall in equity markets.

² Each time the Fund estimates the funding level in-between valuations, the financial market assumptions are updated to reflect actual market prices; all other assumptions remain unchanged. The financial assumptions are updated so that the valuation basis of the liabilities is the same as for the assets. If the Fund was invested 100% in bonds, then a 0.5% reduction in bond yields would cause a 0.5% reduction in the Discount Rate. As the Fund has a diverse mix of assets, the impact of the fall in bond yields is reduced.

- 5.6 Strategies that utilise synthetic instruments, derivatives and currency forward contracts require the positions to be 'collateralised'. This is because the positions are marked-to market daily and the Fund has to be able to fund that position. As a result, the Fund holds collateral to support the EPS, LRMF and its currency hedging policy.
- 5.7 The strategic framework includes a target allocation against which strategic performance will be monitored. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to manage cash flows and rebalancing. Over the long term, the ability to periodically rebalance asset holdings to release cash will enable the Fund to effectively implement de-risking strategies such as the LRMF and EPS.
- 5.8 The Fund's long term asset allocation, along with an overview of the role each asset plays is set out in the following table. The upper bound of the permitted range represents the maximum percentage that can be invested in that asset class. The allocation to Secured Income (mainly Long Lease Property and operational infrastructure assets that generate income) and the increase in Infrastructure will be implemented over the next few years. Until these investments are made, the allocations to Multi Asset Credit and Property will be higher than the long term target allocations. Other asset classes included in the Investment Review but not considered a strategic priority included Private Equities and Debt. It is, however, envisaged that the merits of these asset classes, as well as others deemed suitable to meet the Fund's investment objective will be reviewed in the future.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Equities	37.5%	27-47%	Highest risk asset class, builds exposure to domestic and overseas companies, returns expected to outstrip fixed income, limited impact of inflation, comprises both passive and active approaches, with the latter designed to outperform the market.
Developed Market Equities	32.0%	27-37%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies'/income seeking, large and small market cap. Includes a UK SRI specific mandate. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets. The long term aim is allocate to UK Equities in line with its global market cap. The allocation UK equity is currently c.10.6%.
Emerging Market Equities	5.5%	0-10%	Possess characteristics such as rapid growth, illiquidity premium, potential for large capital growth.
Diversified Growth Funds (DGF)	15%	10-20%	To provide an equity like return over the long term but with a lower level of volatility. Can include allocations to equities, bonds, cash and other assets (including through derivative exposure), which are dynamically managed. Expected to provide some downside protection in periods of equity market stress.
Illiquid Growth	27.5%	10-37.5%	Benefits from the 'illiquidity premium' where the Fund is compensated for locking assets up for a predetermined period.

Hedge Funds	5%	0 - 7.5%	Operates in a range of niche markets, looking to generate returns from unconstrained active management, reduces the volatility of the Growth portfolio and increases diversification of returns.
Property	7.5%	5 - 10%	Provides further diversification to Growth portfolio. Includes private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium to longer term.
Secured Income	7.5%	0-10%	Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These assets generate contractually secure income streams that provide a greater stability of returns, explicit inflation linkage and generate cash flows over time
Infrastructure	7.5%	5-10%	Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered.
Other Opportunities	0%	0 - 5%	Leaves capacity for investment in other illiquid growth assets which seek to increase diversification across the portfolio.
Credit	8%	3-14%	
Multi Asset Credit	6%	3-9%	In the portfolio to generate returns from a broad range of credit based assets in a diversified way.
Corporate Bonds	2%	0-5%	Corporate bond prices have credit risk of the issuer embedded within the price and are therefore considered higher risk than government issued securities and are expected to generate returns commensurate with this higher credit risk. Held to broadly match a specific proportion of the liabilities
Liability Matching (Collateral Assets)	12%		
	0%	0 - 10%	Low risk of default, and can provide protection against the impact of changes in interest rates on the Fund's liabilities. Not currently held.
	12%	<i>range determined by collateral requirement</i>	Index linked bonds provide a direct hedge against inflation risk. Low risk of default. Bonds can be structured by varying the maturity of the bonds held to match the pension payment cash flows.
Cash*	0%	0 - 5%	Cash is also exposed to credit risk and is generally a very low yielding asset. For this reason the Fund aims to be as fully invested as possible given requirements for working capital and the management of cash flows for private market assets.

* Cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.

5.9 The Fund currently implements its strategy through mandates managed by a number of external investment managers. Implementation and choice of investment approach and manager is dependent on the asset class, how the investment objective of the asset class drives overall risk and return and investment costs.

- 5.10 The current management arrangements include passive mandates that deliver the market return by replicating the index in a cost and implementation efficient manner as well as active mandates where managers are using their skill to enhance the market return and manage risk, to a greater or lesser extent. This includes the mandates in place across equities, multi asset credit, DGFs, hedge funds, property, secured income and infrastructure mandates.
- 5.11 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) Policy including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.
- 5.12 However, from 1 April 2018 implementation of the Fund's investment strategy is delegated to Brunel with all assets transitioning into portfolios set up by Brunel over the next few years. Brunel is responsible for constructing each portfolio, deciding the number of underlying mandates, allocation to style and approach to investing, selecting and monitoring the managers within each portfolio, controlling investment risk within each portfolio and reporting back to its clients as the "Investment Manager". Currently Brunel is only managing passive equity assets having appointed LGIM as the manager. The Fund's passively managed Low Carbon portfolio transition into Brunel in July 2018. As the ISS is updated in the future more of the assets will be invested in Brunel portfolios.

Details of the investment management structure can be found in Appendix 1.

6. Risk Measurement and Management

Investment Risk

- 6.1 The risk and return profile of the assets is measured against the strategic objective and considered in the context of the Fund's capacity as a long term investor. The main risk to the Fund is that the Fund's assets do not produce the returns needed to meet the liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and affordability.
- 6.2 The Committee recognises that, whilst investing in higher risk assets increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, as well as producing more short-term volatility in the funding position. The Fund's diverse range of asset classes and approaches to investing is designed to achieve returns in a variety of market environments. By holding a range of assets that are not perfectly correlated, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns.
- 6.3 In addition, specific strategic risks are managed via the Liability Risk Management Framework and the Equity Protection Strategy which are explained below.
- (i) The overarching objective the LRMF is to reduce funding level volatility by increasing the Fund's exposure to lower risk assets that better match the value of the liabilities. The Fund cannot reduce its exposure to growth assets (e.g. equities) and use the proceeds to purchase 'liability matching' assets (e.g. Index Linked Gilts³), as return expectations would then fall short of the assumptions built in to the funding plan. The LRMF allows the Fund to retain its allocation to growth assets and simultaneously increase its exposure to 'matching' assets through the use of

³ Index Linked Gilts are considered the best match for being able to pay out income equivalent to the Fund's liabilities as their cash flows are adjusted for inflation, as are the pension liabilities

repurchase agreements, (a form of borrowing in capital markets) and interest and inflation swaps⁴.

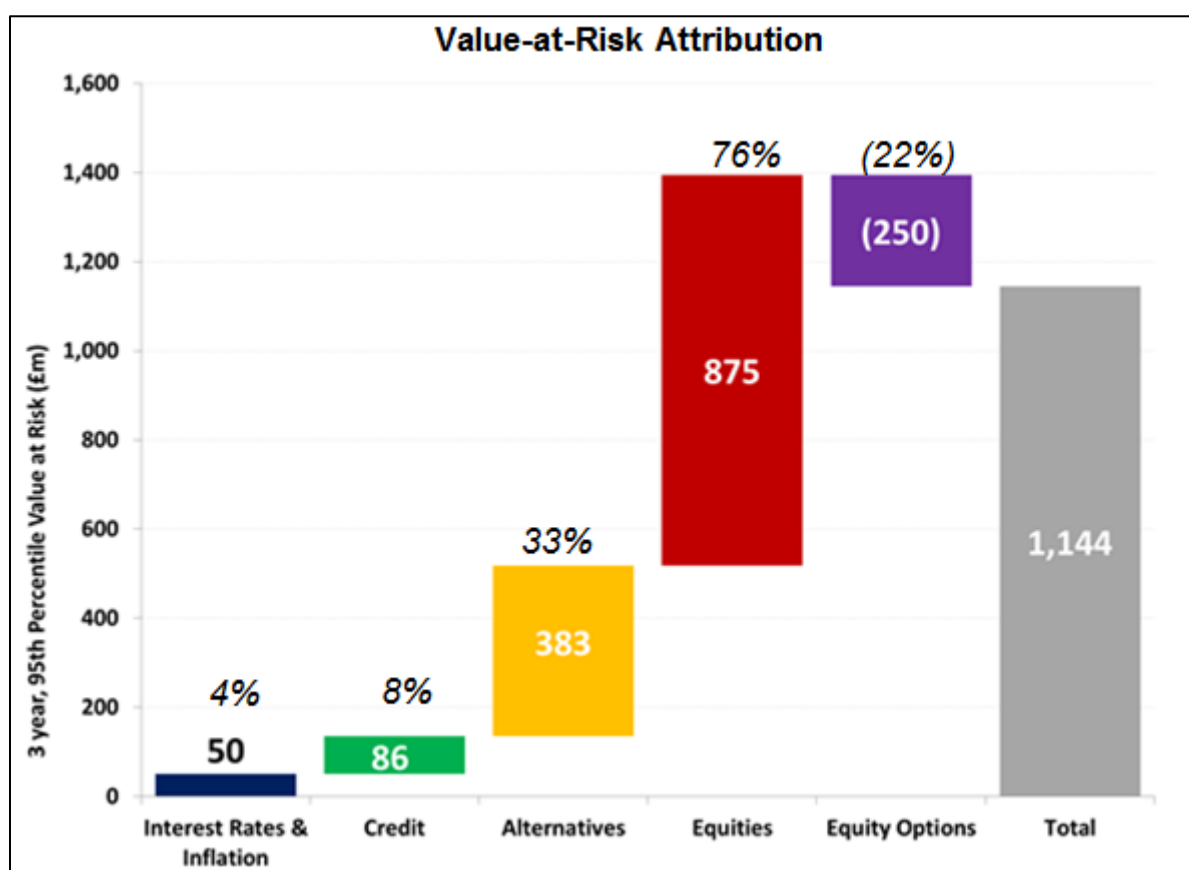
In order to meet the assumed investment return in the Funding Strategy of CPI+2.2%, the LRMF includes a number of predetermined 'real yield' triggers, where exposure to Index Linked Gilts is only increased when they pay a sufficiently high real yield to meet the Fund's requirements. 'Real yields' are the combination of nominal interest rates, that is the risk free interest rate attached to conventional Government bonds (gilts), plus the market expectation for future inflation rates. The trigger framework allows each component to be locked in separately to ensure the Fund does not forego an opportunity to lock in a favourable inflation rate or nominal interest rate and thereby increase the probability of capturing the required investment return.

Locking in either element of the 'real yield' according to the Fund's predetermined trigger framework brings with it a potential opportunity cost where inflation and/or nominal interest rates could be accessed at more attractive levels given a shift in market prices. However, the trigger framework is considered prudent enough that should this happen the Fund will ultimately still achieve its objective of being able to meet pension payments when they fall due. The trigger levels are reviewed for appropriateness every six months by the Fund's investment advisor.

- (ii) The EPS is underpinned by the funding level and protects the Fund's developed market equity assets against a significant draw down in equity market prices. However, equity gains are capped at c. 108% funding level (plus dividend income over the period the protection is in place). Capping the upside enabled the Fund to structure the downside protection efficiently in terms of protection levels and costs. The maturity of the EPS is structured to provide protection over the 2019 triennial valuation, meaning the Fund will have certainty of equity returns throughout this period.
- 6.4 Both risk management strategies are held in a Qualified Investor Fund (QIF), bespoke to the Fund, enabling all collateral management to be delegated to the investment manager. The LRMF and EPS both contain derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis, to protect all parties to the transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.
- 6.5 To reduce the risk of the Fund having to sell assets at short notice to meet its obligations under the collateral agreements, there is an allocation to a passively managed pooled equity fund in the QIF. The investment manager will sell units in the equity fund in the QIF and purchase eligible collateral (gilts or cash) to meet collateral obligations when they arise. However, derivatives are then used to replicate the equity assets sold in order that the strategic allocation to equities is maintained.
- 6.6 The Value at Risk Attribution graph provides an indication of the main sources of investment risk that contribute to the volatility of the Fund's funding position, as measured by a three year "value at risk". This shows that in a downside scenario, which has a 1 in 20 (5%) chance of occurring, the impact on the deficit relative to the "best estimate" of what the deficit would be in three years' time. Equities remain the largest source of risk even after implementing the equity protection strategy.

⁴ An inflation swap is a contract used to transfer inflation risk from one party to another through an exchange of cash flows. An Interest rate swap is a contract to exchange a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rate.

- 6.7 The chart shows that if a 1-in-20 downside event occurred, in three years' time the deficit would be expected to increase by at least an additional £1,144m on top of the expected deficit at that time. This compares to an equivalent figure of £1,404m as at 31 March 2017, showing the significant downside risk reduction achieved as a result of the reduction in physical equity holdings and the implementation of the EPS.
- 6.8 The Investment Strategy is designed to be a long term strategy and withstand volatility and various risk scenarios. Scenario analysis is carried out as part of the strategic investment review. In the light of such events occurring, the long term strategy would be reviewed as appropriate. The strategic allocation has ranges around each allocation which enables tactical positions to be implemented to reflect the shorter term market outlook.



Source: Mercer

Note: approximate analysis as at 31 March 2018, based on the Fund's strategic asset allocation at that time.

- 6.9 Each investment mandate is assessed quantitatively and qualitatively within a monitoring framework designed to address any underperformance, highlight any inappropriate risk taking behaviour and address factors that may impact the manager's ability to achieve long term outperformance goals. The performance of each manager is monitored against three year performance targets, consistent with a longer term investment approach. A number of risk metrics are monitored at the portfolio level including tracking error (the difference between the portfolio's return and the benchmark return it is measured against) and active risk positions (actual weighting of holdings versus the benchmark). At the Fund level, Value at Risk and the correlation between asset returns are monitored.
- 6.10 The following risks are also considered by the Committee:

(i) Governance Risk

This is the risk that Committee members do not have sufficient expertise to evaluate and challenge the advice they receive.

The Fund recognises the importance of maintaining an appropriate level of knowledge across the Committee and periodically the committee self-assesses its level of knowledge. It has taken steps to ensure that Committee members possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties by having a training framework in place which is based on CPIFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. Officers commission expert advice to support strategic and implementation decisions. In addition, the Fund maintains a Risk Register that is regularly updated and monitored by the Committee.

(ii) Exchange Rate Risk

Foreign currency exposure is expected to be an unrewarded risk over the longer term.

The Fund has a hedging programme to protect the sterling value of its hedged overseas investments and to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed market equity holdings, and a 100% hedge of currency risk for the infrastructure, global property and hedge fund investments. This passive approach seeks to achieve this reduction in volatility in an efficient and cost effective way. As a result of hedging these assets, in periods of sterling weakness the investment return will be lower than if the assets were unhedged.

(iii) Liquidity Risk

The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash.

Given the long-term investment horizon of the Fund it is appropriate to accept liquidity risk where the Fund expects to benefit from an 'illiquidity premium'. However, the majority of the Fund's assets are held in liquid instruments and realisable at short-notice. The appropriate level of liquidity in the Fund is considered at each strategic review.

(iv) Cash Flow Risk

The Fund is becoming more mature and is slightly cash flow negative as payments to pensioner members exceed contributions.

The investment strategy is structured to generate investment income to help manage these negative cash flows. Monitoring cash flow is critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.

(v) Valuation Risk

The actuarial valuation assumes that the Fund generates an expected return equal to, or in excess of, the Fund's discount rate.

An important risk to which the Fund is exposed is that the actual return is not adequate, either due to higher than expected increases in CPI increasing liabilities more than expected, or if the assets do not deliver as expected. This risk is reduced by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring. The LRMF and EPS are solutions designed to mitigate aspects of this risk.

(vi) Longevity Risk

This is the risk that the members of the Fund live longer than assumed in the actuarial valuation model.

This risk is captured within the funding strategy which is monitored by the Committee on at least a three yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term.

(vii) Regulatory and Political Risk

Across all of the Fund's investments, there is the potential for adverse regulatory or political change.

Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty. These risks are managed by diversifying across markets and are monitored by reviewing the investment strategy and specific investment mandates.

(viii) Employer Covenant Risk

There is a risk that employers within the Fund lack the financial capacity to make good their outstanding liabilities.

This risk is addressed through a covenant assessment monitoring process, which annually assesses the financial standing of all Employers in the Fund and the analysis is considered when setting the Funding Strategy. In addition a more prudent investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities.

(ix) Environmental, Social and Governance (ESG)

ESG issues may be financially material to the Fund.

The Responsible Investing Policy sets out how the Fund will integrate ESG issues into its investment strategy, processes and ownership practices in the belief this can effectively mitigate the risks and positively impact investment performance. The materiality of ESG on each asset group is considered as part of the Strategic Reviews. In addition, relevant ESG criteria are considered for each mandate and are evaluated when selecting and monitoring managers.

The Fund's Responsible Investing Policy which provides greater detail on how ESG issues are managed within the investment strategy can be found on the Fund's website.

(x) Collateral Management Risk

The Fund recognises the importance of collateral to support specific components of the overall investment strategy. The Fund has implemented a robust and pro-active collateral monitoring process to ensure that the LRMF, EPS and currency hedging strategies are appropriately supported with adequate assets available for use as collateral at any point in time. This is important as in the event of a large adverse movement in market prices there is a risk that these unfunded investment strategies will require additional collateral, often in the form of cash, to be posted in order to maintain the strategies. The posting of collateral is a bilateral agreement designed to protect all parties to a transaction from the risk of default.

7. Environmental, Social and Corporate Governance (ESG) Policy

7.1 The Committee has a fiduciary duty to act in the best interest of the Fund's members and aims to deliver financially sustainable returns to meet the future pension benefits of our members. This includes managing Environmental, Social and Corporate Governance issues that may be financially material to the Fund.

7.2 The Fund has a Responsible Investing (RI) Policy where it defines RI as the integration of ESG issues into its investment processes and ownership practices in the belief this can positively impact financial performance.

7.3 These ESG issues are central to the Fund's responsible investment beliefs, which are set out in the Fund's published Responsible Investment Policy (RI), which supports

the wider investment strategy. In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed.

7.4 The Fund's approach to Responsible investing is based on its RI Principles as follows:

- As a long term investor it seeks to deliver long term sustainable returns
- Management of ESG risks is consistent with the Fund's fiduciary duty to members
- ESG issues are integrated at all stages of the investment decision-making process
- Strategies and policies must be evidence-based
- The Fund has a duty to exercise its stewardship responsibilities as an owner
- The Fund aims to be transparent and accountable
- Recognition that Climate Change is an ESG factor that poses a potential long-term financial risk to the Fund

7.5 The Fund's policy is to integrate RI across its investment decision-making process for the entire portfolio. ESG issues considered when setting the investment strategy and objectives include the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value. The extent to which managers evaluate and manage ESG issues in their investment process is assessed in the selection, retention and realisation of investment managers.

7.6 The Fund does not have an exclusion policy to divest from specific assets, but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. The Fund expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is the Fund's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to report to the Fund on their engagement activities and other ESG initiatives regularly.

7.7 Having identified Climate Change as a potential long term risk to the Fund's assets, the Fund monitors its carbon exposure annually to inform strategic decisions relating to climate change. As a result of such analysis, the Fund's equity allocation that is managed passively is invested in a Global Low Carbon Equity Index Fund. This Low Carbon fund does not exclude investments in carbon intensive stocks but significantly reduces the carbon exposure (by around 2/3rds) in a risk adjusted way through stock selection so that over the long term the return from this portfolio should be similar to the mainstream index.

7.8 As well as setting out the longer term framework, the RI policy identifies shorter term strategic priorities which are reviewed annually.

7.9 The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund. In addition, the Fund will assess the extent to which investment managers integrate ESG risks into their investment approaches.

7.10 The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.

7.11 Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.

- 7.12 For the assets invested in the Brunel portfolios, Brunel will be responsible for managing ESG aspects on behalf of the Fund; the Fund will still have responsibility when setting its investment strategy. It is expected that Brunel will meet all the Fund's requirements with regard to Responsible Investing and develop them further over time. As a Client of Brunel, the Fund feeds into the policies adopted by Brunel for the pool.
- 7.13 Brunel's Investment Principles articulates clearly its commitment and that of each underlying Fund in the pool, to be responsible investors and as such recognises that ESG considerations are part of the process in portfolio construction, the selection, non-selection, retention and realisation of assets. One of the principal benefits achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship across all the portfolios.
- 7.14 Each Brunel portfolio specification explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. These considerations are taken into account when constructing the Brunel portfolios and in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.
- 7.15 Brunel is a signatory to the UN backed Principles of Responsible Investment and has published a comprehensive Responsible Investment Policy. The policy has been developed in conjunction with the Brunel Oversight Board and Client Group. The policy provides a framework under which Brunel will publish supporting guidelines, position statements, annual implementation and engagement plans, proxy voting policy and voting records. For more information visit the Brunel Pension Partnership website.

Social Investments

- 7.16 Investments that deliver social impact as well as a financial return are often described as "social investments". Social investment includes a wide spectrum of investment opportunities. The Fund applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy.
- 8. Policy of the exercise of rights (including voting rights) attaching to investments**
- 8.1 The FRC UK Stewardship Code (the Code) explains that "stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole." The Fund is a signatory to the Code and has outlined its approach to stewardship, including voting and engagement in its Statement of Commitment to the Code. The Fund has been evaluated by the FRC as Tier 1 compliant. A Tier 1 rating is defined as those providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.
- 8.2 The Fund believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to its investment managers; however, the Fund regularly monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, the Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings. The Fund retains the right to

recall stock that has been lent out under its securities lending programme to enable voting.

8.3 The Fund publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers.

8.4 Avon Pension Fund will continue to operate under the current stewardship arrangements until its assets are transitioned into the Brunel portfolios, when Brunel will take over responsibility for each portfolio. Brunel is fully supportive of the UK Stewardship Code and the effective oversight of the companies in which we invest, including the exercise of our rights as a shareholder.

8.5 As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually.

9. Monitoring

9.1 The investment strategy is monitored regularly by the Committee and Panel with an annual review to monitor whether the strategy has delivered as expected and whether any changes need to be considered between strategic reviews. The Panel periodically review aspects of the strategy due to changes in market environment, or concerns about asset class or manager performance.

9.2 A strategic review is undertaken at least every three years, after the triennial valuations, to ensure the investment strategy is consistent with the funding strategy and liability profile and takes into account forward looking return expectations for all assets classes.

10. Advice Taken

9.1 In preparing this statement, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension Partnership. The Fund's Pension Board reviews the Investment Strategy Statement before it is approved by Committee.

11. Publication

10.1 This is a public document and is published on the Fund's website www.avonpensionfund.org.uk/finance-and-investments. Documents referred to in this Statement are listed in Appendix 2 and are also published on the Fund's website.

Draft – Approved by Avon Pension Fund Committee on 7 December 2018

Appendix 1 – Investment Mandates at 30 June 2018

Manager	Mandate	Passive / active	Performance Objective	% of Fund	Inception date
BlackRock	Corporate Bonds	Passive	iBoxx £ non-gilts over 15 years	1.7%	01/04/2003
BlackRock	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	10.5%	05/12/2017
BlackRock	Liability Risk Management Framework	Bespoke	In line with customised benchmark	11.4%	11/07/2017
Blackrock	Equity Protection Strategy & Global equities	Passive	MSCI World (for Global Equity Fund)	8.8%	30/11/2017
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	Active	FTSE All Share +2% p.a.	4.6%	01/04/2001
TT International	UK Equities	Active	FTSE All Share +3-4% p.a.	4.3%	11/07/2007
Schroders Investment Management	Global Equities	Active	MSCI All World Index +2-4% p.a.	8.1%	01/04/2011
Genesis Investment Management	Emerging Market Equities	Active	MSCI Emerging Markets Index	2.4%	13/12/2006
Unigestion	Emerging Market Equities	Active	MSCI Emerging Markets Index +2% p.a.	2.4%	21/01/2014
Standard Life	Diversified Growth Funds	Active	LIBOR +4% p.a.	5.1%	04/02/2015
Pyrford International	Diversified Growth Funds	Active	RPI +5% p.a.	3.0%	14/11/2013
Ruffer	Diversified Growth Funds	Active	3M LIBOR +5% p.a.	5.1%	27/09/2017
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of LIBOR +3%, or 6% p.a.	4.9%	13/07/2015
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	5.0%	01/02/2009
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	4.5%	18/09/2009
IFM	Infrastructure	Active	Gilts +2.5% p.a.	6.4%	30/09/2014
Loomis	Multi Asset Credit	Active	In line with customised benchmark	10.3%	29/09/2017
Record Currency Management	Currency hedge (equity exposure)	Passive	N / A	1.5%	26/07/2011
				100%	
Brunel Portfolios post 30 June 2018					
Brunel (switched from Blackrock Low Carbon Global)	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	10.5%	11/7/2018

Appendix 2- Related Documents

1. The latest Funding Strategy Statement can be found in the Funding Strategy Statement section

<https://www.avonpensionfund.org.uk/finance-and-investments>

2. The latest Responsible Investing Policy can be found in the Responsible Investment Policy section

<https://www.avonpensionfund.org.uk/finance-and-investments>

3. The latest FRC UK Stewardship Code - Statement of Commitment can be found in the Corporate Governance Policy section

<https://www.avonpensionfund.org.uk/finance-and-investments>

ISS Checklist 2018

The Investment Strategy Statement required by Regulation 7 must include:-

Requirements	Confirmation of Compliance	Comments and reference to ISS section
a) A requirement to invest money in a wide variety of investments	✓	Section 5
b) The authority's assessment of the suitability of particular investments and types of investments	✓	Section 5.8
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	✓	Section 6
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	✓	Section 3 – this covers all aspects of pooling at the high level. Pooling is referred to later in the statement where appropriate
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments	✓	Section 7
f) The authority's policy on the exercise of rights	✓	Section 8

More Specifically	Confirmation of Compliance	Comments and reference to ISS section
7 (2) (a) Wide variety of investments		Section 10
Must take proper advice	✓	
Must set out clearly the balance between different types of investments	✓	Section 5.8 is allocation table; section 5 discusses in general
Must identify the risks associated with their overall investment strategy	✓	Section 6 sets out all risk identified

Must periodically review their policy to mitigate against any such risks	✓	Section 9 explains monitoring and review policy
7 (2) (b) Suitability of Investments Must take proper advice	✓	Section 10
Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target	✓	Section 4 links ISS and FSS
Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy	✓	Section 9 explains monitoring and review policy
7 (2) (c) Approach to Risk Must take proper advice	✓	Section 10
Should clearly state their appetite for risk	✓	Section 6.1.and 6.2
Should be aware of the risks that may impact on their overall funding and investment strategies	✓	Section 6 identifies all risks and how managed
Should take measures to counter those risks	✓	Section 6 identifies all risks and how managed
Should periodically review the assumptions on which their investment strategy is based	✓	Section 9 explains monitoring and review policy
Should formulate contingency plans to limit the impact of risks that might materialise	✓	Section 6 explains where strategies are in place. 6.8 Ranges around allocations allow tactical deviation to take place
7 (2) (d) Approach to pooling Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance	✓	Section 3, 3.6 for government approval
Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria	✓	n/a

Set out the proportion of assets that will be invested through pooling	✓	Section 3.8
Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account	✓	Section 3
Set out the services that will be shared or jointly procured	✓	3.2
Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money.	✓	3.7 All will be managed within pool. Legacy private market assets will be invested as the current investments mature
Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money	✓	n/a
Submit an annual report on the progress of asset transfers to the Scheme Advisory Board	✓	From 2018/19
7 (2) (e) ESG Must take proper advice	✓	Section 10
Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors	✓	Section 7 sets out RI approach in more detail. Compliant in that stakeholders are represented on Committee. The Fund has an RI policy (to support the Investment strategy) which considers non-financial factors in detail. This is approved by the Committee. Draft ISS is discussed by Pension Committee, LPB consulted before final version is approved.

• Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments	✓	Section 7 sets out approach to such matters at both strategic and portfolio/manager level
• Should explain their approach to social investments	✓	Section 7
7 (2) (f) Voting • Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments	✓	Section 8
• Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code	✓	Section 8.1
• Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)	✓	Section 8.2
• May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority	✓	Voting delegated to managers Brunel will appoint agent for its portfolios
• Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations	✓	

Dear Liz,

Thanks for the opportunity to comment on the updated ISS. The LPB welcomes the changes and improvements made to the ISS and we concur with the assessment of its compliance with the LGPS regulations and statutory ISS guidance. Well done on this.

The LPB does have three queries about the APF ISS and associated investment policies such as the responsible investment policy (RIP) which is regularly referenced as a key supporting document to the ISS.

Ethical investing

Some elected Council Members and local MPs ask questions on this topic to at least one LPB member. What is the APF strategic policy on ethical investing (i.e. non-financial factors)? and specifically do any APF fund managers exclude from APF investment portfolios any companies on an ethical basis? (i.e. not on financially material ESG grounds but for other non-financial reasons). The ISS statutory guidance says the administering authority can consider such factors if there is good reason to think that scheme members would share the concern; and the decision should not involve a risk of significant financial detriment to the fund, it could do so.

Avon response:

The APF policy is not to exclude purely on moral grounds at the strategic level. Appointed managers can elect to do so but the Fund still expects them to target the return and risk profile of the mainstream index benchmark. For example, in the UK Equity SRI mandate managed by Jupiter, the manager elects not to invest in gambling alcohol and tobacco companies based on non – financial criteria (as well as oil and mining companies). However their performance benchmark is the FTSE All Share index (with an outperformance target of 2% over rolling 3 year periods). As a consequence their performance has been more volatile than a manager with the same performance target than one that has no exclusions. At times this can be significantly negative or positive on a relative basis, highlighting how important it is to consider risk, not just returns, when evaluating at a strategic level. In the volatile markets of 2007-2012 the 3 year relative performance fell from +5% in 2007, to -3.3% in 2009, to -7.6% in 2010 before recovering to +2% in 2012.

Managers seek to construct portfolios with the optimal risk and return profile and this is more challenging when exclusions are applied. For example, the Low Carbon index, which has a significantly lower carbon exposure than the mainstream MSCI Global equity index, has a higher than index exposure to other sectors such as tobacco in order to optimise the level of risk. In the Jupiter portfolio, because there are such significant exclusions versus the index, they have to manage the portfolio to a higher level of risk. The Fund has to take this into account when strategically allocating the risk budget.

At the strategic level the Fund has considered excluding tobacco and fossil fuels previously. As a result in 2017 the Fund agreed to reduce the carbon exposure. Market solutions make this a reasonable approach from risk/return and cost perspectives. Tobacco is more of an issue within the UK market given the size of the sector within the index (around 5% at each review in 2011 and 2017). When reviewed the analysis demonstrated there would have been a significant financial impact over most long time periods if excluded. In addition a solution excluding tobacco was more costly to implement.

What is the APF position of the adoption of the United Nations supported Tobacco Free Finance Pledge <https://globenewswire.com/news-release/2018/09/26/1576316/0/en/Global-leaders-launch-Tobacco-Free-Finance-Pledge.html> ? Would the APF consider becoming a signatory to this ? Some leading pension funds and some other LGPS funds have decided for fiduciary reasons not invest in tobacco companies - with no discernible impact on these funds funding level - because of the very large volume of other alternative industry sectors/companies asset managers can invest in.

Avon:

We would need to research the Tobacco free pledge.

The Fund's position is that it will only sign up to collaborations if they directly relate to the fund as an investor, are aligned with our strategic policy/asset allocations, the Fund can influence and participate as an investor and that it is actually possible to meet all disclosure requirements etc. The focus is mainly on LGPS collaboration and disclosure standards by companies, our disclosure and reporting and analysis to support strategic decisions rather than supporting more general lobbying or campaigning initiatives. The Fund considers ethical investment issues from a strategic risk perspective and should not be viewed as a vehicle for advancing individual causes.

Sustainable Investing

The 2016 RI policy makes reference to introducing an allocation to sustainably-themed assets (and renewable infrastructure) as part of this 2018 ISS review - has such a new allocation been made and how ? or is going to be made, when and how ?

Avon:

The indicative strategic allocation to sustainable equities is 5% (c. 13% of the allocation to equities). The UK SRI equity mandate managed currently by Jupiter is anticipated to transition into Brunel's Sustainable Global Equity portfolio. It is currently a smaller portfolio so not a priority for the pool.

Jupiter also manages a Global sustainable pooled equity fund which we have seeded with £10m. This uses UN SDGs to identify companies etc. which will also transition into the sustainable portfolio.

What is the APF strategy in respect of the adoption and usage for investment purposes of the United Nations Sustainable Development Goals (UN SDGs) ? Would the APF consider adopting them and reporting the APF contribution to their achievement as an increasing number of leading pension funds and asset managers are now doing ? or might BPP undertake this?

Avon:

The Fund has not adopted these. Brunel are intending to report against these goals in the future.

Responsible Investing

What is the APF position on the adoption of the United Nations Global Compact (UNGC) in respect of companies that its current fund managers ? and BPP ? Would APF consider becoming a signatory of the UNGC ? Is the APF content to permit its current asset managers or BPP to invest in listed or unlisted companies if they are violating any part of the UNGC ?

Avon:

The Fund is not a signatory. Brunel is a signatory and members of a number of other global initiatives and we rely on their affiliations in the main as they have the resources to actively contribute and participate.

What is the APF position on its own adoption of the United Nations Principles of Responsible Investment (UNPRI)? Would APF consider becoming a signatory to the PRI ? so the APF investment strategy is in line with BPP policy.

Avon:

This is one area the Fund could consider once more assets have moved to Brunel and Brunel is in a position to support the Fund in its disclosure and evidence of compliance. This is a good example of it is not a box ticking exercise as signatories have to demonstrate ongoing compliance to a proscribed standard.

The LPB recognises the Administering Authority may consider it rather late in the current ISS review process to make important new strategic policy decisions. If there is not time at its next meeting it is suggested that they are considered for potential inclusion of the next update of the APF ISS and or APF RI policy or the RIP annual report, or perhaps in future be implemented and reported on via asset managers appointed by BPP.

Avon:

It is the Boards responsibility to review the ISS for compliance purposes. The Fund reviews its ESG strategy periodically and if there is an issue that the Board feels the Committee should consider in a future ESG review then it can make that suggestion. In doing so the Board should present its case. However it should be remembered that the Fund considers ethical issues in terms of the materiality of the risk they represent to the fund in achieving strategic objectives.

General

The ISS document is a 'much better read' than the last version. But as a key public document for the APF it would benefit from some thorough professional proof-reading to ensure the same tense and person is used throughout. Acronyms are nearly all spelled out, (LGIM may be the only exception?) which is good, but a number of cross-references should be made and a few other (foot)notes/explanations added for reasons of clarity and explanation for its users :

- * para 2.1 bullet 4 introduces the 'employer covenant' but does not explain it or its significance;
- * the fiduciary duty of APF to its members is only introduced at 5.1 and not explained until 7.1 and the wording could be strengthened;
- * in para 6.3 (i), 'repurchase agreements' are described, but 'swaps' are not but should be;

Avon:

*There will be a final proof read ahead of publication.
We will add explanation/footnote on employer covenant and swaps.
We will add in fiduciary duty into introduction.*

Investment returns

Ref paras 4.2 and 4.3: the actuary's best estimate (at 2016) of average expected return' is CPI + 3.5%. APF then prudently used CPI +2.2% as the assumption to get to 100% funding. In 2017, the best estimate return reduced to 2.9%. This implies that the assets are estimated to perform less well is this correct ? However, the return needed to get to 100% funding goes down to 2.1% despite the estimate that assets will perform less well? This is confusing and needs explaining.

Avon:

This paragraph will be reworded and footnote added for explanation.

Responsible investing

RI is approached under the heading of the ESG policy, but paras 7.4 is poorly drafted and needs some clarification. For example Para 7.6 states that APF 'believes that engagement and responsible stewardship will influence corporate behaviour more effectively than disinvestment'. Evidence to support this assertion/belief is not provided but should be. The sections on 'exercise of rights' (8.1 and 8.20) are weak and need strengthening. Perhaps the APF compliance with the FRC UK Stewardship Code could be an Appendix and/or a hyper signpost provided?

Avon:

*Para 7.4 is taken from the RI policy and lists the RI principles agreed by the Fund. The ISS needs to state our policy, 7.6 explains the Fund's reasoning; we do not have to evidence all detail of each issue in the ISS.
The section on voting rights sets out our voting policy and how it is currently implemented so it cannot be strengthened. The FRC Code (and other documents) is hyperlinked in appendix 2.*

Future reviews of the ISS

You also ask if the LPB wishes to be consulted again on future reviews of the ISS. The answer is affirmative because

1) The LPB has a statutory role under LGPS Reg 7 (2) concerning how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention, and realisation of investments.

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority

- must take proper advice

*- should explain the extent to which the views of their **Local Pension Board** and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors*

- must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments

- should explain their approach to social investments.

The Law Commission defines “non-financial factors” as factors which might influence investment decisions motivated by other (non-financial) concerns, such as improving members’ quality of life (now or future) or showing disapproval of certain industries. In general, non-financial factors may only be taken into account if two tests are met if good reason to think that scheme members would share the concern; and the decision should not involve a risk of significant financial detriment to the fund.

Under LGPS regulation 7 the LPB has a duty to scrutinise the ISS of the APF in respect of the extent to which financially material ESG and non-financial ESG issues are taken account in the selection, non-selection, retention of investments. For example in relation to fossil fuel businesses (whose products cause climate change and a range of socio-economic impacts), companies who manufacture/distribute munitions or who manufacture/distribute/promote pornography or tobacco based products, or actively use child labour or who do not disclose their compliance with UN Ruggie principles. These are ESG issues where the legal position, case law, asset management industry, and pension funds member opinions (on their pensions being derived from investing in such companies) are rapidly evolving and historical positions have changed or are changing. In so far as it can APF has a responsibility to consider member views on these issues it would be desirable for APF to adopt best LGPS practice in such areas.

2) The Government has signalled its intention to review/update primary or secondary legislation (2005 Occupational Pension Scheme (Investment) Regulations and 2016 Disclosure Regulations) or statutory guidance to formalise a requirement for asset managers and pension funds to integrate financially material ethical & ESG issues (like climate change) into their decision making. The LGPS Scheme Advisory Board has proposed that the MHCLG should update aspects of the LGPS 2016 Investment Regulations and the ISS statutory guidance, and or the TPR may issue an updated or new Code for UK pension funds during 2019 or 2020. The LPB would have a legal duty to help ensure the APF is in compliance with any changed or new statutory requirements.

3) The LPB also has a remit under Reg 8 of the LGPS regulations which means it needs to understand the on-going evolution of the APF ISS, so that if its advice was ever sought under LGPS regulation 8 by the Secretary of State or Scheme Advisory Board, the LPB could so from an well informed position.

We must stress the LPB would never wish to delay the process for reviewing or updating the ISS in future so early consultation with the LPB would be beneficial.

Avon:

In terms of future consultation there seems to be little merit in reviewing what will almost always certainly be a compliant document particularly as the evolving Brunel situation will mean a continuing number of amendments as portfolios are transitioned. It would be more helpful if this could be done informally and by exception.

Considering the questions arising, it seems more pertinent to ask how the Board could engage when the Fund next considers its ESG strategy – and in which case the Board may benefit from some structured training.

We look forward to discussing the ISS with you and hearing your response to the points above.

Best regards,
Howard Pearce, Independent Chair
Local Pension Board, Avon Pension Fund

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 DECEMBER 2018	AGENDA ITEM NUMBER
TITLE:	ANNUAL RESPONSIBLE INVESTMENT REPORT	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Responsible Investment Annual Report 2017/18 Appendix 2 – Brunel Pension Partnership Responsible Stewardship Policy Statement		

1 THE ISSUE

- 1.1 The Fund has a Responsible Investing (RI) Policy in place to address the impact of risks arising from RI issues on the investments portfolio. The activity undertaken by the Investment Panel, Officers and Investment Managers to implement the policy is published each year in a Responsible Investment Report.
- 1.2 Transparency and disclosure of the Fund's RI policy and activities is an important element of being a responsible investor. The RI policy was agreed in November 2016 and is due to be reviewed in 2019/20.
- 1.3 The Responsible Investment report for 2017/18 is at Appendix 1. It demonstrates how the Fund has implemented the policy throughout the year and incorporates the annual environmental risk report from Trucost. The report at Appendix 1 will be published on the Fund's website once it has been approved by the Committee.

2 RECOMMENDATION

The Committee:

- 2.1 Approves the annual Responsible Investment Report for 2017/18

3 FINANCIAL IMPLICATIONS

- 3.1 The budget includes the costs of the carbon and environmental analysis provided by Trucost.

4 RESPONSIBLE INVESTMENT REPORT

- 4.1 This is the sixth annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives.
- 4.2 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account. The key ways in which the Fund sought to manage these risks during the year were as follows:
- a) Successfully appointed a manager to run a low carbon equity strategy representing 10% of Fund assets.
 - b) Utilised the services of Trucost to analyse the carbon and environmental footprint of the Funds equity portfolio.
 - c) Monitored whether investment managers implemented RI policies and/or approaches in line with their stated policy. Where appropriate the Fund sought to influence investment managers, specifically by:
 - Holding managers to account and querying RI / ESG factors in their respective investment processes
 - Reviewing whether engagement activity of managers was in line with stated policies
 - Highlighting key voting resolutions to investment managers where the resolution related to long term strategic ESG risks
 - d) Actively participated in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage RI risks. Officers and Committee members attended four business meetings during the year.
- 4.3 The Fund participated in over 2,000 separate company meetings over the year, casting votes in over 29,000 resolutions. In general terms, the Fund noted an increase in remuneration-related proposals in the UK market. Across Europe dissent on remuneration-related proposals slightly increased over the year. Dissent on UK board member re-elections was consistent with shareholders looking for more board gender diversity and sanctioning companies that did not show progress was a common theme.
- 4.4 The Aggregate Fund exposure within equities is more carbon efficient than its benchmark, outperforming the benchmark by 28.5% (i.e. having a lower exposure) versus last year's number of 20.5%. This change was driven mainly by introducing a passively managed Low Carbon Global equity portfolio into the Fund. Sector allocation and stock selection taken together, translate into a positive overall effect, which means that investment managers are investing in less carbon intensive sectors and picking less carbon intensive stocks than the broader market. Analysis of the Fund's environmental footprint (its exposure to greenhouse gas emissions, water, waste and other pollutants) revealed that it outperforms the benchmark by over 30%, a significant year-on-year improvement from 7.9% in 2016/17.

5 BRUNEL PENSION PARTNERSHIP RESPONSIBLE STEWARDSHIP POLICY

5.1 Appendix 2 contains details of Brunel's Voting Policy, which was approved by Brunel's Board on 25 October 2018. Implementation of the Voting Policy will be supported by Hermes EOS, Brunel's appointed engagement and voting services provider.

6 RISK MANAGEMENT

6.1 Responsible investing issues can have a material impact on investment risk and return in the long term. The Fund's Responsible Investment Policy seeks to ensure the long term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor and shareholder.

7 EQUALITIES

7.1 For information only.

8 CONSULTATION

8.1 For information only.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 For Information only.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Assistant Investment Manager, 01225 395357
Background papers	none
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Responsible Investing Annual Report 2017/18



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Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. This is the sixth year that the Fund has published its Responsible Investment Annual Report.

The annual Responsible Investment report summarises the activities undertaken during 2017/18 by the Fund to meet and support its Responsible Investing policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

The Fund defines RI as the integration of ESG issues into its investment processes and ownership practices in the belief this can positively impact financial performance.

Executive Summary

As a responsible investor, the Fund managed its Responsible Investment risks through the following activity during the year 2017/18:

Strategy

- Successfully appointed a manager to run a low carbon equity strategy representing 10% of Fund assets.
- Extended the current UK SRI mandate to a Global Sustainable Fund that was created for, and seeded by, the Avon Pension Fund.
- Worked with Brunel Pension Partnership (Brunel) to identify opportunities to deploy the Fund's 2.5% strategic allocation to renewable infrastructure.

Manager Monitoring

- Promoted Responsible Investment / Environmental, Social and Governance by:

- Following through with issues identified throughout the year by the Fund's Committee, Investment Panel and third party ESG providers.
- Monitoring managers' integration of Environmental, Social and Governance factors in their investment process where appropriate.
- Reviewing whether engagement activity of managers was in line with their stated policies.

Voting Analysis

- The Fund participated in over 2,000 separate company meetings over the year, casting votes in over 29,000 resolutions
- In general terms, the Fund noted an increase in remuneration-related proposals in the UK market. This is because UK companies must generally submit remuneration policies for shareholders' approval every three years. Most UK companies submitted remuneration policies for the first time in 2014 and therefore submitted them again in 2017.
- Across Europe dissent on remuneration-related proposals slightly increased between 2016 and 2017, however, on average and across all voting topics, levels of investor dissent remained stable between 3.8%-3.9% from 2016-2017.
- In 2017, dissent on UK board member re-elections was consistent with shareholders looking for more board gender diversity and sanctioning companies that do not show progress in this respect.

Engagement and Collaboration

- The Fund continued to participate in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools for managing Responsible Investment (RI) risks. Officers and Committee members attended four business meetings during the year.

More detail on each area is provided within each relevant section of this report.

1. Approach to Responsible Investment

This section sets out the Avon Pension Fund's Responsible Investment Policy and how it incorporates R.I into the investment process, details of strategic changes and Initiative support.

Responsible Investment Policy

In recognition of the changing landscape with respect to ESG issues as well as broader industry developments, the Fund periodically reviews its Responsible Investment Policy. The last review was undertaken in conjunction with the Fund's investment consultant, Mercer, in 2016. The policy can be found on the website: [Avon Pension Fund Responsible Investment Policy](#)

The foundations of the Fund's approach to RI are its RI Principles, which are set out below:

- The Fund is a long-term investor, with liabilities stretching out for decade to come, and seeks to deliver **long-term sustainable returns**.
- The identification and management of ESG risks that may be financially material is **consistent with our fiduciary duty** to members.
- The Fund **integrates ESG issues at all stages of the Fund's investment decision-making process**, from setting investment strategy to monitoring the Fund's investment managers.
- The Fund seeks to identify **innovative and sustainable** investment opportunities, in-line with its investment objectives.
- The Fund applies **evidence-based decision-making** in the implementation of its approach to RI.
- The Fund has a **duty to exercise its stewardship and active ownership responsibilities** (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour
- The fund **recognises the importance of collaboration** with other investors in order to achieve wider and more effective outcomes.
- The Fund aims to be **transparent and accountable** by disclosing its RI policy and activity.
- The Fund recognises **that climate change is one of the ESG factors that pose a potential long-term financial risk**.

2017/18 saw the Fund implementing, and executing on, a number of the long term strategic priorities that were identified as part of the 2016 RI Policy review and the wider strategic investment review in 2017, specifically:

R.I Priority	2017/18 Activity
Engagement: The Fund seeks to identify strategic ESG risks for engagement on the basis of advice from the Funds investment advisors. It is the intention to select a number of topics on a regular basis (12 to 24 months) and to work with our investment managers and LAPFF to better direct engagement activity on these topics.	The Engagement and collaboration section of the report sets out the key engagement priorities and how the activity undertaken by the Fund. The Priorities for 2018/19 can be found at the end of the report.
Evaluate and manage carbon exposure: The Fund has identified climate change as a potential financial risk and the Fund intends to measure and understand its carbon exposure and actively examine measures for reducing carbon exposure (decarbonisation) without negatively impacting financial objectives.	The Fund switched its entire passive equity holding into a Low Carbon tracker fund which seeks to minimise carbon exposure by overweighting companies with low carbon emissions. In addition the Fund re-appointed Trucost to analyse the carbon and environmental footprint of the Funds equity portfolio at 31 March 2018. A summary of the findings can be found in the Section 2: Monitoring.
Sustainable Opportunities: Consider the case for sustainable opportunities, in-line with the Fund's investment objectives.	The Fund continues to explore sustainable opportunities on a case by case basis. During 2017/18 the Fund seeded a new Global Sustainable Equity Fund which seeks to invest in companies which offer the potential for growth and that meet strict ESG criteria such as environmental impact, provision of healthcare, societal contribution and gender equality.
Improving Disclosure and Reporting: The Fund recognises that there are increasing expectations around disclosure and transparency with respect to ESG issues. The Fund intends to enhance analysis, disclosure and reporting on its RI activities and progress.	This is the sixth Responsible Investment report published by the Avon Pension Fund. On an annual basis content is reviewed and disclosure improved. This year's report includes carbon analysis undertaken by Trucost and input from Brunel.

Further details on how the Fund has delivered the policy are covered throughout this report.

1.1 Change to Investment Mandates

When appointing external investment managers, the Fund:

- Includes in tenders an assessment of a managers' process for evaluating ESG risks within their investment process and makes use of this as an integral part of the selection process when relevant.
- Considers whether appointing managers with specialist ESG research capability could better meet the investment objective of the mandate.
- Includes the adoption of the PRI principles in the criteria for evaluating managers.

During 2017/18 the Fund appointed Loomis Sayles to manage a Multi-Asset Credit mandate, which seeks to provide diversified and dynamic exposure to different areas of the credit market, with a sub-investment grade bias. The manager established an ESG Committee in 2012 to oversee the integration of ESG matters into its investment process across all asset classes, including credit. Furthermore it is a UNPRI signatory and was awarded Tier 1 status as a signatory of the FRC Stewardship Code in 2016.

The Fund increased its allocation to Diversified Growth Funds (DGFs) with the appointment of Ruffer to meet the Fund's objective for DGFs of 'equity like returns with lower volatility'. The appointment process revealed that corporate governance is a central consideration for Ruffer when it comes to equity selection. The manager was able to demonstrate how it frequently engages with companies on governance issues such as executive remuneration and mergers and acquisitions. Ruffer became a signatory to the UN PRI in 2016 and was also awarded Tier 1 status to the FRC Stewardship Code.

2017/18 saw the Fund transition the legacy passive equity assets (equivalent to 10% of total Fund assets) into a low carbon global equity index fund designed to manage potential risks associated with the transition to a low carbon economy. BlackRock developed the pooled fund product as a result of the allocation made by Avon. By overweighting companies with low carbon emissions (relative to sales) and those with low potential carbon emissions, the index reflects a lower carbon exposure than that of the broad market. The Fund prefers an approach based on reduced weighting as opposed to a 'negative screen' exclusionary approach, which filters out companies that derive a meaningful proportion of their revenues from industries such as oil extraction. The decision was made not to invest in an index that excludes carbon emitters completely given the implications this has with respect to the Fund's ability to actively engage and effect change within investee companies. Additionally, negative screening results in a reduced investable universe and it can lead to higher volatility of returns due to the lack of exposure to areas of the market that a strategy cannot access.

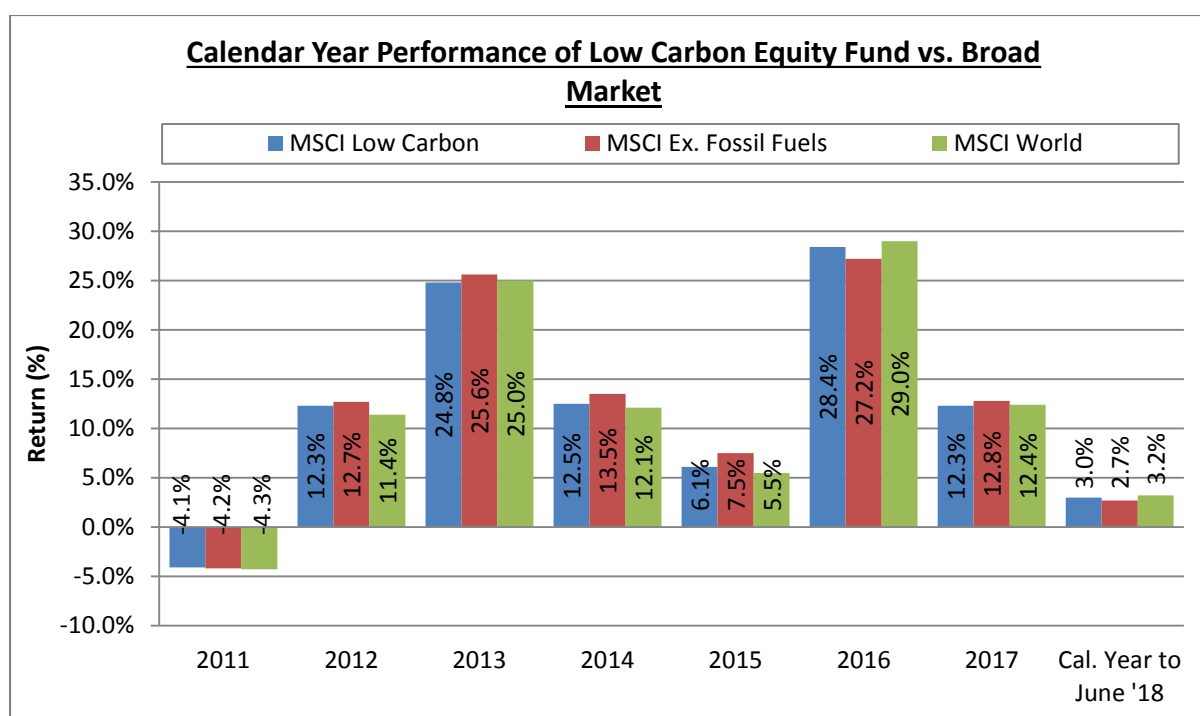
Finally, as part of the Fund's commitment to make an allocation to sustainable equities, it worked with Jupiter (the Funds existing UK SRI equity manager) to develop and seed a pooled global sustainable equity fund. Recognising the broader opportunity set that investing in a global universe brings with it the Fund was able to

draw on Jupiter's strong heritage in sustainable investing and its proprietary investment selection model which assesses, among other things, a company's impact on the planet, the strength of its governance and alignment with shareholder values as well as its societal contribution either through its end product or through its business practices.

A summary of the current investment mandates and their approach to ESG can be found in Annex 2.

1.2 Measuring the Success of Investing in a Low Carbon Global Equity Index Fund

Since inception the Low Carbon Global Equity Index Fund has delivered an absolute return of c.3% and despite an increasing oil price over the same period, given up just 0.2% of returns relative to its parent index, the MSCI World (see below chart). This fund seeks to replicate the MSCI Low Carbon Target Index which compares favourably versus other environmentally focused indices with regards to carbon intensity. This is due in part to the index construction methodology where all companies are individually assessed on their carbon emissions as opposed to an exclusionary index that might discount a sector such as Energy and in doing so not properly take account of the carbon emissions generated by those companies that are retained in the investable universe. Based on 5 years of history this Low Carbon Index has demonstrated lower volatility than its parent index, which has translated into better risk adjusted returns.



In general the Fund favours an approach that actively reduces its exposure to carbon but maintains the ability to engage with its investee companies to promote best practice for managing the transition to a low carbon economy. Arguably by wholesale disinvestment the investor foregoes the opportunity to effect change at a company that is not meeting the expectations of its shareholders in respect of environmental, social or governance issues.

1.3 UNPRI

- The Fund supports the principles underlying the UN Principles for Responsible Investing (PRI)
- All of the Fund's Investment Managers are signatories to the PRI. The principles are detailed in the table below:

UNPRI Principles	
1. Incorporate ESG issues into Investment analysis and decision-making process	2. Active owners, incorporate ESG issues into our ownership policies and practices
3. APF seeks appropriate disclosure on ESG issues by the entities in which we invest	4. Promote acceptance and implementation of the principles within the investment industry
5. Work together to enhance our effectiveness in implementing the principles	6. Report on activities and progress towards implementing the principles

2. Monitoring

This section sets out the Avon Pension Fund's Policy on monitoring Manager activity and provides an overview on the monitoring carried out by the Investment Panel along with developments from the Fund's Managers.

The Fund seeks to monitor, understand and where appropriate challenge investment managers' activity to gain assurance that policies and practices are being followed and to ensure they take ESG risks into account. In addition the Fund also seeks to influence investment managers where appropriate.

2.1 Stewardship Statement

The Fund remains a Tier 1 signatory to the FRC Stewardship Code. The Fund's statement can be found in Annex 1.

Of the fifteen investment managers the Fund employs, three had initially been assigned Tier 2 status. Through ongoing engagement with the FRC two of those managers were upgraded to Tier 1 status during the year.

2.2 Manager Policy Updates

The Fund requests updates on Manager Policy changes. The following updates have been made this year:

Manager	Update
Pyrford	Upgraded to Tier 1 status under the UK Stewardship Code.
Partners	Established a Responsible Contractor Policy, which is particularly relevant to Real Estate as it aims to set standards and ESG expectations for the relationship with contractors.
JP Morgan	Began incorporating topics related to prudent workplace practices as part of the due diligence reviews of the underlying funds JP Morgan invest in.
BlackRock	Regularly review and update their voting policies. Most recently reviewed and approved by the BlackRock Investment Stewardship (BIS) Global Oversight Committee in Q217.
Loomis	Upgraded to Tier 1 status under the UK Stewardship Code.

2.3 Climate Change Analysis

Trucost's second annual assessment of the carbon footprint of the Fund's listed equity portfolios shows a year-on-year improvement in the carbon footprint performance of the Fund's aggregate equity portfolio, driven mainly by underlying improvements in the passive portfolios, specifically the addition of the Low Carbon portfolio.

28.5% more carbon efficient than benchmark

The equity assets in aggregate are more carbon efficient than the benchmark, outperforming the benchmark by 28.5% in terms of carbon to revenue (up from 20.5% in 2017).

Sector allocation and stock selection effects combined translate into a positive overall effect, which means that as a rule the fund managers are investing in less

carbon intensive sectors and picking less carbon intensive stocks than the benchmark. Sector allocation resulted in the portfolio being 19.1% more carbon efficient than the benchmark and stock selection resulted in the portfolio being 9.4% more carbon efficient than the benchmark. The two sectors that have the greatest positive effect on carbon efficiency of the portfolio are Utilities (14.0%) and Energy (7.0%). While these sectors are highly carbon intensive they contribute positively to the fund when compared to the benchmark, as the underlying companies are more carbon efficient than their peers in the same sector.

30.3% less environmentally intensive than the benchmark

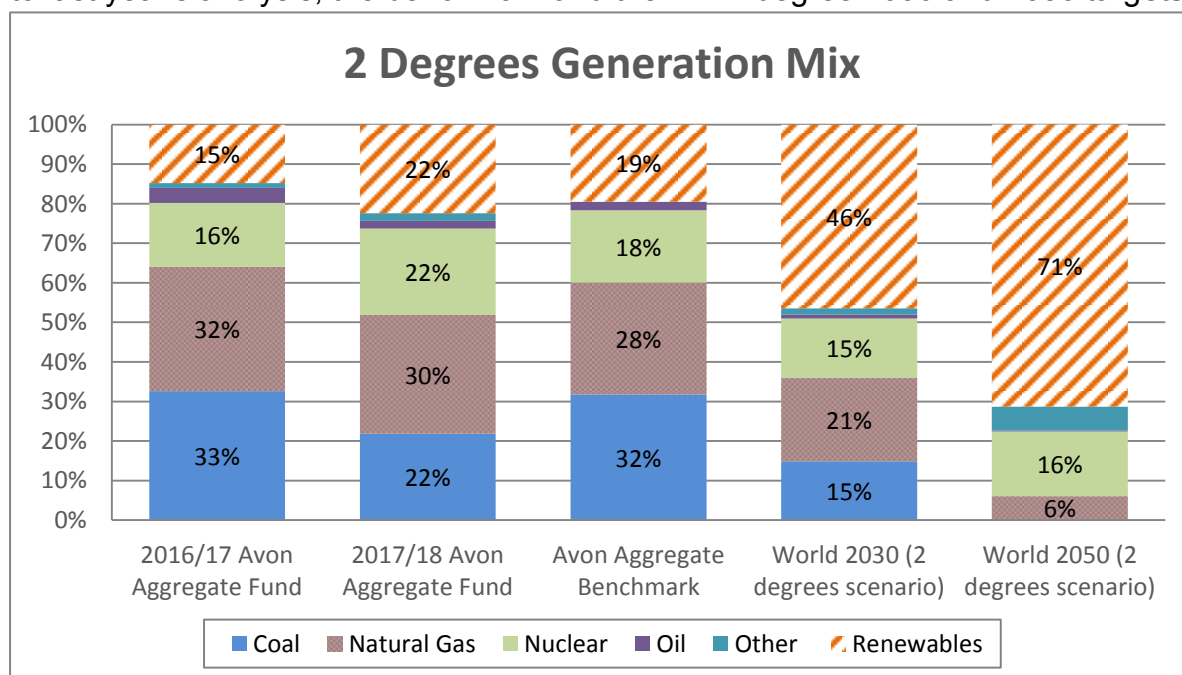
In its present state, every time the portfolio generates £1m of revenue, 335.30 tonnes of carbon dioxide equivalent (tCO₂e) emissions are emitted, a 15% reduction on last year's number of 386.36 tonnes.

In terms of fossil fuel exposure, the equity assets have a lower level of exposure to extractives than the benchmark (1.5% vs. 2.2% in terms of revenue, and 5.8% vs. 10.7% in terms of value of holdings). It also has a lower level of exposure to companies with fossil fuel reserves, in terms of value of holdings (4.5% vs. 9.7%).

Trucost also analysed the environmental foot print of the Fund, that is its exposure to greenhouse gas emissions, water, waste and other pollutants, and was able to determine that the total environmental footprint of the Fund outperforms its benchmark by 30.31%, a significant year-on-year improvement from 7.9%.

Generation Mix

The chart shows the Fund's power generation mix by type of energy in comparison to last year's analysis, the benchmark and the IEA 2 degree 2030 and 2050 targets.



There has been a transition towards less coal, less natural gas and less oil in the generation mix relative to last year and a significant reduction in coal versus the benchmark. Following the analysis undertaken last year the Fund recognised that the aggregate portfolio had a lower 'renewables' proportion, leading to a lower level of alignment with the 2 degree scenario mix than the benchmark.

The 2017/18 analysis reveals an increase in 'renewables' that outstrips the benchmark. However, there is still the opportunity to better align the aggregate portfolio with the 2 degrees scenario by increasing the proportion of renewable energy in the overall generation mix. The Fund's commitment to invest 2.5% of total assets in renewable energy infrastructure in the medium term should see the generation mix further aligned with the 2 degrees scenario.

The Trucost Executive Summary can be located in [Annex 3].

3. Engagement and Collaboration

This section sets out the Avon Pension Funds engagement priorities and its engagement activity throughout the year. It also summarises the activity of its manager, case studies and activities of LAPFF.

Avon Pension Fund Activity

3.1 Engagement Priorities

The Fund recognises the importance of managing ESG risks that can be both long-term and short-term in nature. The Fund seeks to understand and manage ESG and reputational risks to which it is exposed. In addition to Climate Change resilience and the strategic management of climate change risks at investee companies and corporate tax responsibility, the Fund added pay equality and risks arising from technology to the engagement priority list for 2017/18.

Climate Change Risks at Investee Companies



Corporate Tax Responsibility



Technology



Pay Equality



Climate Change Resilience

Notably, the Fund became a signatory of Climate Action 100+, a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

Engagement with Fund Managers

The Fund wrote a letter to all of its investment managers requesting feedback on how climate change risk has been incorporated into the assessment of risk in the investment process. The Fund's managers have been very active in incorporating climate change resilience into their engagement and integration of ESG. Different ways in which some of the Fund managers achieve this include:

- Several managers became founding signatories of Climate Action 100+ - a collaborative initiative led by the IIGCC, UNPRI and HSBC Global Asset Management designed to engage systemically important greenhouse gas emitters across the global economy that have significant opportunities to drive the clean energy transition.
- Engaged directly with companies on their current greenhouse gas (GHG) emissions, reduction activity, feasibility of adopting renewable production, carbon pricing, and

scenario analysis and adapting to changing regulation.

- External advice sought on the effectiveness of various third party carbon foot-printing tools thus advocating for stronger models and analytical tools to identify the actual carbon risk that carbon footprints may not capture.
- Letters sent to companies, G7 and G20 global leaders highlighting need for disclosure and commitment to Paris Climate Agreement.
- One alternative investment manager partnered with the Clean Energy Finance Corporation (CEFC) to develop a carbon emission reduction and energy efficient framework for infrastructure assets.
- Published thought leadership on 'The Price of Climate Change' and 'Adapting Portfolios to Climate Change' designed to inform and educate portfolio managers' investment processes.

TCFD – Task Force on Climate-Related Financial Disclosures

Building on the feedback provided during the 2016/17 consultation on the inclusion of climate related financial disclosures, some managers subsequently moved to adopt the recommendations and began reporting against the TCFD framework.

Pay Equality & Technology

Managers were asked how they address and evaluate cyber security and pay equality issues within investee companies. Some of the different ways in which fund managers achieve this include:

- Attendance at regulatory events with the Financial Reporting Council (FRC) and the Investment Association (IA) to discuss the ongoing reforms to the UK Stewardship Code and Governance Code.
- Participated in a review of the IAs remuneration principles for UK public listed companies and provided feedback on developments during the AGM season. The consultation focused on a number of issues relating to quantum of fixed and variable pay, bonus disclosure, policy renewals, the use of discretion by remuneration committees and executive pensions.
- Undertook a review of the investment case for State Owned Enterprises (SOEs) and companies whose content (specifically in relation to social media companies) is restricted by Government and whether this censorship threatens the case for investing in such companies.
- One manager partnered with a strategic intelligence and advisory firm to deliver an ongoing and 'real time' program that reviews and assesses asset cyber security and awareness enabling a feedback loop to be created between investor and company.
- It was noted that fund of fund managers actively assess whether underlying managers conduct thorough due diligence on the service providers they engage with as part of wider General Data Protection Regulation (GDPR) requirements.
- Third party specialists appointed by several managers to develop a status audit for portfolio companies that need to comply with GDPR.

3.2 Investment Manager Activity

Investment Managers provided an update on where they focused and engaged throughout the year. The key points are as follows:

BlackRock

- Engaged with a number of companies in the auto sector on climate-related risks and opportunities relating to Electric Vehicle technology.
- Initiated direct engagement with six property and casualty insurance companies to better understand their approach and reporting relating to climate risk management.
- Sent letters to the CEOs and general counsels of approximately 120 of the most carbon-intensive companies globally in BlackRock's aggregate equity portfolio.
- Discussed TCFD disclosure requests in two case studies; with an Australian oil major around its climate risk governance approach and with a number of Chinese companies in the heavy emitting sectors including energy, power generation, construction materials, and petrochemicals.
- Engaged with several auto manufacturers on the impact of technology, labour issues, worker retention and training.
- Engaged on structural reform and human capital challenges including labour relations and employee training.
- Direct engagement with a UK retailer on corporate governance and workforce management practices.

Genesis

- Actively participated in briefings from corporate governance groups such as the International Corporate Governance Network (ICGN).
- Disinvested from an Asia Pacific financial sector company due to inadequate IT infrastructure which created a disruption in service and where the company did not satisfactorily improve their internal control environment.

IFM

- Committed to producing and publishing an annual report on the carbon footprint of all infrastructure investments in which IFM has a meaningful exposure, or over which IFM yield significant influence.
- In March 2018, IFM issued a new round of information requests to each of its infrastructure assets, asking for updated carbon emissions data and evidence of any emissions reduction improvements or activity undertaken over the past year.
- During 2017 the Australian Council of Superannuation Investors (ACSI), of which IFM is a member, engaged with 16 priority companies under a Climate Change theme, designed to elicit responses on their material risks utilising the UK Financial Stability Board's Task Force on Climate-related Financial Disclosure (the TCFD).
- IFM Investors is actively involved in global collaborations to protect the rights of workers around the world. One notable example of this is how IFM have improved contractor employment practices towards unskilled workers at Brisbane Airport Corp.

JP Morgan

- Carried out governance engagement with underlying hedge fund managers, supporting and guiding board structure
- Began incorporating topics related to prudent workplace practices as part of the due diligence reviews.
- Members of, and sits on the board of, many different initiatives such as Financial Stability Board's Task Force on Climate-related financial disclosures, World Business Council for Sustainable Development, Cross Sector Biodiversity Initiative.

Jupiter

- Initiated a research project with the CDP (formerly Carbon Disclosure project) to consider practical solutions for climate risk analysis following renewed criticism of carbon foot-printing as a climate risk management tool by institutional investors.
- Has been a CDP survey respondent since 2006 and was awarded 'A' for its report for the first time in 2017
- UN PRI: Joined PRI working group on the integration of UN Sustainable Development Goals into investments frameworks, in an effort to contribute more to the initiative
- Is a founder signatory of the Women in Finance Charter, an active member of the industry initiative Diversity Project and a member of 30% Club
- Hosted a ShareAction Briefing for Addressing Climate Risk Roundtable for Pension Fund Trustees in 2017
- Hosted a Two Degree investing event entitled 'Asset-Level data and Climate related financial Analysis'.
- Met with Chairman of a FTSE 100 Chemicals company, which provided insight into the company strategy and capital allocation to manage the risks associated with the technological transition to the production of battery materials to meet future demands of electric car components.
- Met a FTSE 100 Bank to discuss corporate governance matters and the bank's role in the development of sustainable financial markets.
- Met the Head of IR and Head of Corporate Citizenship at a FTSE100 Energy company to discuss long-term trends in the UK energy market, such as the near and long term capability of smart meters and infrastructure for large commercial to residential customers.
- Undertook an engagement exercise on pay equality focusing both on company's development and application of principles and policies related to the living wage and equal pay for equal work, while also connecting with the related matters such as employee diversity.

- Met representatives of some of the largest consumer staples companies to engage on pay equality and diversity.

Unigestion

- Unigestion and 30 other PRI signatories participated in a PRI coordinated collaborative engagement with 130 large global corporations suspected of producing excessive carbon footprints that they were not reporting. Letters were sent to these companies urging them to disclose their full and complete carbon footprint to investors.
- Engaged directly with portfolio companies on a variety of corporate governance concerns such as Director Appointments, Merger & Acquisition activity and Board Governance by voicing concerns and requesting that they be addressed.
- Signed on to the Climate Action 100+ collaborative engagement.

Partners

- Signed a UNPRI-organized investor statement to G7 and G20 governments in support of the Paris Agreement.
- Applies its ESG due diligence tool, which is based on the Sustainability Accounting Standards Board (SASB) principles, to all potential opportunities. Partners Group's assessment methodology efficiently identifies the most material climate-related topics for a given industry.
- For companies currently in the portfolio, Partners Group completes an annual ESG KPI reporting process that solicits data on energy consumption and air emissions.
- Assess a prospective investment's human resources policies and practices. Pay equality is considered as part of the human resources topics covered. If a material issue is identified during due diligence in these areas, it would immediately get flagged and addressed.
- Recognises the importance of setting up appropriate cyber controls and procedures in portfolio companies, in order to protect stakeholders' information as well as mitigate significant investment risk. For this reason, cyber activities and data security are also among the items covered by proprietary ESG due diligence tool.
- Worked with a third party to develop a status audit for portfolio companies that need to comply with GDPR by May 2018.

Pyrford

- In December 2017, Pyrford signed up to Climate Action 100+
- Used the 2017 "2 Degrees of Separation Report" produced by the respected Carbon Tracker think tank, in conjunction with the UNPRI and other Institutional Investors
- Upgraded to Tier I status under the UK Stewardship Code.

Ruffer

- Ruffer is a founding investor signatory of Climate Action 100+
- Ruffer's Director for Responsible Investment is a member of The Investment Association's Remuneration and Share Schemes Committee. As well as giving feedback on governance changes, the Committee also publishes an annual Principles of Remuneration to the Chairs of Remuneration Committees of listed companies and develops strategies on how to combat excessive executive pay by holding executives and remuneration committee chairs to account.

Schroders

- Completed a significant amount of climate change research and analysis, including Carbon Value at Risk model which examined how carbon pricing could affect cost structures and profits, and identified companies or sectors at greater or lesser risk.
- Undertook over 150 engagements with portfolio companies with weak disclosure on their climate strategies.
- Emphasised the importance of transparency and the value of disclosures addressing their exposures to climate risks and opportunities.
- Have also been actively involved in collective engagement activities as part of the 'Aiming for A' investor coalition, which promotes greater transparency towards climate risk management and coordinates shareholder resolutions to reflect investor views.
- Co-filed climate change resilience resolutions at Anglo American, Glencore and Exxon Mobil and supported the climate change resolutions filed at Shell and Rio Tinto.
- In December 2017, became a founding signatory to the Climate Action 100+ initiative.
- Following on from the letter co-signed to G7 finance ministers in 2015 Schroders co-signed another letter to G20 leaders in 2017 to encourage them to continue with progress in this area.
- Examined labour standards at customer fulfilment centres, participated in a collective engagement with UK apparel and online retailers, visiting several UK fulfilment centres to observe labour conditions and what the companies were doing to retain and attract staff for future growth

3.3 Engagement Highlights by Investment Managers

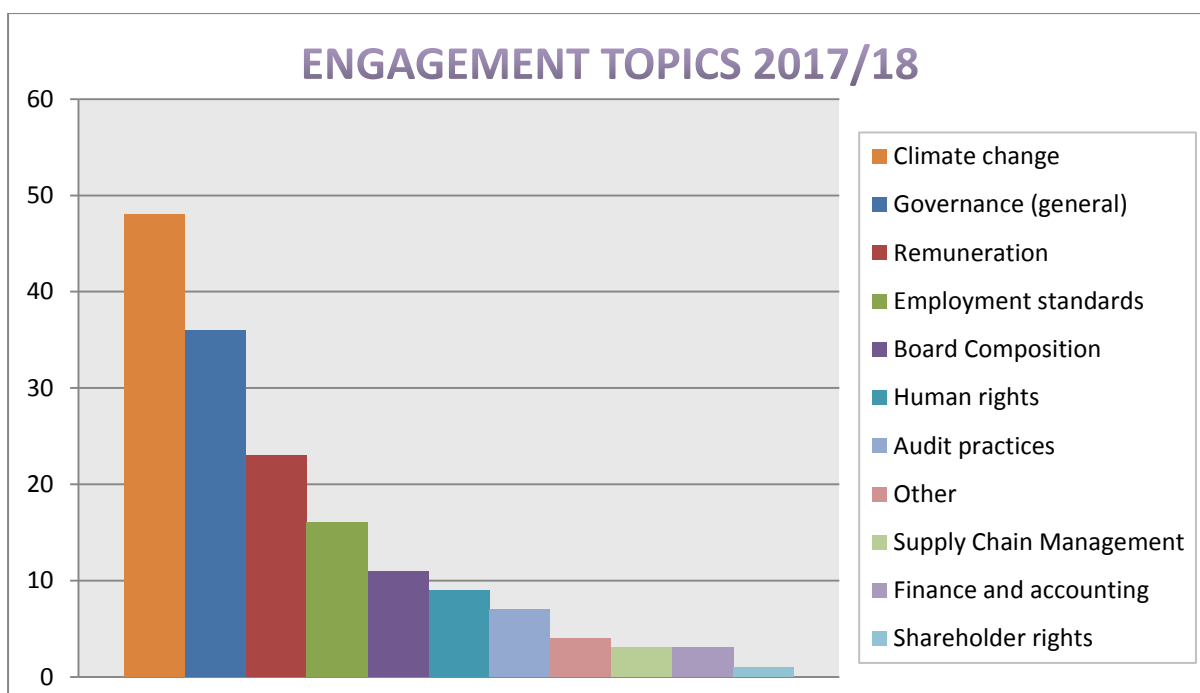
The table below demonstrates engagement across a number of issues taken forward by our investment managers (IM) and shows a range of actions taken.

Company/ Industry	Action	Outcome
TESCO	IM asked for greater transparency around sugar in the company's reporting, in line with the Investor Expectations document	Since sharing the Investor Expectations with the company there is more detail in the CSR report on health & wellness compared to previous years
Pearson	IM asked for executive pay to reflect the difficult year that employees and shareholders have had and expressed that they would like to see total shareholder return (TSR) play a major role in any long-term incentive plan (LTIP)	The company have sent a separate letter on their remuneration policy and implementation. They have noted the IM's preference for TSR and have increased the weighting to this in the LTIP, balancing that against the requirements of other shareholders who prefer measures that they consider to be directly in the control of management
Coca Cola	IM asked for greater transparency around sugar in the company's reporting, in line with the Investor Expectations document	No change to the annual report but changes to CSR reporting and new goals concerning sugar reduction and diversifying the product mix
HSBC Holdings plc (Hong Kong)	IM asked to have a smaller but stronger board.	At the AGM it was announced that two non-executives, who the IM viewed as having too many directorships, were stepping down. Mark Tucker, an executive well-respected in Asian financial services, will become Chair. David Nish, ex-Standard Life, has now joined the board.
Capita Group plc	IM asked the company to improve the executive structure and monitoring of the business.	It was announced with the full year results that the CEO is stepping down. A new management structure has been implemented with just six divisions and shorter reporting lines. The board has been improved with the appointment of Matthew Lester as Non-Executive Director.
Pfizer Inc	IM requests the company to renew or refresh board.	A new board member was added in 2017
Mitsubishi Estate	IM met with the company at the Manager's office as part of its annual update on corporate governance issues.	Discussions covered the disclosure and changes to its executive director remuneration and the independence of directors.

Royal Dutch Shell (Shell)	IM met with the company on Shell's response to climate change and its commitment to reduce its greenhouse gas emissions.	The company discussed its plans to achieving this over the short, medium and long-term and re-confirmed it is committed to the Paris Agreement. Shell states that it is committed to updating their ambitions every 5 years and the Chairman stressed the commitment of management to these ambitions. IM to attend the Shell's Responsible Investors Annual Briefing on the 16 April 2018.
BP	A member of IM's responsible investment team was part of the group that made a statement at the BP AGM on behalf of Climate Action 100+. Manager specifically asking for additional information from the Board about the methodology used to set BP's targets to reduce its operational emissions and its specific target for reducing methane emissions. (TCFD). While the IM was reassured by some of the responses, they are following up with the company on certain points raised.	Other questions focussed on the disclosure of the company's scope 3 greenhouse gas emissions, BP's support for third party industry associations and a timeline for reporting that fully adopts the recommendations of the Task Force on Climate-related Financial Disclosures

3.4 LAPFF

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. In 2017/18 LAPFF, who now represent 79 LGPS funds and five pools, engaged on the following topics:



The R.I policy and engagement priorities for the year were discussed with LAPFF. Committee Members and Officers attended all four LAPFF business meetings in 2017/18. LAPFF activity and achievements are reported quarterly to Committee via LAPFF's quarterly engagement report. LAPFF groups its engagement activities within the following categories and highlights this year are discussed below.

Promoting good governance

- The Forum has sought further detail and assurances from companies about how they are mitigating the risks posed by cyberattacks.
- LAPFF had meetings with the Chairmen at BT and Vodafone to discuss cybersecurity as both companies are at the forefront of the threat given their role in the exchange of information.
- LAPFF continued to both engage companies on board diversity and be an active member of 30% Club investor coalition which works to achieve a minimum 30% women on FTSE-350 boards and 30% women at senior management level in FTSE100 companies.
- LAPFF submitted a response to the Parker review of ethnic diversity of UK Boards which set out how it engages on such issues and recommended that the final report could be strengthened by stressing the role that investors can and should play.
- The Forum joined with the Council of Institutional Investors in writing to the SEC (US Security and Exchange Commission) to share concerns about several provisions in the Financial Choice Act 2017
- LAPFF co-signed a letter to SEC over new regulations that make it more difficult to file shareholder resolutions in the US. A meeting is being sought to explore these concerns further.
- LAPFF raised remuneration issues and held several meetings to discuss pay policies and schemes.

- Direct engagement on executive pay with the Shell remuneration committee chair, Smith & Nephew, BP, Easyjet, Vodafone.
- LAPFF met with a number of companies' CEOs and chairs to discuss their approach to M&A (Mergers and Acquisitions) and their insight has helped to substantiate the findings in LAPFF's trustee guide, 'The Case for Engaging in M&A: Raising Standards of Corporate Governance by Asking the Right Question'.

Managing environmental risk

- LAPFF undertook 48 engagements around environmental and carbon risk during 2017 – Representing 30% of engagement overall.
- LAPFF issued voting alerts recommending members support shareholder resolutions at PPL, Chevron and Exxon Mobil, requiring the companies to undertake analysis and produce publicly available reports on the impact that a two-degree scenario, as outlined in the Paris Agreement, would have on their business and shareholder value.
- Through 50/50 Climate Project initiative, LAPFF continued dialogue with Exxon Mobil Corporation on succession planning and directors' qualifications, raising concerns that future directors may not be required to have climate-related knowledge. Clarification was also sought in relation to incorporating metrics of climate resiliency into executive compensations.
- LAPFF had meetings with Southern Company's legal counsel along with

other US investors, to discuss climate change and carbon risk and explore how the company is positioning itself to report its strategy for a +2°C scenario in the context of the shareholder resolution to the company which received 46% support from shareholders. The meeting was coordinated via the Forum's partnership with the 50/50 Climate Project.

- Following LAPFF engagement, Total confirmed that they did report in a resource-neutral way using a carbon intensity measure and also set out how their strategy was consistent with a two-degree scenario.
- LAPFF had meetings with Rio Tinto's CEO and the chair of National Grid which explored the companies' experience of internal carbon pricing, the impact of the Taskforce on Climate-Related Financial Disclosure (TCFD) and progress on scenario planning.
- LAPFF engaged with several energy and mining companies- BP, Shell, Anglo American- on how their remuneration policies could create incentives for an accelerated low carbon transition.
- LAPFF are supportive of the Transition Pathway Initiative (TPI)

Targeting social issues

- Had discussions with National Express for a number of years regarding allegations that its employment standards in its US operations are inadequate. Many of these allegations have come from employees via trade unions.

Therefore, LAPFF has consistently pressed National Express to engage more openly with unions. LAPFF continued to engage with both National Express and the unions, using both voting alerts and engagement meetings to encourage both parties to talk. LAPFF has every confidence that, as with its FirstGroup engagement, the two parties will reach an agreement that will strengthen the company and benefit workers.

- This year the range of human rights engagements increased. LAPFF engaged again on the use of cluster munitions, as well as with companies operating in Israel.
- Engaged with extractives companies facing pressure from community groups over their mining practices.
- LAPFF also engaged with 21st Century Fox over its sexual harassment scandal, which seems to be snowballing across the entertainment industry and even played a role in its bid for Sky.
- Continued engagement with Sports Direct, a company with which LAPFF has attempted to engage over a number of years. This past year, LAPFF issued a voting alert, attended an investor question and answer session held by Mike Ashley and attended the Company's AGM to ask again for an independent review of corporate governance and workplace conditions. LAPFF has been pleased with some developments at the Company, including the appointment of a worker representative to liaise with the Board.
- LAPFF provided The Pensions and Lifetime Savings Association (PLSA) with feedback on its work force reporting tool and submitted a number of comments and suggestions to ShareAction as it develops the Workforce Disclosure Initiative (WDI)
- Demanded that the European Commission demonstrate that it has followed a lawful procedure in endorsing IFRS 9.
- Called for the Financial Reporting Council (FRC) to be replaced with an independent companies commission following a failure to enforce the Companies Act 2006 in respect of both 'true and fair' accounting requirements.
- Partnered with the 50/50 Climate Project, to support effective long-term climate change strategies amongst the public companies with the 50 largest carbon footprints.
- Publication of research paper on Corporate Governance Reform and the Government's subsequent response in its White Paper have prompted much debate in 2017; LAPFF advocated in particular for alignment of executive pay with long-term performance and that a greater voice to be given to employees and consumers in the boardroom. The Forum's response was reported in IPE and has been posted on Thomson Reuter's Practical Law site.
- LAPFF attended sessions to update investors on the Access to Nutrition Index, and in particular the India and US Spotlight Indices. The Forum plans to further engage on public health issues and assess the

[Consultation responses/ Initiatives](#)

- related investment risks.
- LAPFF wrote to the Chairman of the US Securities and Exchange Commission (SEC) to support the implementation of the Pay Ratio Rule.
- LAPFF responded to the government-backed Parker Review on Ethnic Diversity of UK Boards’ consultation report ‘Beyond One by 21’
- LAPFF engaged 161 times with a total of more than 50 companies in 2017/18 through various methods which include meetings, attending AGM’s, sending letters and having dialogue with the company.

3.5 Pooling

The Brunel Pension Partnership is a collaboration of ten LGPS funds (client funds) bringing together circa £30 billion of assets. At its centre, is an FCA regulated company wholly owned by the 10 client funds, which is responsible for implementing each client funds’ investment strategy.

As part of this initiative, the Fund continues to support collaboration across the LGPS funds on voting and engagement and participates in the Responsible Investment (RI) sub group (previously Stewardship group). Collaboration via the group helps to identify what the client funds expect Brunel to deliver on their behalf and acts as a forum for client funds to share best practice with respect to RI. Development of policy extends to the Brunel Oversight Board, Brunel Client Group, membership of which includes representatives from the administering authorities which it serves and Brunel staff. Progress and policy compliance is monitored by all the groups outlined above.

Discussions over the year fell into four main areas:

Collaboration

Funds worked together to identify a collective view to feed into the pool, which helped form the basis of Brunel’s RI priorities. Representatives within the group shared details on each of their fund’s R.I activities, knowledge and experience.

Engagement

Brunel and Avon both support Climate Action 100+, a five-year initiative calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Voting

Throughout the year feedback was provided that ultimately fed into Brunel's Responsible Investment Policy and the Stewardship Policy, which includes detail on the pools approach to voting and engagement.

Reporting

Avon is committed to reporting on its RI related activities with full transparency and through the pool will continue to provide:

- Annual Carbon Reporting
- Publication of voting records (this will be via the Brunel website no less than twice a year)
- Holdings data

One benefit of pooling is the ability to enhance the existing reporting and increase the use of analytics. In addition to the above Avon, via Brunel, will be in a position to provide:

- Quarterly performance reports with integrated ESG metrics and RI updates on engagement, voting and industry activity;
- Reporting provided by Brunel's appointed engagement and voting provider, such as
 - Case studies
 - Quarterly public engagement report
 - Quarterly statistics factsheets
 - Public engagement plan

More information on Brunel's approach to responsible investment, as well as key achievements over the year, is detailed below.

3.6 Brunel Policy Development

Since its creation in 2017, Brunel has built upon its investment principles to firm up the investment portfolios, with a comprehensive RI Strategy. The RI Policy (a summary of the RI strategy) and Stewardship Policy (which include listed equity voting policy guidelines) are publicly available with other supporting information in the [Responsible Investment](#) area of the [Brunel Website](#).

Brunel takes account of ESG considerations in all aspects of investment decision making, principally through the analysis of:

- Macro socio-economic and environmental risks that can present investment risks and opportunities across Brunel and in each of its portfolios.
- Bottom up, holdings driven ESG analytics are used to assess on-going risks and opportunities in portfolios which assist with both portfolio and manager monitoring.

- Manger selection process, covering everything including ESG capabilities as well as culture, conduct, incentive alignment and other wider organisational issues that could be relevant.

3.7 Brunel Key Achievements

To Integrate

- Brunel is a member of the [Institutional Investors Group on Climate Change \(IIGCC\)](#) and a supporter of the [Transition Pathway Initiative \(TPI\)](#) and [Climate Action 100+](#), which support the integration of carbon and climate risk into due diligence processes and engagement with companies and other assets.
- To promote best practice Brunel are working with the [Diversity Project](#), for which Brunel's Chair, Chief Executive Officer (CEO) and Chief Responsible Investment Officer (CRIO) are ambassadors. Brunel is also a member of [The 30% Club](#) which aims to develop a diverse pool of talent for all businesses through the efforts of its members who are committed to better gender balance across all organisational levels.
- Brunel has appointed Legal & General Investment Management Ltd (LGIM) to manage £6bn-worth of passive equities. The funds were transitioned in July 2018. LGIM's clear commitment to responsible investment, stewardship, promoting diversity internally as well as externally illustrate how ESG concerns are integrated across Brunel's entire business model.

To Collaborate

- Brunel was the first LGPS pool to become a signatory of the UN backed [Principles for Responsible Investment](#) (PRI).
- Brunel has been active in providing input to UK policy makers, specifically the FRC on the UK Corporate Governance Code, narrative reporting and UK Stewardship Code as well as being a member of the FRC Investor Advisory Panel. Brunel has also submitted to the Kingman review of the FRC and to the DWP review of Trustee Duties. Copies of responses and details of advocacy work are [publicly available](#).
- Brunel has also supported specific initiatives, supported by UK Government, relating to Green and Social Finance as well as supporting the Scheme Advisory Board.

To be Transparent

- Brunel is a signatory of the [LGPS Code of Transparency](#). Brunel requires all of its investment managers to be signatories of this code or an equivalent.
- Brunel is committed to decarbonising listed portfolios, providing carbon foot printing to assist in reducing unrewarded carbon risk and low carbon portfolio opportunities. Brunel advocates strongly for improved transparency and will disclose in line with the recommendations of the [Task Force on Climate-related Financial Disclosure](#).

4. Voting Analysis

The Fund delegates voting to its investment managers and regularly monitors how its investment managers undertake voting activities in comparison to relevant codes of practice. The following section summarises the LAPFF alerts the Fund forwards to relevant managers for the year and the rationale of managers when voting differed to LAPFF's recommendation. It also examines at a high level the overall voting undertaken on behalf of the Fund by its Managers, the voting themes, shareholder comparisons and conclusion.

4.1 LAPFF Voting Alerts

The Fund uses LAPFF's voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 17 companies for which LAPFF issued a voting alert during the year; the table is split across 7 categories. Note that some companies appear across multiple categories, of which a large proportion addresses climate change, analysis and scenario assessment.

LAPFF Recommendations

Approve the Remuneration Policy	Report on impacts of climate change policies	Review and Report on Business Standards	Proposal Regarding Report on Transition to a Low Carbon Economy
Smith & Nephew plc X	SH PPL ✓	SH Wells Fargo ✓	SH Chevron ✓
Carillion X	SH Exxon Mobil ✓		
Glaxosmithkline plc X	SH The Southern Company ✓		
BP PLC ✓			
Royal Dutch Shell plc ✓			
WPP X			
Babcock International Group plc X			
Sports Direct ✓			
Approve executive compensation	Election of chair/ CEO/ Director	Receive the Annual report	Extension of the guaranteed minimum value for eligible employees participating in the Company's share schemes
The Southern Company X	Enquest plc X	Sports Direct X	Sports Direct X
Sports Direct X	The Southern Company X		
	Sports Direct X		

Colours and symbols denote LAPFF voting recommendation.

SH denotes Shareholders Resolution.

Oppose X

Abstain =

For ✓

The Fund circulates these alerts to managers and seeks explanations from managers on how they voted on the specific resolutions, particularly where voting is not in line with LAPFF recommendations.

The below table highlights where votes cast by the Fund's equity managers differed to the LAPFF recommendation:

Company	Resolution	Outcome For	LAPFF	Management Rec	Manager 1	Manager 2
Smith & Nephew plc	Approve the Remuneration Policy	98%	OPPOSE X	FOR v	FOR v	
Carillion	Approve the Remuneration Policy	99%	OPPOSE X	FOR v	FOR v	
Glaxosmithkline PLC	Approve the 2017 Remuneration Policy	95%	OPPOSE X	FOR v	FOR v	FOR v
Wells Fargo	SH Review and Report on Business Standards	--	FOR v	OPPOSE X	OPPOSE X	
PPL	SH Climate change: 2 degree scenario analysis	57%	FOR v	OPPOSE X	OPPOSE X	
Exxon Mobil	SH Report on climate change policies	57%	FOR v	OPPOSE X		OPPOSE X
Chevron	SH Proposal Regarding Report on Transition to a Low Carbon Economy	27%	FOR v	OPPOSE X	OPPOSE X	
WPP	Approve the remuneration policy	92%	OPPOSE X	FOR v	FOR v	
The Southern Company	Re-elect of Dale E. Klein	--	OPPOSE X	FOR v	FOR v	
	Re-elect of Steven R. Specker	--	OPPOSE X	FOR v	FOR v	
Babcock International Group Plc	Approve the Remuneration Policy	96%	OPPOSE X	FOR v	FOR v	
Sports Direct	Receive the Annual report	98%	OPPOSE X	FOR v	FOR v	

-- unpublished voting outcome

The Fund notes a marginal uptick in votes cast contrary to LAPFF recommendations relative to last year. This is not necessarily a reflection of lower levels of dissent amongst investment managers but more likely a function of an increasing number of proposals, particularly in relation to remuneration-related proposals in the UK market. This is because UK companies must generally submit remuneration policies for shareholders' approval every three years. Most UK companies submitted remuneration policies for the first time in 2014 and therefore submitted them again in 2017.

The individual manager comments explaining their voting decision provides some insight into the issues they take into consideration and how managers use their voting rights.

Smith & Nephew plc (Approve Remuneration Policy)

- Manager 1

We identified no material concerns with the Remuneration Policy proposed by management. As part of the changes brought by the new policy, the CEO would have an increased shareholding requirement, from 200% to 300%. All of the changes were in line with good practice and on par with peers.

Glaxosmithkline PLC (Approve Remuneration Policy)

- Manager 1

We voted FOR after consultations with the company. While we expressed concerns that the salary is high considering the candidate to the CEO position is internal to the company, the package was still below the former chief executive's pay. We noticed an improvement in most components and a quantum on level with peers and decided to support, on balance.

- Manager 2

A vote in favour of the remuneration policy was considered warranted. A previous high-level engagement with the company's Chairman and the Chairman of the Remuneration Committee shortly after their appointments informed Manager's voting stance at the time of the AGM. The meeting highlighted several relevant governance themes, including the highly competitive global pharmaceutical market in which the group operates, the Board's approach to near-term succession planning for the CEO and the need to compete for top talent not only in the UK but also in the US, where market rates for executive and top scientist compensation operate at a significant premium to those in the UK.

The proposed policy was analysed ahead of the May 2017 AGM. It contained several changes which were considered improvements compared to the previous version. In terms of quantum, the new policy operated within the same parameters as the existing structure with regards to serving executives, while providing the Remuneration Committee with a measure of flexibility over long-term incentive plan (LTIP) awards for future hires in order to facilitate effective recruitment. In terms of structure, the group's LTIP was simplified by the removal of matching elements from the reward framework, while the structure of the annual bonus was also simplified and in our view, improved on a pay-for-performance basis. The at-target pay-out under the annual bonus as a proportion of salary was reduced, while the executive shareholding requirement was increased, strengthening management alignment with shareholders. In addition, it was noted that the new Chief Executive's total package upon appointment represented a 25% reduction compared to the previous CEO. Taking these factors into account in the context of the company's strategy and competitive landscape, support for the policy was considered warranted. As set out in Manager's corporate governance and voting policy, we recognise that companies operate in competitive environments and pay packages must be balanced to attract, retain and motivate talented executives to deliver for shareholders, while avoiding paying more than is necessary for this purpose. They are not prescriptive in their approach to the design of pay policies seek to judge these matters on a case by case basis, taking sector and industry dynamics into consideration.

Wells Fargo (SH Review and report on Business Standards)

- Manager 1

For regulatory or conflict reasons, a few securities in our portfolio are voted through third-party external providers based on the custom policy we have provided them with. The item was voted in line with our views and if discretion had been exercised, the same voting decision would have been made as we find the proposal was not in our clients' best interest.

PPL (Climate Change 2 degree scenario analysis)

- Manager 1

We engaged with PPL in advance of the 2017 AGM to better understand the company's approach to climate reporting. While the company was not as far along as others in its sector, we vocalised our expectations for reporting along the lines of the TCFD framework and detected openness by the company to continue to improve. Since the 2017 AGM, the company has made strides in its climate reporting to include a 2 degree scenario analysis and carbon reduction goals. The company did not receive a similar proposal in 2018.

Chevron Proposal regarding Report on transition to a low carbon economy)

- Manager 1

Manager 1 has been engaging in direct and private dialogue with Chevron over several years on a wide range of governance issues that we believe have long-term economic implications for investors.

In advance of the 2017 AGM, Chevron published a report, "Managing Climate Change Risks, a Perspective for Investors", which the company states is in response to some of its shareholders expressing interest in gaining greater insight into how Chevron manages climate change risks. We welcome this evolution in Chevron's reporting, which appears to have led the shareholder proponents to withdraw the proposal. **Manager 1 commends the company for enhancing its disclosure as well as the shareholder proponents' pragmatic decision to withdraw because of the company's progress.**

WPP (Approve Remuneration Policy)

- Manager 1

We found significant improvements in the remuneration even if the quantum remains high, including decrease in STI and LTI opportunities, reduction in threshold vesting level under LTI, reduction in pension contribution for CEO and new recruits, and benefits to be replaced with an allowance 12% lower than in 2016 for the CEO.

The Southern Company (Re-elect of Dale E. Klein)

- Manager 1

Directors open to improvement.

The Southern Company (Re-elect of Steven R Specker)

- Manager 1

Directors open to improvement.

Babcock International Group plc (Approve Remuneration Policy)

- Manager 1

The new CEO was appointed at a higher salary than former CEO, but following the removal of the deferred bonus matching plan, this represents a reduction in overall total remuneration relative to his predecessor.

Sports Direct (Receive the Annual Report)

- Manager 1

This is the company's routine submission of the directors' report and financial statements for the year. The auditors' report contained in the annual report states that, in the opinion of the auditors, the Company's financial statements give a true and fair view of the state of the Group's affairs as at 30 April 2017.

4.2 Summary of Voting Analysis

The Fund seeks to analyse the proxy voting activity of the Fund's investment managers to understand how managers are utilising their voting rights in conjunction with their engagement activity.

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio.

The Fund's overall voting activity in aggregate for the year ending 31 March 2018 can be seen in the below table.

Voting Period	Company Meetings Voted	Resolutions Voted	Votes For	Votes Against	Abstained	Withheld
Q217	1,386	21,117	19,417	1,666	1,163	71
Q317	213	3,087	2,909	185	54	6
Q417	60	670	595	34	44	17
Q118	471	4,939	4,638	235	64	1
Total	2,130	29,813	27,559	2,120	1,325	95

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

4.3 2017/18 Voting Themes

Working with Brunel and the investment management community the Fund identified the following developments in the market with respect to common voting themes:

- The common practice amongst UK companies to consult with major shareholders on new remuneration-related proposals prior to publication of any voting documents increased over the year, with many companies opting to put their second round of remuneration policies to a shareholder vote.
- As a result of the adoption of a revised Shareholders' Rights Directive by the European Council in April 2017 the proportion of companies analysed who disclose detailed voting results was above 90% for all countries with the exception of three Nordic countries, where disclosure practices vary significantly.
- Based on a sample of major index companies across 17 European markets ISS voting analytics revealed that average voter turnout and average number of proposals per meeting increased marginally between 2014 and 2017.
- The European average dissent level across all voting topics increased progressively from 3.5% in 2008 to 3.9% in 2014 and has been relatively stable since then, remaining between 3.8%-3.9% from 2015-2017.
- Across Europe dissent on remuneration-related proposals slightly increased between 2016 and 2017, however for the UK the average dissent decreased. This may be at least partly linked to improvements put in place at a number of companies following shareholder discontent at 2016 general meetings. It should also be noted that in the UK a number of potentially contentious remuneration-related proposals were withdrawn by companies before AGMs.
- In 2017/18, dissent on UK board member re-elections was higher when expected board diversity post-election was lower. These results are consistent with shareholders looking for more board gender diversity and sanctioning companies that do not show progress in this respect.

It is anticipated that in 2018/19 incentive performance measures, board and committee composition, climate change, auditor independence and audit fees will continue to be prominent themes.

5. Priorities 2018/19

This section sets out engagement topics for the Fund over the next year and highlights some of the work which has begun. This section also identified some of trends managers and LAPFF will be focusing on.

The Fund's 2018/19 engagement priorities will be informed by Brunel's RI and Stewardship policies, LAPFF and its investment managers. There is expected to be a large degree of alignment with Brunel's priority themes that are detailed below. Engagement with investment managers residing in the Brunel investment portfolios will be undertaken directly by Brunel and fed back into LAPFF.

The engagement priorities for 2018/19 are:

Climate Change Risks at Investee Companies



Corporate Tax Responsibility & Reliable Accounts



Social Inequality



Board Diversity



Technology & Cyber Security



Supply Chain Management



The engagement priorities remain relatively unchanged partly due to the risks being long-term and engagement spanning long time frames. The addition of 'Supply Chain Management' comes directly from the identification of this issue by Brunel and is defined as "companies and sectors where the effective management of suppliers is a principal business risk e.g. food provenance, scarce supply base or joint ventures in high risk activities/countries. Sub-themes include climate risk, modern slavery, water quality and availability and the reduction of single-use plastics.

Annex 1: Statement of Compliance with Stewardship Code

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Avon Pension Fund takes its responsibilities as a shareholder seriously and believes that by discharging Stewardship duties it can enhance and protect value to the Fund. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

The Fund's policy in this area is set out in its [Statement of Investment Principles \(SIP\)](#) and [Responsible Investment Policy](#) which highlights:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Investment Governance Principles
- Stock lending

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum. The Fund seeks to apply this code across all portfolios.

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. 12 of 15 managers have published a statement of commitment to the Stewardship Code, an additional 3 since 2013. Links to manager statements are included in the appendices to this statement. The remaining three managers make investments in infrastructure, overseas property and currency hedging where the opportunity for stewardship activity is limited. 13 managers are signatories to the UK PRI, including the Infrastructure and property managers who are also closely aligned to the UN Global Compact.

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code. The overseas equity managers are required to vote at all overseas company meetings where practical.

Further details on how the Fund monitors the activity of external managers on an ongoing basis can be found in its response to Principle 3. Its monitoring of Voting can be found in its response to Principle 6.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

The Fund considers that conflicts of interest in relation to stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

Internal sources for conflicts of interest

Committee members and Officers may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential for the stewardship of any local investments made by the Pension Fund that could be directed to benefit wider Council policy.

The Fund seeks to address these in the following way:

Pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings in line with the council's code of conduct and interest rules. This is a standing item on every committee agenda and declarations are made public. Annually declarations should be made to the Monitoring Officer.

The Section 151 Officer has delegated responsibility of the Fund to the Head of the Pensions to separate decisions of the Council as Administering Authority and Pensions. This ensures that any stewardship decisions are made in the best interest of the Funds members and are not conflicted by the employer interests of the Administering Authority.

External sources for conflicts of interest

Third party advisors and Investment Managers tasked with representing shareholder interests may perform roles other than which they are employed for and to that extent conflicts may arise.

The Fund seeks to address these in the following way:

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. Transactions should be conducted in the best interests of the client and effected on terms no less favourable to the client than if the conflict of interest did not exist. The need to avoid conflicts of interest is also highlighted in our Investment Management Agreements (IMAs) and contracts with external parties.

All investment managers have conflicts of interest policies in place, which most review annually. Several managers have Conflict of Interest Boards to monitor and investigate conflicts of interest. The third party proxy voters utilised by the Fund's managers have Conflicts of Interest Boards and policies in place. Investment Managers annually review their providers voting policy to ensure it remains consistent to their approach to stewardship and that of its clients.

Where the Fund employs the expertise from Advisors and Service providers, conflicts of interest is included within the contracts and service level agreements.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund understands its Stewardship responsibilities and engages with its Investment managers via the following methods:

- Written correspondence
- Phone Calls
- One-to-one meetings

The Fund engages for the following reasons:

- To seek improvement in performance and processes in order to enhance and protect the value of the Fund's investments in order to meet its Fiduciary duty
- To monitor developments in ESG, business strategy, financial performance and management within a company
- To enhance our analysis of risks and opportunities.

The Fund monitors its managers on a quarterly basis by looking at performance against a benchmark, developments, and the rating provided by its investment consultant. On an annual basis manager performance is included in the [Annual Report](#) and as part of the [Responsible Investment Report](#). Annually Internal control reports of all managers and custodians are reviewed.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings. The engagement activity is summarised in the Fund's Annual Responsible Investment Report.

The Fund ensures that it does not become an insider to any trading activity. The policies of the investment managers towards becoming an insider can be found in their Stewardship Statements.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Escalation by the Fund's managers may include:

- Additional meetings with management
- Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's
- Promotion of UNPRI principles
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Case studies of escalated intervention and outcome will be included in the Fund's Responsible Investment report from 2016 onwards.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum. The Fund analyses its own portfolio looking at ESG risks to shareholder value and advises managers of its focus each year. Any concerns with management are escalated to the Investment Panel agenda and where appropriate investment managers will be invited to panel meetings to discuss concerns.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. Each year Committee members put themselves forward to be a representative at LAPFF meetings together with Officers, contributing towards setting the engagement focus for the year, and reporting back to the Committee. Examples of collaboration in the past include supporting shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.

In addition to the above collaboration Officers meet with other pension Funds, asset managers and other organisations to discuss developments in the market. As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

The Fund's managers work collaboratively with other parties and provide details in their Responsible Investment or Stewardship reports. This collaboration is summarised in the Fund's Responsible Investment Report.

The Fund's contact with regard to Stewardship activities is Liz Woodyard, Investments Manager.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide detailed monitoring analysis of voting activity; this is

reported on an annual basis as part of the [Responsible Investment Report](#). Aggregate voting records of managers are reported to the Committee at the quarterly meeting.

Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio and comparing the voting activity of the investment managers against aggregate voting by shareholders. The activity is benchmarked against Manifests view of best practice

Table 1: Summary of Managers vote reporting and explanation where not fully published.

Manager	Report Type	Link
Blackrock	Votes	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	Votes	https://vds.issgovernance.com/vds/#/MTcy/
JP Morgan	Not available	JPMAAM invests in funds and not direct securities, and therefore there is no voting record available. https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	Votes	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/Voting-Records
Pyrford	Votes	www.pyrford.co.uk under “Responsible Investment”
Ruffer	Votes	https://www.ruffer.co.uk/approach/environmental-social-and-governance-issues
Schroders	Votes	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/
Standard Life	Votes	http://www.standardlifeinvestments.com/governance-and-stewardship/what-is-corporate-governance/our-voting-records.html
Loomis	Votes	Available on request
TT	Not available	Does not publicly disclose voting records, as it considers that that information belongs to the clients on whose behalf it has voted and not the general public.
Unigestion	Not available	https://www.unigestion.com/responsibility/

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on stewardship and voting activity in its annual [Responsible Investment Report](#). The report includes details of investment manager activity, voting analysis, LAPFF alert analysis, engagement and collaboration. Case studies will also be incorporated in the report from 2016 onwards.

The Fund also annually reviews and updates its SIP, which sets out the Fund's approach to responsible investing and assesses compliance with governance best practice. Periodically the Fund also reviews its Responsible Investment policy. The engagement activity undertaken by LAPFF is reported to the Committee on a quarterly basis. The Fund's investment managers provide a mixture of annual, bi-annual and quarterly reports detailing their activities for the year; these are summarised in the Responsible Investment Report.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers and reports its findings to the committee.

Approved, 23rd September 2016

Annex 2: ESG Approaches of Current Investment Mandates

Manager	ESG Approach
Blackrock	• Engage with companies on ESG issues relevant to long-term economic performance. • ESG analysis extends across all sectors and geographies to identify companies lagging behind peers. As long-term investors Blackrock seeks for companies to change on their own terms, but are persistent to ensure they adopt sound practices that support long term value creation.
Loomis	• A subcommittee of the ESG Committee meets at least monthly to plan and deliver internal training, to identify external training opportunities, to prepare public statements on ESG activities at Loomis Sayles and other communications (including in response to specific client requests), to prepare the PRI report, and to address other ESG-related matters.
IFM Investors	• Responsible investment factors and their impact are assessed on new investments entered into. IFM aim to improve the performance of investee companies across a range of responsible investment factors. • A detailed proprietary guide has been developed to assess infrastructure ESG factors and risks against IFM policy and with reference to international benchmarks; this includes a checklist of over 80 questions such as greenhouse gas emissions, water supply, waste, environmental pollution, labour and community relations, governance and workplace safety. • Actively monitor emerging responsible investment themes that can destroy or enhance value. Engage with directors on key R.I issues and benchmark and establish performance targets based on comparable peers.
JP Morgan	• Actively engage managers on a range of issues that may include social, environmental and sustainability concerns. • Review the governance structure prior to making an investment in a manager and when appropriate and material we actively engage with our managers to improve on their governance. • View good governance as a pre-requisite for responsible investing and a tool to help mitigate potential risks and conflicts. Governance is closely reviewed and considered in investment decisions.
Jupiter (R.I Mandate)	• Use a screening approach that excludes investments in armaments, tobacco, nuclear power as well as extractive sector companies, whilst integrating Environmental, Social and Governance criteria into company selection. • Jupiter monitors investments. They are active investors who engage directly and use voting rights to improve standards of corporate governance, environmental and social responsibility. • Provide regular updates of activities as active shareholders, including involvement in industry initiatives.
Partners	• Identifies and analyses ESG factors from an early stage, using the firm's clear methodology to mitigate risk, allow for active value creation and positive benefits. Judgements on these factors are fully integrated into Partners Group's five step investment process (irrespective of asset class) to ensure that investments respect, and where possible, benefit society and the environment.
Pyrford	• Include ESG ratings in stock summary analysis in addition to four corporate governance indicators (Ownership structure, Voting structure, Accounting disclosure, Governance track record). It is the responsibility of the portfolio manager/analyst to rate each of these from 1 to 5.
Schroder Equities	The Global equity strategy fully integrates ESG analysis within its bottom up fundamental approach. • ESG and sustainability factors are analysed and appraised both within the initial modelling and stock-rating conducted by the regional equity analysts and, separately by the Global & International Equity team's Global Sector Specialists (GSS), as a part of the team's assessment of the sustainability of future earnings growth and fundamental risk assessment of each stock. The GSSs assign a formal ESG score for each stock from 1 to 5. • Stocks are selected for portfolios on the basis of an appraisal of both the growth potential of a stock and assessment of fundamental risk, both of which incorporate an assessment of ESG. In

	doing so Schroders seek to balance upside potential and downside risk in the weighting of stocks within portfolios in order to deliver consistent and attractive risk-adjusted returns.
Ruffer	• Ruffer has a single investment approach and an in-house research team, which means we have been able to systematically integrate ESG considerations across our research and investment processes. The cornerstone of our ESG approach is that our dedicated responsible investment team partners closely with the analysts in our research team to actively identify and evaluate the risks and impacts to the environment or society that could arise as a result of poor management of a company's operations. We align our integrated ESG analysis with our robust stewardship strategy on engagement and voting. As an active investment manager with a relatively concentrated portfolio of direct equity holdings, each company in Ruffer's portfolios is covered by an analyst in our research team. Members of our responsible investment team participate in the weekly sector-focussed research meeting where new stock ideas are raised. ESG considerations are then discussed, where relevant, at stock reviews within the research team and with portfolio managers, and are included in the stock note. As ESG risks and opportunities continue to evolve, these are raised in periodic conviction reviews and considered throughout the time we are invested in the company.
Standard Life	• The RI team is active throughout Standard Life Investments, working closely across asset classes with all investment teams including the Multi-Asset team and the governance & stewardship team (G&S). The overall objective is to ensure every facet of ESG is integrated across the business. Standard Life apply this approach throughout the investment processes.
Unigestion	• In all of our equity portfolios we include ESG analysis at different steps of the process to eliminate stocks with important specific ESG risks such as environmental, excessive carbon emissions, workforce treatment or corporate governance issues, legal problems or fraud. We also exclude stocks with direct exposure to controversial weapons (cluster bombs, landmines, depleted uranium, and chemical and biological weapons) from all our equities portfolios
Genesis	• ESG factors are evaluated before investing in a company and through the investment period. Businesses are formally ranked, based on qualitative judgement on sustainable competitive advantage and the likely persistence of excess returns. Assessment of the quality of a company continues for so long as the holding is in client portfolios. • Management quality is assessed by the stock owner through ongoing dialogue with the board and company management via regular meetings, site visits, calls and correspondence. Stock owners engage with management on a variety of material issues, including ESG matters, which impact strategy or performance.
Schroder Property	• The property team considers ESG factors in its investment process and in the on-going monitoring of managers. • We seek to ensure that our Managers are aware of their obligations and have appropriate processes in place, e.g. through evaluation of annual GRESB (Global Real Estate Sustainability Benchmark) submissions on sustainability performance. This is both good practice and also good business.
TT	• ESG risks and opportunities are integrated within bottom up stock research and detailed in each stock's investment case. These are treated in the same way that TT treats other risks to specific investments. • It is the role of every analyst to ensure that their stock analysis takes into consideration ESG factors e.g. regulation changes (GHG emissions), physical threats (climate change), brand and reputational issues (health & safety, labour practice), shareholder rights and corporate governance. Where the risk is perceived too high it is the stock would be rejected as a suitable candidate for the portfolio. • TT continues to monitor for the emergence of ESG risks and will take action depending on the severity e.g. engage with company, vote against resolution at AGM or sell the stock.

Avon Pension Fund:

Carbon Footprint of Listed Equity Portfolios

2018



S&P Dow Jones Indices
ESG Analysis



September 2018

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Avon Pension Fund:

Carbon Footprint of Listed Equity Portfolios 2018



S&P Dow Jones Indices
ESG Analysis



September 2018

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ABOUT TRUCOST, PART OF S&P DOW JONES INDICES

Trucost is part of S&P Dow Jones Indices. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit www.trucost.com.

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S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than based on any other provider in the world. With over 1,000,000 indices and more than 120 years of experience constructing innovative and transparent solutions, S&P Dow Jones Indices defines the way investors measure and trade the markets.

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EXECUTIVE SUMMARY

This is Trucost's second annual assessment of the carbon footprint of Avon Pension Fund's listed equity portfolios, with holdings as at 31st March 2018. The date of analysis is 25th September 2018.

Trucost was asked to analyse Avon Pension Fund's seven listed equity portfolios, as well as the Aggregate Active Portfolio and overall Aggregate Portfolio, against their respective benchmarks.

KEY RESULTS

- This year's carbon footprint results show an overall year-on-year improvement in the carbon footprint performance of Avon Pension Fund's Aggregate Portfolio between 2017 and 2018, driven mainly by underlying improvements in the underlying passive portfolios (viz. the addition of the Blackrock Low Carbon portfolio this year).
- All portfolios, with the exception of the TT portfolio, were more carbon efficient than their respective benchmarks this year. However, on aggregate, the active portfolios, though still more efficient than their respective benchmarks, saw a decline in their carbon performance, both in terms of year-on-year performance and performance relative to benchmark.
- The Aggregate Portfolio is more carbon efficient than its benchmark, outperforming by 28.48% in terms of carbon to revenue (up from 20.49% in 2017). This is due to positive sector allocation and stock selection effects. Sector allocation resulted in the portfolio being 19.07% more carbon efficient than the benchmark. Stock selection resulted in the portfolio being 9.41% more carbon efficient than the benchmark.
- The two sectors that have the greatest positive effect on carbon efficiency of the portfolio are Utilities (14.02%) and Energy (6.98%). The two sectors that have the greatest overall negative effect on carbon efficiency of the portfolio are Consumer Staples (-0.93%) and Information Technology (-0.72%).
- The largest contributors to the portfolio's carbon footprint are Alcoa Corp, Mondi PLC and Intl Paper Co, which together account for 12.03% of the portfolio's apportioned carbon emissions.
- In terms of disclosure, the Aggregate Portfolio has a high overall level of disclosure. 83% of the companies included in this year's analysis (by value of holdings) disclose GHG data (either fully or partially).
- In terms of fossil fuel exposure, the Aggregate Portfolio has a lower level exposure to extractives than its benchmark (1.5% vs. 2.2% in terms of revenue, and 5.8% vs. 10.7% in terms of VOH). It also has a lower level of exposure to companies with fossil fuel reserves, in terms of value of holdings (4.5% vs. 9.7%).

- In terms of the overall proportion of coal power in the energy generation mix, the Aggregate Portfolio generates less energy from coal than the benchmark (21.84% versus 31.80%) and more energy from renewable sources (22.37% versus 19.46%).
- However, there is still the opportunity to better align the Aggregate Portfolio with low carbon energy transition scenarios (such as the 2 Degree Scenarios developed by the International Energy Agency), by increasing the proportion of renewable energy in the portfolio's energy generation mix, and reducing the proportion of coal-fired power generation.
- At an underlying portfolio level, the best performing individual portfolio based on this year's carbon footprint results is the Blackrock Low Carbon portfolio, with a carbon to revenue figure of 183.30 tCO₂e/mGBP. The Genesis portfolio is a close second with a carbon to revenue figure of 229.90 tCO₂e/mGBP. However, the Genesis portfolio has the best overall efficiency relative to benchmark (70.61%). The Blackrock Low Carbon portfolio is next, with a relative efficiency to benchmark of 54.31%.

RECOMMENDATIONS

- A number of individual portfolios have seen their carbon efficiency decline over the last year vis-à-vis their respective benchmarks and/or the prior year's carbon footprint. In order to drive improvements in performance, Avon Pension Fund should consider engaging with those fund managers whose portfolios have seen a decline in year-on-year carbon performance, and those whose holdings include companies listed among the top 10 contributors to the Aggregate Portfolio's carbon footprint and embedded emissions from fossil fuel reserves.
- Avon should consider setting carbon footprint performance targets for the overall equities portfolio to encourage those fund managers that performed less well to improve, and better performers to maintain their performance going forward.
- In order to improve low carbon energy transition alignment across its portfolio, Avon Pension Fund should consider also setting targets to minimise coal mining and coal power exposure and maximise renewable energy exposure across the individual funds.

INTRODUCTION

This is Trucost's second annual assessment of the carbon footprint of Avon Pension Fund's listed equity portfolios, with holdings as at 31st March 2018.

In recent years, asset owners have become more pro-active in understanding their exposures to risk deriving from holdings of carbon-intensive equities. Such carbon risk can emanate from country-specific carbon legislation – particularly where investments extend beyond national boundaries to imply differing regulation risks – or via reputational impacts on a company's earnings potential.

International commitments to transition to a low carbon economy, such the UNFCCC's 2015 Paris Climate Accord, have caused more and more investors to take notice. The UN PRI's Montréal Carbon Pledge, a spin off initiative to the Paris agreement, together with a number of regulations such as Article 173 in France, have accelerated the process. More recently, the EU has set out its *Action Plan: Financing Sustainable Growth* that is expected to move a whole region towards implementing its own regulations and will be adopted by the member states in order to enhance transparency and standardisation of ESG and sustainability metrics, integrate them in risk management, and steer capital flows towards sustainable investments. Much of the momentum on disclosures and ESG integration for financial institutions and regulators is also driven by non-binding guidelines created by high level initiatives such as the Task Force for Climate-related Financial Disclosures (TCFD), emphasising the importance of using forward looking metrics and tools for reporting and risk assessment.

Carbon footprints and analysis of carbon "hot spots" in portfolios can be used to identify carbon-related strengths, weaknesses, opportunities and threats from the shift to a low-carbon economy.

This carbon footprint analysis underpins Avon's climate change policy to carry out analysis of the investment portfolios at a top level, identifying what the key climate change impacts are, and to focus on the related risks and opportunities through further discussion with external managers and stakeholders.

Trucost's assessment of carbon risk in the Avon's equity funds includes:

- Measurements of the carbon efficiency of portfolios relative to benchmarks
- Analysis of sector allocation effects and stock selection effects
- Assessment of the transparency of carbon disclosure at portfolio and constituent level
- Identification of key contributors to the carbon footprints of the funds
- Highlighting of key (active) investees for engagement on carbon risk
- Determination of the funds' exposures to fossil fuel and renewable energy

The carbon footprint analysis is done by apportioning each holding's emissions to their respective portfolios based on the level of "ownership" of the company (value of holding/market cap). We then compare the carbon intensity of each portfolio to the benchmark, where applicable, to determine sector allocation and stock selection effects. A glossary of terms can be found in the Appendices. Values expressed in percentage terms have been constructed such that a positive (negative) number is "good" ("bad") news for the fund's carbon risk exposure.

The Total Carbon Emissions, Carbon to Value Invested (C/V), Carbon to Revenue (C/R), and Weighted Average Carbon Intensity (WACI) are presented below. If not explicitly stated, all references to portfolio or benchmark performance are made on a C/R basis.

For more information on methodological approaches please refer to Appendices.

SCOPE OF THE ANALYSIS

Trucost was asked to analyse the carbon footprints of Avon Pension Fund's seven listed equity portfolios, as well as the Aggregate Active Portfolio and overall Aggregate Portfolio, against their respective benchmarks.

Table 1 provides an overview of the holdings analysed in each portfolio.

TABLE 1: PORTFOLIO COMPANY COVERAGE SUMMARY

Portfolio	Analysis Company Coverage (% by Holdings Value)	Holdings Value Covered (mGBP)	No. of Constituents ¹ Covered
BlackRock Low Carbon	99.97	458.03	1237
BlackRock Passive Global Equity	99.29	388.29	1623
Genesis Emerging Markets Investment Company SICAV	95.7	107.08	113
Jupiter	95.97	175.52	53
Schroders Global Equity	100	352.21	76
TT INTL	97.74	175.52	39
Unigestion	99.27	105.73	98
Aggregate Active Portfolio	98.18	916.06	353
Aggregate Portfolio	98.88	1762.38	1860

An equivalent overview of the coverage of all benchmarks is shown in Table 2:

TABLE 2: BENCHMARK COMPANY COVERAGE SUMMARY

Benchmark	Analysis Company Coverage (% by Weight)	No. of Constituents Covered
FTSE All-Share Total Return Index	95.46	443
MSCI ACWI	99.9	2454
MSCI Emerging Markets Index	99.71	826
MSCI World	99.93	1628
MSCI World Ex UK	99.92	1526
Aggregate Active Benchmark	98.67	2792
Strategic Benchmark	98.50	2792

¹ The number of constituents consolidates multiple holdings of the same company and is exclusive of non-listed equity lines.

AVON AGGREGATE PORTFOLIO

The following sections of this report will cover the Avon Aggregate Portfolio’s carbon footprint, and include attribution analysis as well as analysis of key contributors, disclosure, fossil fuel exposure, and power generation mix alignment with two degree scenarios. The scope of this analysis covers only direct and first tier indirect emissions.

HEADLINE RESULTS

- The Avon Aggregate Portfolio – an aggregation of all equity portfolios – is outperforming the Strategic Benchmark by 29% (20% in 2017).
- The Strategic Benchmark is comprised of three individual benchmarks, namely FTSE All Share (30%), MSCI World ex UK (50%) and MSCI Emerging Market (20%).
- At present, every time the portfolio generates £ 1m of revenue, 335.30 tonnes of carbon dioxide are emitted.
- Stated in absolute terms using holdings data as of the date of analysis, the equities portfolio “finances” 361,683 tCO₂e per year (199,362 tCO₂e per year direct and 162,321 tCO₂e per year first tier indirect).
- The date of analysis is 25th September 2018.

FIGURE 1: CARBON PERFORMANCE BY METHOD

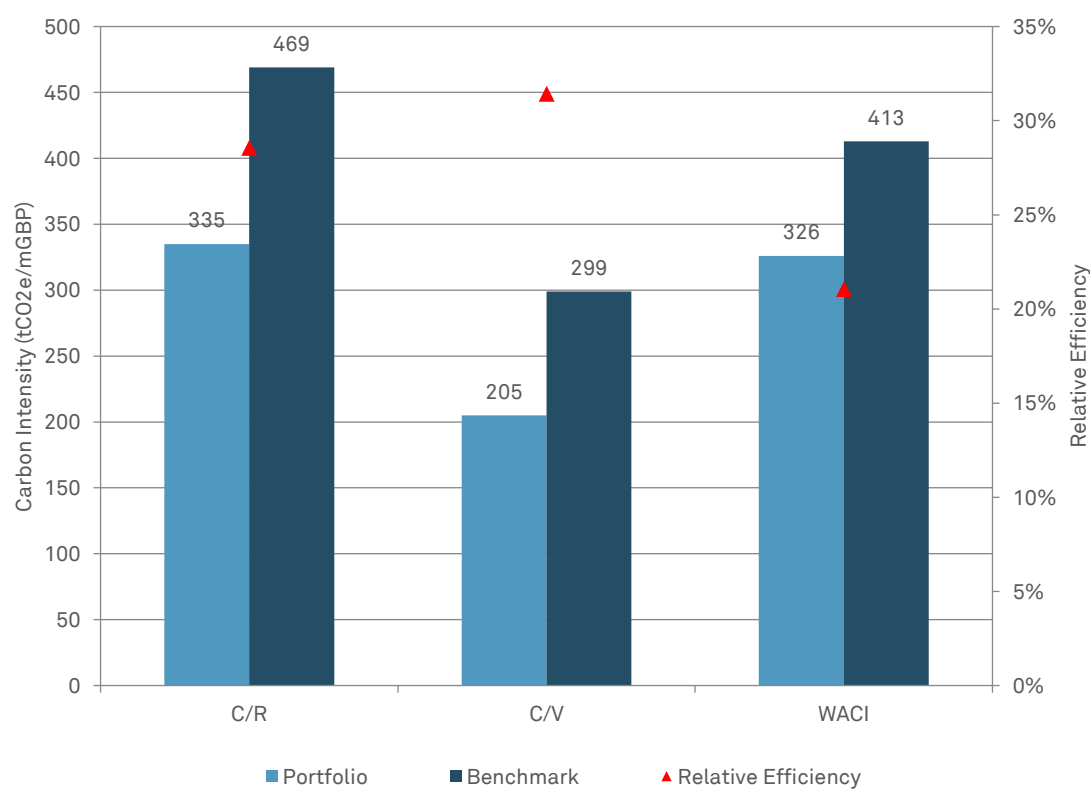


FIGURE 2: CARBON APPORTIONED BY SCOPE

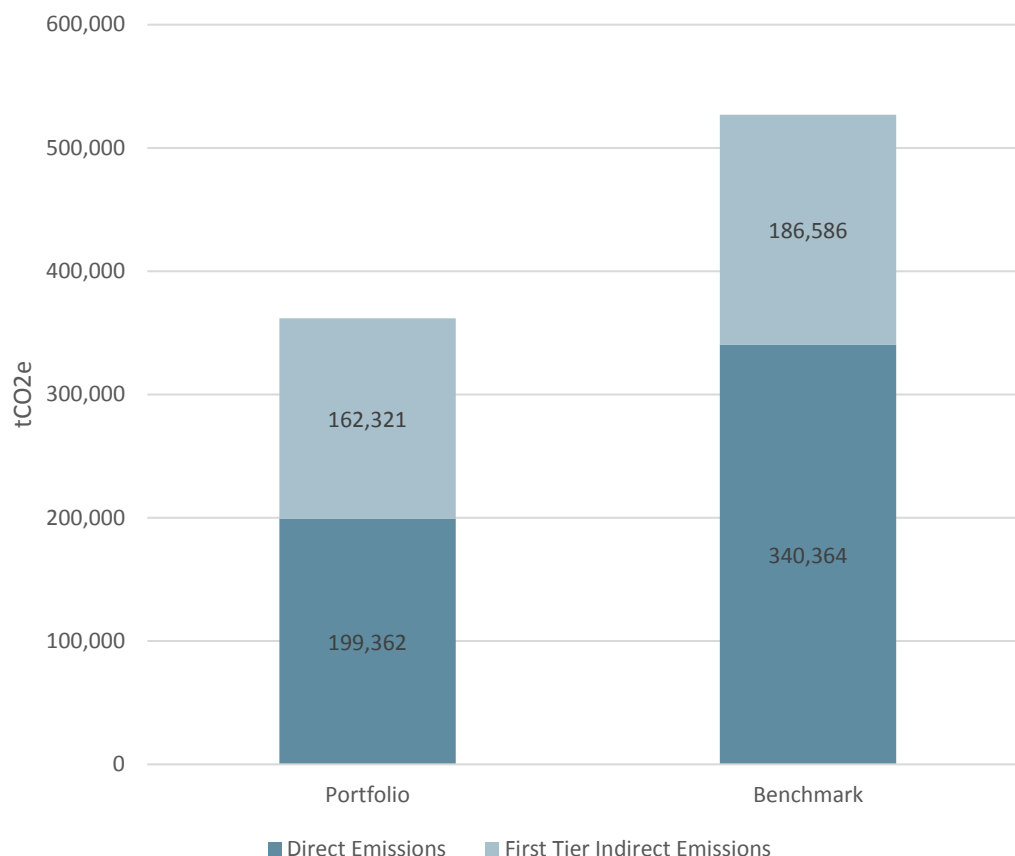


TABLE 3: SUMMARY OF THE CARBON FOOTPRINT: AGGREGATE PORTFOLIO

Avon Aggregate Portfolio	2017	2018
Portfolio Carbon to Revenue (tCO ₂ e/mGBP)	386.36	335.30
Benchmark Carbon to Revenue (tCO ₂ e/mGBP)	485.94	468.81
<i>Sector allocation effect</i>	11.90%	19.07%
<i>Company selection effect</i>	8.59%	9.41%
Relative Efficiency	20.49%	28.48%

TABLE 4: PORTFOLIO CARBON FOOTPRINT AND RELATIVE EFFICIENCY

Portfolio vs Benchmark	2017 Portfolio Carbon to Revenue (tCO ₂ e/mGBP)	2018 Portfolio Carbon to Revenue (tCO ₂ e/mGBP)	2017 Relative Efficiency to Benchmark	2018 Relative Efficiency to Benchmark
Aggregate Portfolio vs Strategic Benchmark	386.36	335.30	20.49%	28.48%
Agg. Active vs Agg. Active Benchmark	374.58	377.05	28.15%	25.09%
BlackRock Low Carbon vs MSCI World	N/A	183.30	N/A	54.31%
BlackRock Passive Global Equity vs MSCI World	428.92	400.58	-1.75%	0.15%
Genesis Emerging Markets Investment Company SICAV vs MSCI Emerging	384.17	229.90	51.16%	70.61%
Jupiter vs FTSE All-Share Total Return Index	249.07	331.10	33.54%	15.23%
Schroders Global Equity vs MSCI ACWI	382.84	409.20	18.28%	9.40%
TT vs FTSE All-Share Total Return Index	434.01	401.01	-15.80%	-2.66%
Unigestion vs MSCI Emerging Markets Index	359.54	483.48	54.29%	38.14%

PERFORMANCE ATTRIBUTION

The two principal reasons why the carbon exposure of the portfolio may differ from the benchmark are due to sector allocation decisions and company allocation decisions. Sector allocation decisions will cause the carbon intensity of the portfolio to diverge markedly from the benchmark where the sector/s are either carbon intensive or low carbon.

If the portfolio is overweight in carbon intensive sectors, the portfolio is likely to be more carbon intensive than the benchmark. However, if the companies within a carbon intensive sector are the most carbon efficient companies, it is possible that the portfolio may still have a lower carbon footprint than the benchmark.

Sector allocation resulted in the portfolio being 19.07% more carbon efficient than the benchmark. Stock selection resulted in the portfolio being 9.41% more carbon efficient than the benchmark.

The two sectors that have the greatest positive effect on carbon efficiency of the portfolio are Utilities (14.02%) and Energy (6.98%). The two sectors that have the greatest overall negative effect on carbon efficiency of the portfolio are Consumer Staples (-0.93%) and Information Technology (-0.72%).

TABLE 5: COMPANY AND SECTOR PERFORMANCE EFFECTS IN THE AGGREGATE PORTFOLIO

Sector	Carbon to Revenue (tCO ₂ e/mGBP)		Attribution Analysis		
	Portfolio	Benchmark	Sector Allocation	Stock Selection	Total Effect
Consumer Discretionary	138.43	122.63	0.59%	-0.52%	0.07%
Consumer Staples	321.95	268.98	0.33%	-1.27%	-0.93%
Energy	894.59	1,007.61	5.05%	1.92%	6.98%
Financials	19.81	26.39	1.85%	0.28%	2.13%
Health Care	64.57	63.73	0.85%	-0.01%	0.84%
Industrials	276.81	317.14	1.28%	1.45%	2.73%
Information Technology	100.82	126.54	-1.09%	0.37%	-0.72%
Materials	1,571.97	1,531.47	3.54%	-0.55%	2.99%
Real Estate	136.1	122.79	-0.39%	-0.02%	-0.41%
Telecommunication Services	82.29	89.89	0.72%	0.07%	0.80%
Utilities	1,363.45	2,599.50	6.33%	7.69%	14.02%
	335.3	468.81	19.07%	9.41%	28.48%

FIGURE 3: RELATIVE SECTOR WEIGHT

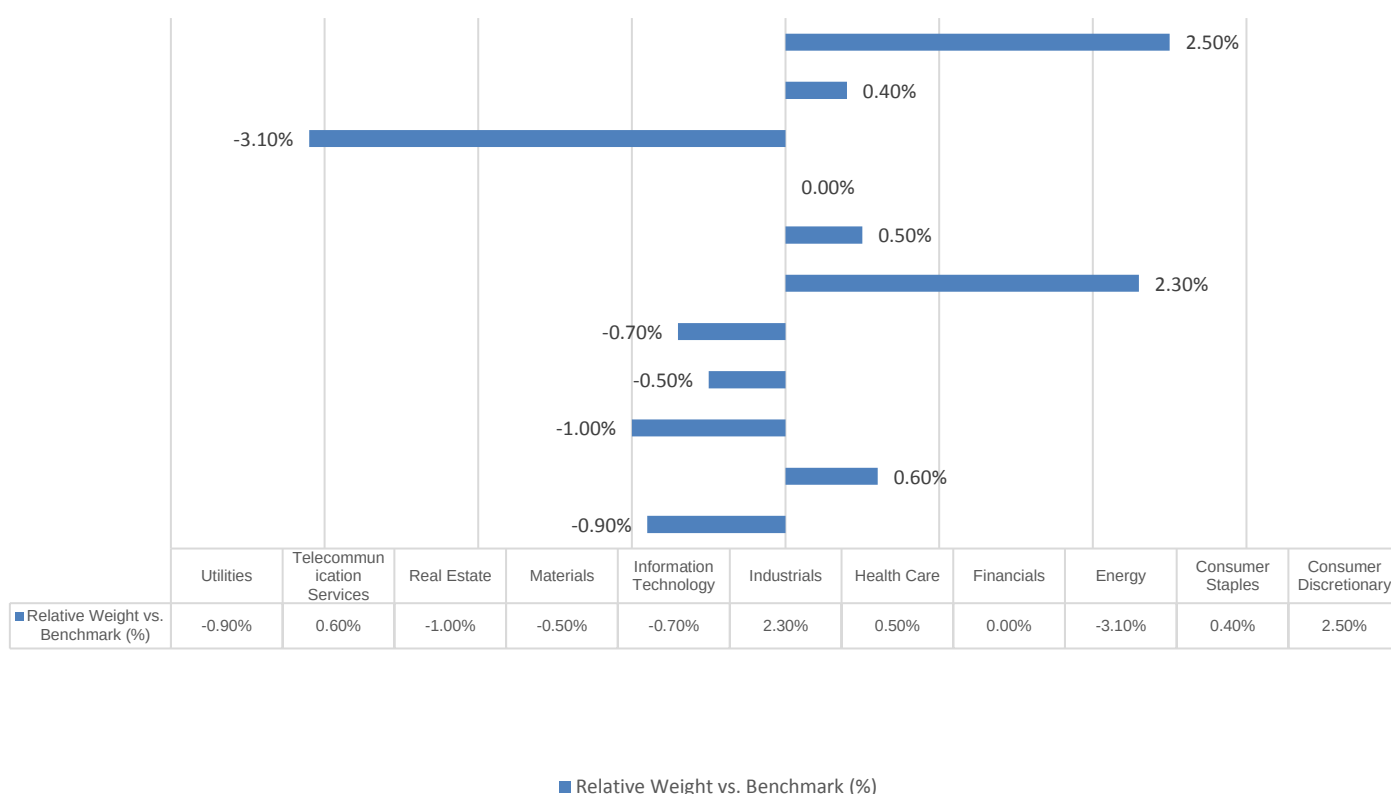
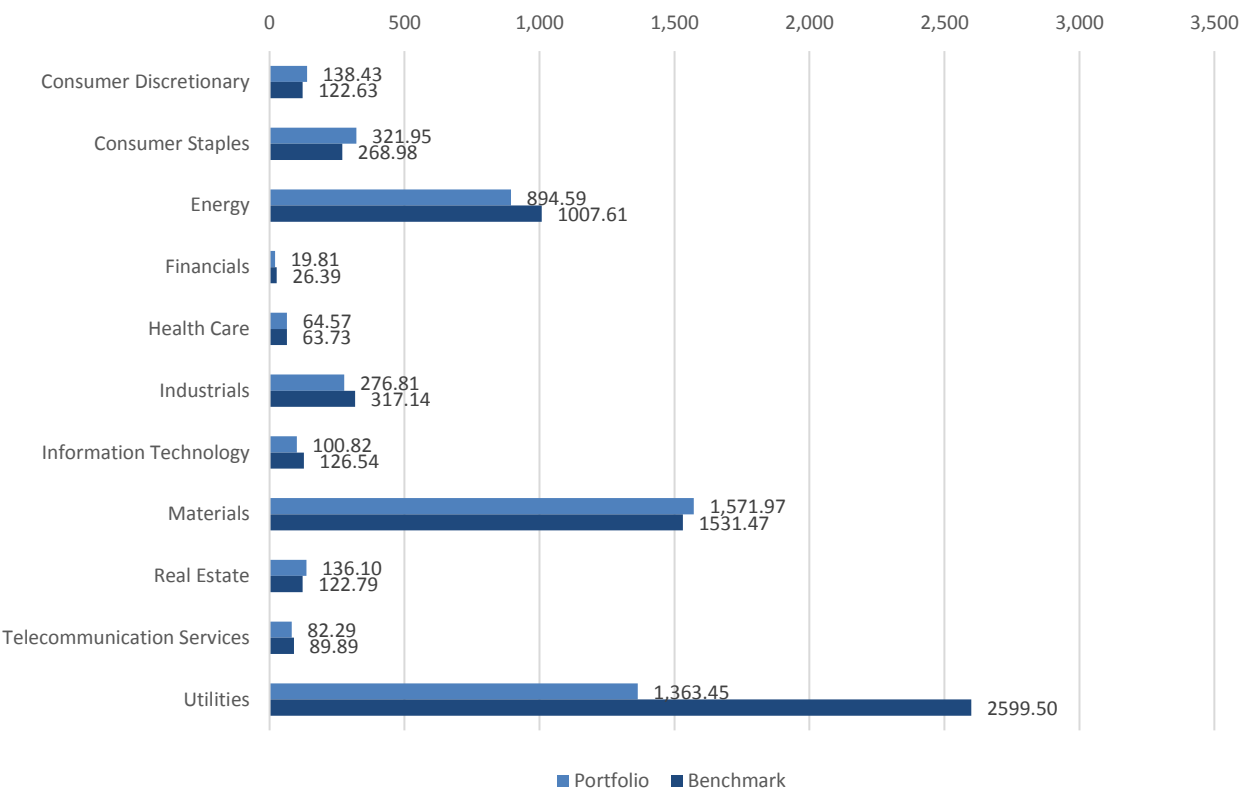


FIGURE 4: SECTOR CARBON INTENSITY (tCO2e/mGBP)



TOP 10 PORTFOLIO FOOTPRINT CONTRIBUTORS

The table below displays the top 10 companies that contribute most negatively to the Aggregate Portfolio's carbon footprint.

Companies can appear in the "Top 10 Contributors" list for a number of reasons. A company might have a carbon intensity value that is significantly higher than the average for its sector or for the portfolio overall, or the size of the holding in the company may be relatively large (reflected in its portfolio weight), or the holding might represent a large percentage of capital ownership of the company, leading to a higher amount of the carbon emissions from the company's operations being apportioned to the holding.

The largest contributors to the portfolio's carbon footprint are Alcoa Corp, Mondi PLC and Intl Paper Co, which together account for 12.03% of the portfolio's apportioned carbon emissions.

TABLE 6: TOP 10 AGGREGATE PORTFOLIO FOOTPRINT CONTRIBUTORS

Company	Holding (mGBP)	Sector	Company Carbon Intensity (tCO ₂ e / mGBP)	Rank In Benchmark Sector	C/R Intensity Contribution (%)	Data Source (Scope 1)	Constituent Portfolio
Alcoa Corp	3.397	Materials	4,094.07	N/A	-4.10	Full Disclosure	Schroders Global Equity
Mondi PLC	7.306	Materials	3,619.08	202/240	-3.93	Full Disclosure	BlackRock Passive Global Equity; Jupiter; TT INTL
Intl Paper Co	4.362	Materials	2,726.52	189/240	-2.88	Full Disclosure	BlackRock Passive Global Equity; Schroders Global Equity
Royal Dutch Shell PLC	19.915	Energy	884.40	70/141	-2.82	Full Disclosure	BlackRock Low Carbon; BlackRock Passive Global Equity; TT INTL
CRH Plc	7.133	Materials	1,585.44	158/240	-2.71	Full Disclosure	BlackRock Passive Global Equity; Jupiter; TT INTL
Cranswick	8.093	Consumer Staples	1,322.61	199/212	-1.91	Partial Disclosure	Jupiter
HeidelbergCement AG	1.244	Materials	6,254.83	222/240	-1.83	Full Disclosure	BlackRock Passive Global Equity; Schroders Global Equity
Indian Oil Corp Ltd	2.789	Energy	982.08	81/141	-1.17	Full Disclosure	Unigestion
Polski Koncern Naftowy SA	2.595	Energy	1,146.12	94/141	-1.16	Partial Disclosure	Unigestion
Bharat Petroleum Corp Ltd	2.154	Energy	988.42	82/141	-1.07	Modelled	Unigestion

TRANSPARENCY & DISCLOSURE

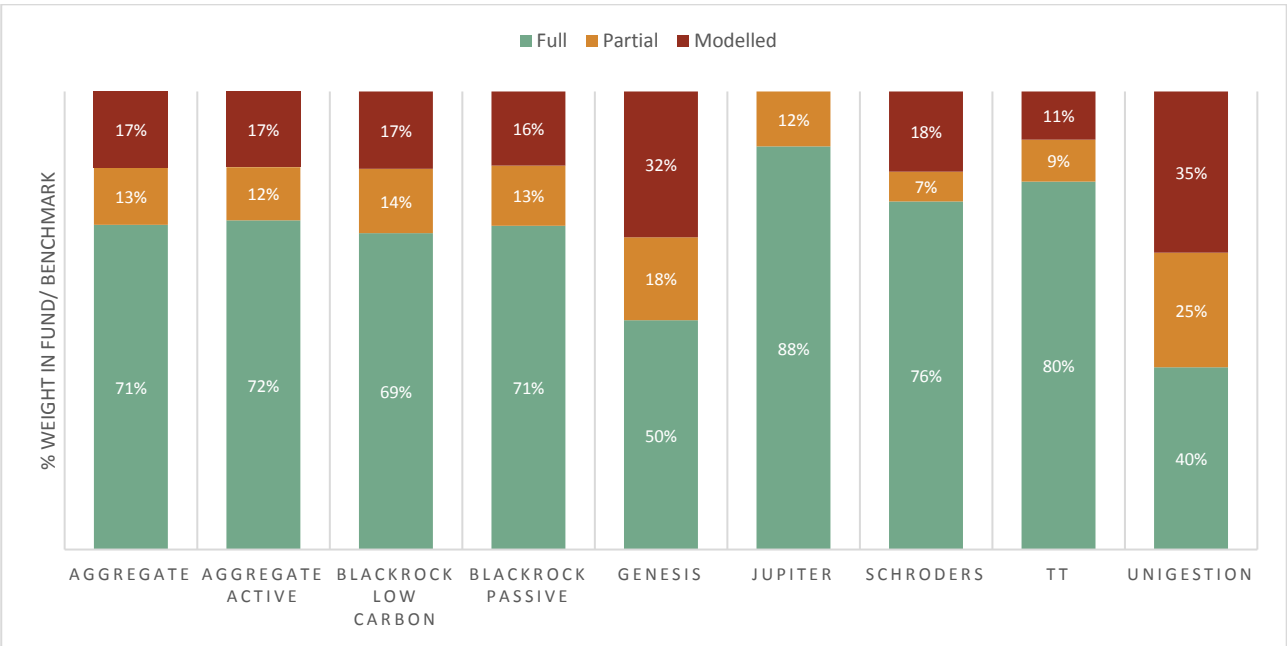
The disclosure analysis shows how much of the carbon data is sourced from actual company disclosures and how much is modelled by Trucost.

The disclosure rate is measured against the value of holdings (VOH). The VoH method shows for how much VoH, either carbon data is disclosed or modelled. The results for the GHG method can be interpreted as how much of the GHG data is sourced either from actual company disclosures or from the Trucost model. The disclosure rates by Companies method shows how many holdings out of analysed holdings provide disclosure.

The disclosure rates are defined for three categories: namely full disclosure, partial disclosure and modelled. Full disclosure is considered when carbon data is available from company reporting. Partial disclosure is considered when a company lacks full disclosure data and the Trucost model is used in order to fill the gaps. Modelled data is considered when there is a complete lack of disclosure from companies and Trucost has entirely modelled its carbon data.

71% of the aggregate portfolio’s companies by value of holdings disclose carbon data at all, or of a sufficient quality and scope for use in analysis (Figure 5).

FIGURE 5: PORTFOLIO CARBON DATA DISCLOSURE RATES



FOSSIL FUELS & STRANDED ASSETS

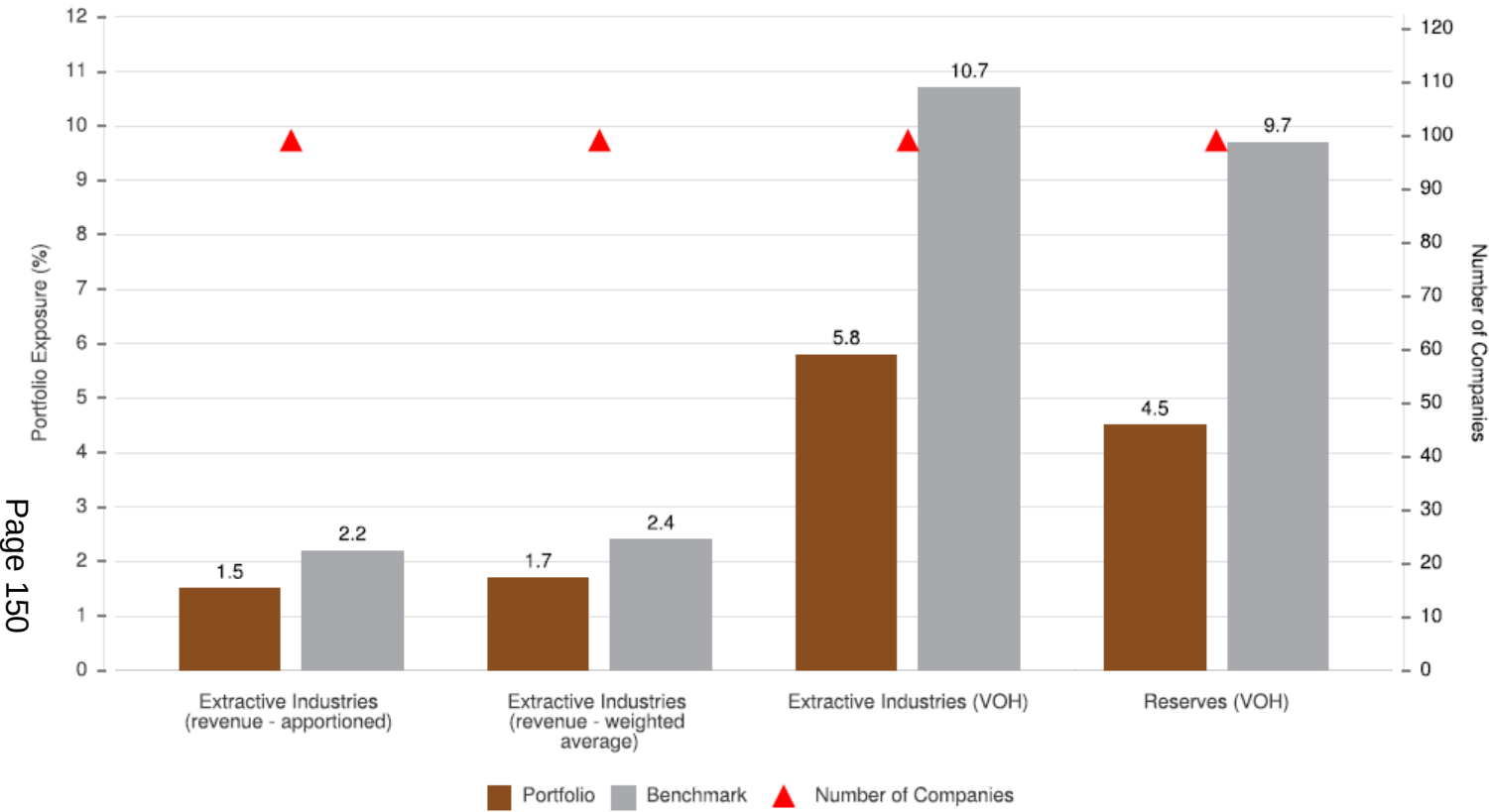
Future emissions from fossil fuel reserves far outweigh the allowable carbon budget that will limit global warming to 2 degrees Celsius above pre-industrial levels. Industry experts refer to assets that may suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities as 'stranded assets'. Trucost assesses exposure to such assets by highlighting holdings with business activities in extractive industries, as well as holdings in companies that have disclosed proven and probable fossil fuel reserves in the portfolio. This helps to identify potentially stranded assets that would become apparent as economies move towards a 2° alignment.

HEADLINE RESULTS

Avon Pension Fund's Aggregated Equities portfolio's exposure to potentially stranded assets has been assessed on both a value of holdings (VOH) basis and a revenue basis. For the revenue exposure metric, both the apportioning and weighted average approach are presented. For the VOH exposure metric, the revenue threshold for inclusion was 0%.

The Aggregate Portfolio has a lower level exposure to extractives than its benchmark (1.5% vs. 2.2% in terms of revenue, and 5.8% vs. 10.7% in terms of VOH). It also has a lower level of exposure to companies with fossil fuel reserves, in terms of value of holdings (4.5% vs. 9.7%).

FIGURE 6: EXPOSURE TO EXTRACTIVE INDUSTRIES AND RESERVES - AGGREGATE PORTFOLIO



EXTRACTIVES REVENUE EXPOSURE BY SECTOR

Below is a breakdown of the portfolio's extractive industries revenue exposure by sector, as a share of total revenue. Both the apportioning and the weighted average methods are displayed.

From the breakdown in Table 7, we can see that the Aggregate Portfolio has a lower exposure to bituminous coal mining revenue and revenue from other types of fossil fuel extraction activities, than its benchmark, but is more exposed to revenue from drilling of oil and gas wells and other support activities for oil and gas operations.

TABLE 7: SUMMARY OF EXTRACTIVE INDUSTRIES REVENUE EXPOSURE BY SECTOR

Company Name	Bituminous Coal And Lignite Surface Mining	Bituminous Coal Underground Mining	Crude Petroleum And Natural Gas Extraction	Natural Gas Liquid Extraction	Drilling Oil And Gas Wells	Tar Sands Extraction	Support Activities For Oil And Gas Operations	Total Extractives Exposure
Portfolio apportioned	0.12%	0.02%	0.79%	0.20%	0.02%	0.02%	0.29%	1.46%
Benchmark apportioned	0.23%	0.08%	1.23%	0.42%	0.01%	0.05%	0.22%	2.24%
Portfolio weighted	0.11%	0.01%	0.95%	0.17%	0.03%	0.03%	0.44%	1.74%
Benchmark weighted	0.23%	0.06%	1.37%	0.33%	0.02%	0.08%	0.29%	2.38%

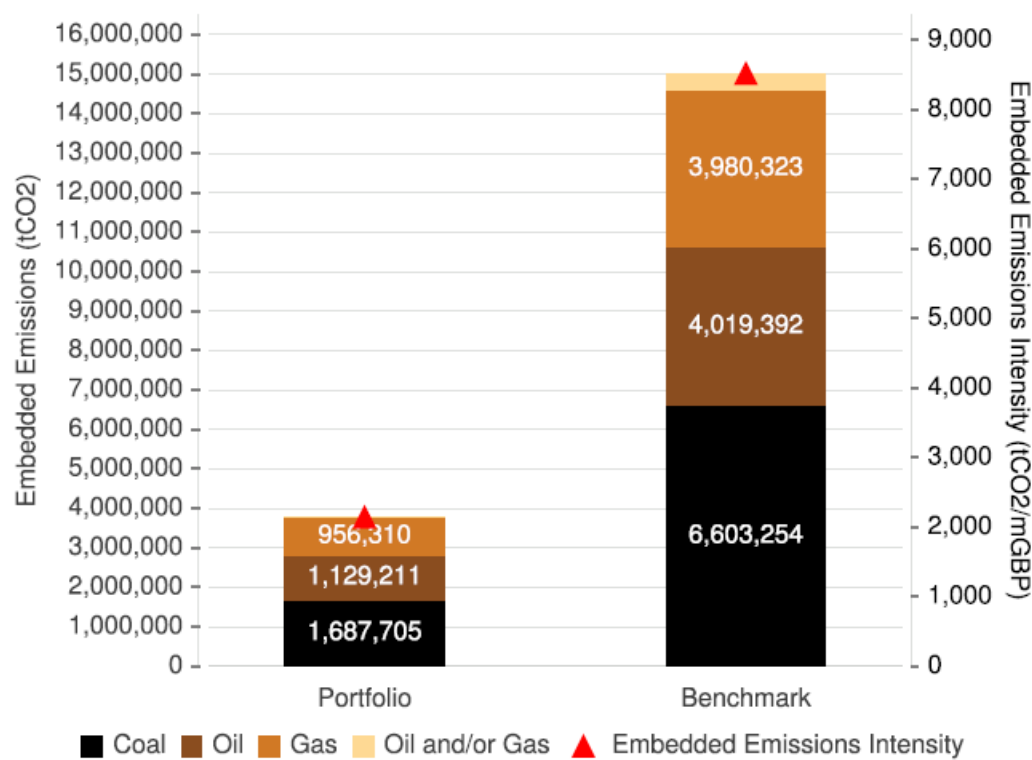
EMBEDDED EMISSIONS

Trucost is able to analyse the carbon emissions embedded within the fossil fuel reserves which have been disclosed by companies in the portfolio or benchmark. Companies may disclose both 1P and 2P reserves (1P refers to those held with 90% confidence, 2P are those held with 50% confidence). Both 1P and 2P are used when assigning embedded emissions to a company.

The figure below shows the total tonnes of apportioned CO₂ from reserves, broken down by reserve type. It also shows the reserves 'intensity' by normalizing the apportioned embedded emissions by the VOH.

The total embedded CO₂ emissions from reserves in Avon Pension Fund's Aggregated Equities portfolio is 3.777 m tonnes (15.019 m tonnes for the benchmark).

FIGURE 7: APPORTIONED FUTURE EMISSIONS BY RESERVE TYPE

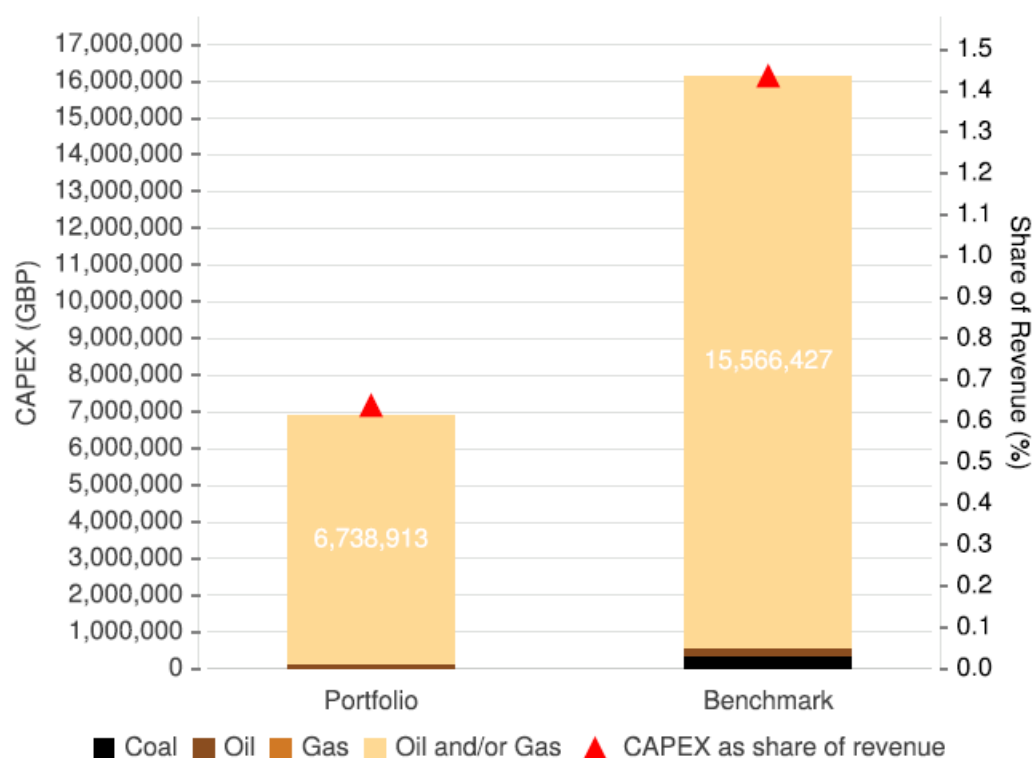


FOSSIL FUEL CAPEX

In addition to reserves, Trucost collects data on the capital expenditure set aside for fossil fuel related activities such as further exploration and extraction in order to provide additional quantitative insights on stranded asset risk. The figure below shows the total apportioned capital expenditure on fossil fuel related activities by reserve type. It also normalizes the CAPEX by showing it as a share of apportioned revenue.

The total apportioned fossil fuel CAPEX in Avon Pension Fund’s Aggregated Equities portfolio is 6.878 mGBP (16.135 mGBP for the benchmark).

FIGURE 8: APPORTIONED CAPEX BY RESERVE TYPE



LARGEST CONTRIBUTORS - EXTRACTIVES REVENUE & EMBEDDED EMISSIONS

The table below shows the largest contributors towards the portfolio's apportioned extractives revenue. It is displayed as a percentage of the portfolio's total apportioned revenue. The degree to which the company's own revenues are derived from extractive activities is also shown in the table below.

TABLE 8: LARGEST CONTRIBUTORS - EXTRACTIVES REVENUE

Company Name	Holding (mGBP)	Sector	Portfolio Level Extractives Revenue Exposure (% of Total)	Company Level Extractives Revenue Exposure (% of Total)	Portfolio Level Future Emissions From Reserves (MtCO ₂)	Company Level Future Emissions From Reserves (MtCO ₂)
Royal Dutch Shell PLC	19.915	Energy	0.23%	13.56%	0.517	4,896.37
Schlumberger Ltd	5.436	Energy	0.16%	100.00%		
Marubeni Corp	1.398	Industrials	0.16%	22.48%		
Total S.A.	8.56	Energy	0.08%	9.81%	0.333	4,122.35
Mitsui & Co	2.343	Industrials	0.06%	23.38%	0.018	164.62
Halliburton Co	1.535	Energy	0.06%	100.00%		
Polskie Gornictwo Naftowe	0.765	Energy	0.06%	85.75%	0.028	250.93
Occidental Petroleum	4.215	Energy	0.05%	65.28%	0.115	969.42
Glencore Plc	4.873	Materials	0.05%	4.60%	0.883	9,162.58
TechnipFMC Ltd	0.749	Energy	0.04%	52.50%		

The table below shows the largest contributors towards the portfolio's apportioned embedded emissions. The absolute contributions are shown in the second to last column, while final column shows the company's total level of emissions from reserves.

Royal Dutch Shell PLC has the largest contribution to the portfolio's extractives revenue, and the second largest contribution to the portfolio's future emissions from reserves. Glencore Plc has the largest contribution to the portfolio's future emissions from reserves overall.

TABLE 9: LARGEST CONTRIBUTORS - EMBEDDED EMISSIONS

Company Name	Holding (mGBP)	Sector	Portfolio Level Extractives Revenue Exposure (% of Total)	Company Level Extractives Revenue Exposure (% of Total)	Portfolio Level Future Emissions From Reserves (MtCO ₂)	Company Level Future Emissions From Reserves (MtCO ₂)
Glencore Plc	4.873	Materials	0.05%	0.05%	0.883	9,162.58
Royal Dutch Shell PLC	19.915	Energy	0.23%	13.56%	0.517	4,896.37
BHP Billiton Ltd	3.133	Materials	0.03%	37.57%	0.374	9,818.00
Total S.A.	8.56	Energy	0.08%	9.81%	0.333	4,122.35
Rio Tinto PLC	4.82	Materials	0.01%	6.98%	0.253	3,303.00
Cabot Oil & Gas A	2.133	Energy	0.03%	100.00%	0.145	535.57
Occidental Petroleum	4.215	Energy	0.05%	65.28%	0.115	969.42
Novatek PJSC	0.847	Energy	0.02%	100.00%	0.113	3,929.79
Exxon Mobil Corp	3.103	Energy	0.02%	9.23%	0.105	7,613.27
BP	1.266	Energy	0.01%	8.53%	0.090	6,776.60

COAL EXPOSURE

Coal related activities are widely understood to be among the largest contributors to anthropogenic carbon emissions. As such, an increasing number of investors are strategizing around coal exposure and positioning for a transition to a low carbon economy. This may include strategies such as implementing reduction targets for exposure to the embedded emissions, or adopting an assess-engage-monitor-divest approach to individual holdings involved in coal mining or coal power activities.

Trucost has assessed both the VOH and revenue exposure at the portfolio level to the following activities:

- Bituminous coal underground mining
- Bituminous coal and lignite surface mining
- Coal power generation

For the VOH exposure metric, the revenue threshold for inclusion was 10%.

FIGURE 9: COAL REVENUE EXPOSURE BY SECTOR

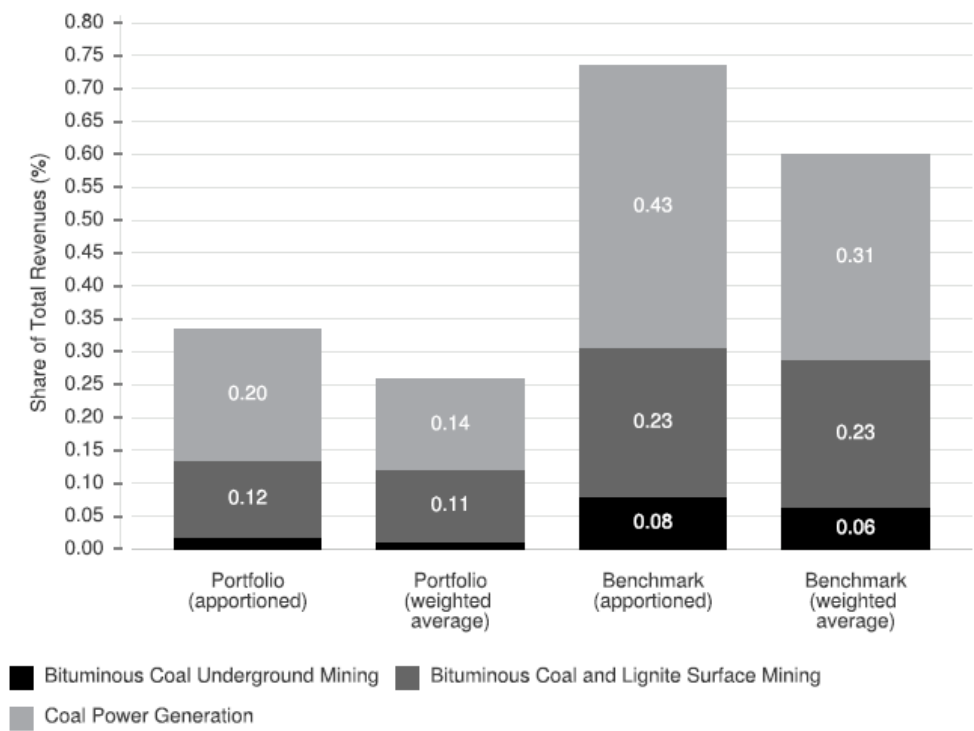
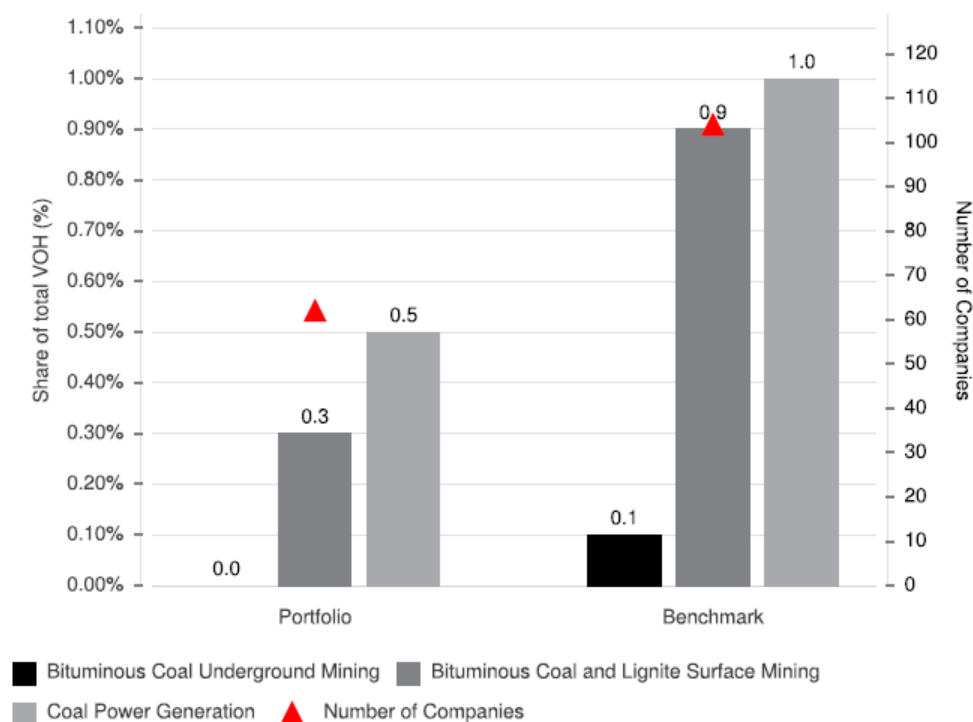


FIGURE 10: COAL VOH EXPOSURE BY SECTOR



The table below shows the largest contributors towards the portfolio's apportioned coal revenue. The absolute contributions are shown in the final column, while the second to last column shows the degree to which the company's own revenues are derived from coal mining and/or power generation.

While Scottish & Southern Energy is the portfolio's largest contributor in terms of revenue from coal, that revenue is exclusively from coal power generation. Glencore Plc has the second largest revenue contribution from coal overall, all of which is from coal mining.

TABLE 10: LARGEST CONTRIBUTORS – COAL REVENUE

Company Name	Holding (mGBP)	Company Level Coal Extracted (M Tonnes)	Company Level Coal Surface Mining Exposure (% of Revenues)	Company Level Coal Underground Mining (% of Revenues)	Company Level Coal Power Generation Exposure (% of Revenues)	Company Level Total Coal Exposure (% of Revenues)	Portfolio Level Apportioned Revenues From Coal (mGBP)
Scottish & Southern Energy	2.539				15.00%	15.00%	0.849
Glencore Plc	4.873	124.90	3.67%	0.75%		4.42%	0.483
Coal India Ltd	0.662	538.75	93.73%	6.27%		100.00%	0.377
Tenaga Nasional Bhd	1.695				26.54%	26.54%	0.198
Mitsui & Co	2.343	13.50	4.94%	0.97%		5.91%	0.172
Rio Tinto PLC	4.820	50.57	6.05%	0.93%		6.98%	0.134
BHP Billiton Ltd	3.133	77.09	14.44%	0.60%		15.03%	0.119
Alcoa Corp	3.397				2.22%	2.22%	0.087
Polskie Gornictwo Naftowe	0.765				9.37%	9.37%	0.066
American Electric Power	0.324				39.57%	39.57%	0.065

ENERGY TRANSITION

HEADLINE RESULTS

While carbon footprints can help to identify the most carbon efficient companies within a portfolio, they do not recognize those companies that are contributing positively to the low carbon economy by offering climate-mitigation or adaptation solutions. As the energy generating sectors are critical to this transition, Trucost has analyzed physical units of power production embedded within the portfolio to highlight aggravators (fossil fuels) vs. mitigators (renewables). The generation types within each category are as follows:

- **Renewable Energy Generation:** solar, wind, wave & tidal, geothermal, hydroelectric, biomass
- **Fossil Fuel Energy Generation:** coal, petroleum, natural gas
- **Other Energy Generation:** nuclear, landfill gas, any other unclassified power generation

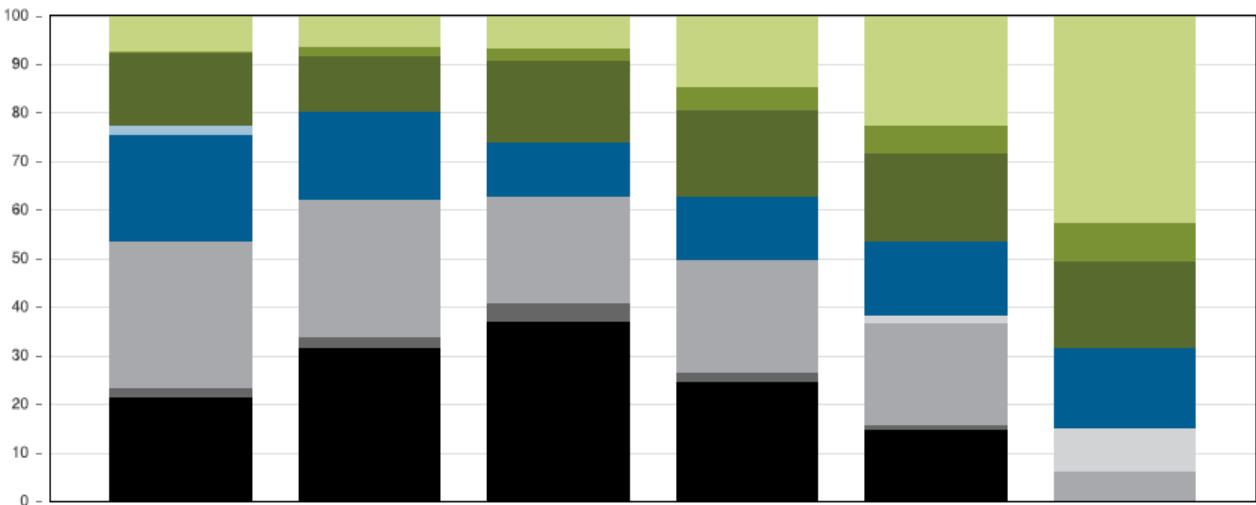
TABLE 11: GENERATION MIX

	FOSSIL FUELS			RENEWABLE		OTHER		
	Coal (GWh)	Petroleum (GWh)	Natural Gas (GWh)	Hydroelectric (GWh)	BioMass (GWh)	Other Renewables (GWh)	Nuclear (GWh)	Other Sources (GWh)
Portfolio	17.74	1.57	24.39	12.11	0.38	5.68	17.79	-
Benchmark	71.62	4.81	63.66	25.40	3.96	14.48	41.12	-

2 DEGREE ALIGNMENT

Investors are increasingly asking how they can align their portfolio with globally agreed forward-looking targets to mitigate climate change - so called two degree targets. Historically, portfolios have been measured against traditional financial benchmarks, which generally reflect the economy today rather than the low carbon economy - as suggested by the International Energy Agency (IEA) - we need for tomorrow. This over-represents traditional fossil fuel energy sectors and under-represents greener energy providers. To overcome this issue, Trucost compares the current energy mix of a portfolio to the IEA's two degree scenarios, showing investors how to work toward an energy transition goal. This allows them to redirect capital to have the highest "transition" impact and help to finance the low carbon economy.

FIGURE 11: 2 DEGREE ALIGNMENT²



	Portfolio	Benchmark	IEA (World) 2016 2 Degree Scenario	IEA (World) 2025 2 Degree Scenario *	IEA (World) 2030 2 Degree Scenario *	IEA (World) 2050 2 Degree Scenario *
Other renewables	6.99%	6.43%	6.39%	14.60%	22.31%	42.52%
Biomass	0.47%	1.76%	2.63%	4.65%	5.92%	7.91%
Hydroelectric	14.91%	11.28%	16.67%	17.84%	18.16%	17.91%
Other sources (incl. landfill gas)	1.93%	0.07%	0.05%			
Nuclear	21.91%	18.26%	11.14%	12.97%	15.06%	16.29%
Fossil energy with CCS			0.04%	0.19%	1.62%	8.98%
Natural Gas	30.03%	28.27%	21.94%	23.07%	21.04%	6.04%
Petroleum	1.93%	2.13%	3.84%	2.00%	0.96%	0.27%
Coal	21.84%	31.80%	37.31%	24.68%	14.94%	0.08%

² *The content within table above was prepared by S&P Trucost Limited, with data derived from the 2 Degree Scenarios developed by the International Energy Agency. ©OECD/IEA 2017. The content within the table above does not necessarily reflect the views of the International Energy Agency.

ENERGY GENERATION REVENUE EXPOSURE

The analysis above has focused on the physical units of power generated by companies within the portfolio. As not all energy companies disclose this information, it is also useful to determine exposure to 'aggravators' and 'mitigators' based on sources of revenue. Trucost has assessed both the value of holding (VOH) and revenue exposure to fossil fuel, renewable, other power generation for the portfolio and benchmark.

For the VOH exposure metric, the revenue threshold for inclusion was 0%.

FIGURE 12: REVENUE EXPOSURE TO ENERGY GENERATION

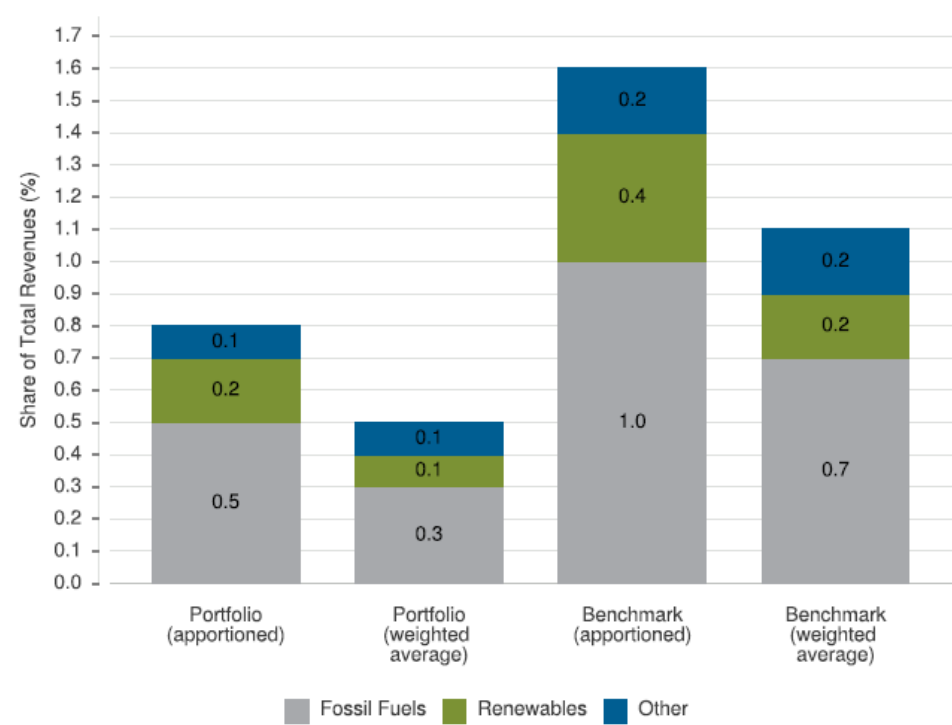
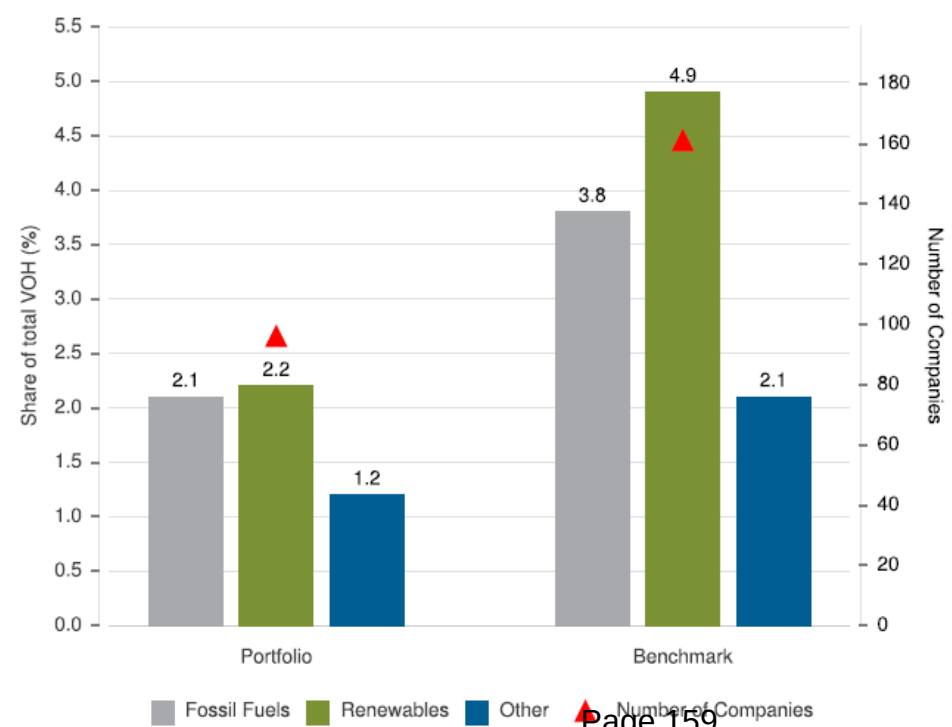


FIGURE 13: VOH EXPOSURE TO ENERGY GENERATION



Avon Pension Fund's Aggregate Portfolio has a lower level of revenue exposure to fossil fuel power generation than its benchmark (0.5% vs. 1.0%) and a lower share of total VOH in companies involved in fossil fuel power generations (2.1% vs. 3.8%). The benchmark, however, has a higher share of companies with revenues from renewables, both in terms of percentage revenue and VOH.

The table below shows the largest contributors towards the portfolio's apportioned renewable energy revenue. The absolute contributions are shown in the final column, while the second to last column shows the degree to which the company's own energy revenues are derived from renewable generation.

TABLE 12: LARGEST CONTRIBUTORS – RENEWABLE ENERGY REVENUE

Company Name	Holding (mGBP)	Company Level Renewables Revenue (% of Total)	Company Level Fossil Fuels Revenue (% of Total)	Company Level Other Revenue (% of Total)	Company Level Total Energy Revenue (% of Total)	Renewables Share (% Of Total Energy Revenue)	Portfolio Level Total Apportioned Renewables Revenue (mGBP)
Scottish & Southern Energy	2.539	23.68%	44.16%		67.84%	34.91%	1.340
PG&E Corporation	0.704	25.78%	5.31%	0.01%	31.09%	82.90%	0.147
Enel SpA	0.494	13.84%	23.32%	5.72%	42.88%	32.28%	0.087
Consolidated Edison Inc	1.465	9.03%	9.71%		18.75%	48.19%	0.069
Meridian Energy Ltd	0.27	68.40%			68.40%	100.00%	0.063
Edison Intl	1.068	7.03%	7.27%	3.34%	17.64%	39.85%	0.045
Brookfield Asset	0.816	10.03%	0.10%		10.13%	98.97%	0.042
Iberdrola SA	0.397	14.37%	36.49%	15.10%	65.96%	21.78%	0.042
Berkshire Hathaway	4.679	1.88%	4.08%	0.09%	6.05%	30.99%	0.041
ENGIE Brasil Energia S.A.	0.182	90.86%	9.14%		100.00%	90.86%	0.041

The table below shows the largest contributors towards the portfolio's apportioned fossil fuel energy revenue. The absolute contributions are shown in the final column, while the second to last column shows the degree to which the company's own energy revenues are derived from fossil fuel generation.

Scottish & Southern Energy, Tenaga Nasional Bhd and Tokyo Electric Power Co are the three largest contributors of fossil fuel revenue to Avon Pension Fund's Aggregate Portfolio. However, Scottish & Southern Energy is also the portfolio's largest contributor in terms of renewable energy revenue.

TABLE 13: LARGEST CONTRIBUTORS – FOSSIL FUEL ENERGY REVENUE

Company Name	Holding (mGBP)	Company Level Renewables Revenue (% of Total)	Company Level Fossil Fuels Revenue (% of Total)	Company Level Other Revenue (% of Total)	Company Level Total Energy Revenue (% of Total)	Fossil Fuel Share (% Of Total Energy Revenue)	Portfolio Level Total Apportioned Fossil Fuel Revenue (mGBP)
Scottish & Southern Energy	2.539	23.68%	44.16%		67.84%	65.09%	2.499
Tenaga Nasional Bhd	1.695	1.88%	50.45%		52.34%	96.40%	0.376
Tokyo Electric Power Co.	0.058	3.90%	70.70%		74.60%	94.77%	0.314
Chubu Electric Power Co	0.08	6.02%	77.05%		83.07%	92.75%	0.148
Chubu Electric Power Co	0.494	13.84%	23.32%	5.72%	42.88%	54.39%	0.146
Southern Co	0.44	3.97%	62.79%	12.72%	79.48%	79.00%	0.127
Kansai Electric Power Co	0.091	9.23%	53.60%	0.50%	63.33%	84.64%	0.107
Iberdrola SA	0.397	14.37%	36.49%	15.10%	65.96%	55.33%	0.106
Tohoku Electric Power Co	0.062	7.95%	57.31%		65.26%	87.82%	0.103
Duke Energy Corp	0.518	1.96%	44.91%	24.61%	71.47%	62.83%	0.098

ENVIRONMENTAL FOOTPRINT

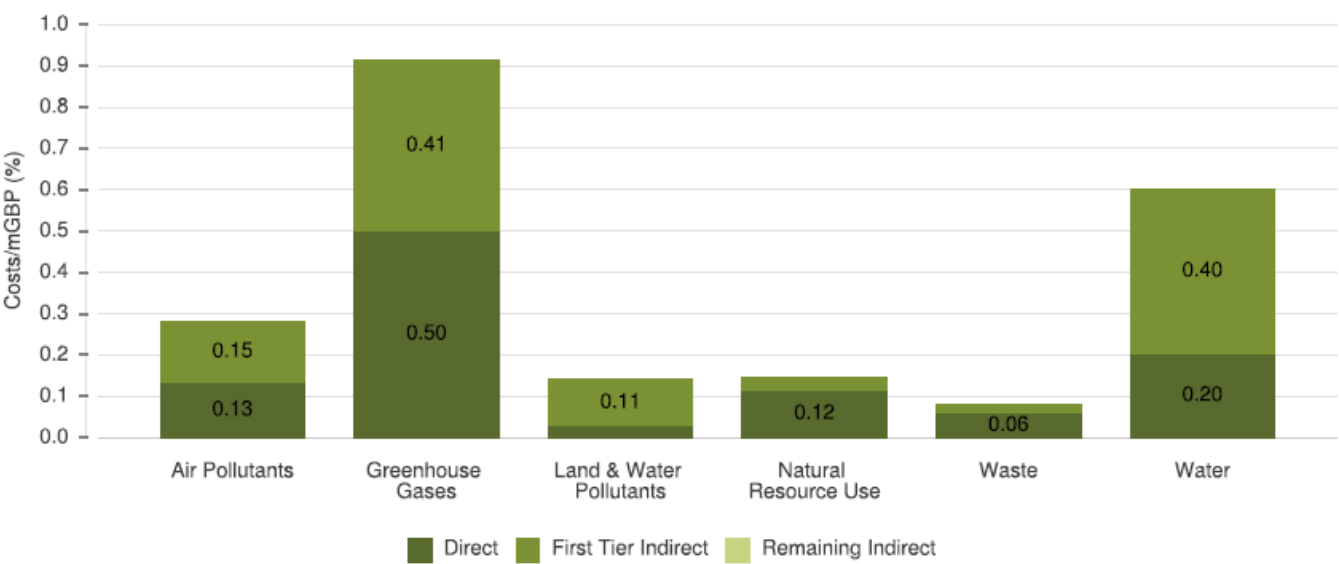
HEADLINE RESULTS

Environmental footprints quantify the greenhouse gas (GHG) emissions, water, waste, land & water pollutants, air pollutants, and natural resource use associated within a portfolio.

The total environment footprint of the Aggregate Portfolio outperforms its benchmark by 30.31%. A combination of positive sector allocation (14.80%) and company selection (15.51%) effects drive the overall relative environmental performance of the portfolio.

The Figure 1.2.7 shows the relative contribution of each of these six impact areas to the environmental footprint of the portfolio. The portfolio is most exposed to greenhouse gases and water impacts.

FIGURE 14: ENVIRONMENTAL INTENSITY BROKEN DOWN BY ISSUE



CONCLUSION

This year's carbon footprint results (Tables 3 and 4) have shown an overall year-on-year improvement in the carbon footprint performance of Avon Pension Fund's Aggregate Portfolio between 2017 and 2018, driven mainly by underlying improvements in the underlying passive portfolios (viz. the addition of the Blackrock Low Carbon portfolio this year).

All portfolios, with the exception of the TT portfolio, were more carbon efficient than their respective benchmarks (Table 4). However, on aggregate, the active portfolios, though still more efficient than their respective benchmarks, saw a decline in their carbon performance, both in terms of year-on-year performance and performance relative to benchmark.

In terms of overall fossil fuel exposure, the Aggregate Portfolio is less exposed to fossil fuel related activities than the Strategic Benchmark overall. However, there is still the opportunity to better align the Aggregate Portfolio with low carbon energy transition scenarios (such as the 2 Degree Scenarios developed by the International Energy Agency), by increasing the proportion of renewable energy in the portfolio's energy generation mix, and reducing the proportion of coal-fired power generation.

At an underlying portfolio level, the best performing individual portfolio based on this year's carbon footprint results is the Blackrock Low Carbon portfolio, with a carbon to revenue figure of 183.30 tCO₂e/mGBP. The Genesis portfolio is a close second with a carbon to revenue figure of 229.90 tCO₂e/mGBP. However, the Genesis portfolio has the best overall efficiency relative to benchmark (70.61%). The Blackrock Low Carbon portfolio is next, with a relative efficiency to benchmark of 54.31%.

RECOMMENDATIONS

- A number of individual portfolios have seen their carbon efficiency decline over the last year vis-à-vis their respective benchmarks and/or the prior year's carbon footprint. In order to drive improvements in performance, Avon Pension Fund should consider engaging with those fund managers whose portfolios have seen a decline in year-on-year carbon performance, and those whose holdings include companies listed among the top 10 contributors to the Aggregate Portfolio's carbon footprint and embedded emissions from fossil fuel reserves.
- Avon should consider setting carbon footprint performance targets for the overall equities portfolio to encourage those fund managers that performed less well to improve, and better performers to maintain their performance going forward.
- In order to improve low carbon energy transition alignment across its portfolio, Avon Pension Fund should consider also setting targets to minimise coal mining and coal power exposure and maximise renewable energy exposure across the individual funds.

APPENDICES

APPENDIX A: TRUCOST'S APPROACH TO CALCULATING CARBON FOOTPRINTS OF PORTFOLIOS

The carbon footprint is a measure of the greenhouse gas emissions (GHGs) associated with each portfolio. This is calculated by allocating GHGs from each constituent company held in the portfolio in proportion to the equity ownership of that company. The GHGs measured are converted into their carbon dioxide equivalents (CO₂e). The carbon footprint is expressed as metric tons of GHGs emitted by the companies within the portfolio, per million GBP (£m) of revenue from holdings. This normalized measure of carbon performance enables comparison of portfolios and benchmarks, irrespective of the type and size of the portfolios. The GHGs and revenue allocated to each holding are summed to calculate the overall carbon footprint of listed equity holdings.

GHG emissions data for companies analysed are the latest available in Trucost's database (the Trucost Environmental Register) – the world's largest and most comprehensive database of corporate natural capital impact data covering 93% of global markets by market capitalization. Where companies do not provide usable data on GHG emissions, Trucost uses its environmentally extended input-output (EEIO) model to calculate likely emissions based on business activities in 464 sectors.

Carbon footprint equation:

$$\frac{\sum_{c=1}^n \frac{VOH_{c,t}}{MC_{c,t}} GHGS_{c,FY}}{\sum_{c=1}^n \frac{VOH_{c,t}}{MC_{c,t}} R_{c,FY}}$$

c = company, t = date of analysis, VOH = value of holding in GBP MC = market capitalization in GBP, GHGs = sum of direct GHG emissions + first tier indirect GHG emissions in the FY, FY = most recent financial year with relevant data, R= total annual revenue in GBP.

APPENDIX B: COMPANY ANALYSIS

Trucost maintains the world's largest database of standardised corporate natural capital impact data. Trucost's comprehensive coverage of more than 5,000 companies since 2000 ensures that virtually all companies in a portfolio or Index are included, not just those that disclose environmental information.

To calculate the carbon emissions of companies included in the study, Trucost reviewed company annual reports and accounts, environmental/sustainability reports, public disclosures and corporate websites. However Trucost might standardise or normalise disclosed data where necessary. Where a company only discloses data for part of its overall activities, analysts may standardise or normalise quantities in order to calculate the carbon impacts of the business's entire operations in line with the Greenhouse Gas Protocol.

Where companies only disclose resource use, such as fuel consumption, this information is used to derive emissions data where possible.

Trucost uses its environmental profiling model to calculate the environmental impacts of companies that do not disclose adequate data, as well as the upstream impacts from supply chains. These include GHG emissions from the production of purchased goods and services, under Scope 3 of the Greenhouse Gas Protocol. The input-output model examines interactions between 464 sectors to calculate each company's likely direct and supply chain environmental impacts. These calculations combine quantitative government census and survey data on natural resource use through economic interactions between sectors with information on pollutant releases from national emissions registries. Information on company revenues in different industries is used to map environmental impacts from business activities.

Environmental profiling using an input-output model, overseen by an academic advisory panel, is a "best efforts" attempt to understand environmental impacts in the current absence of sufficient and comparable company disclosures on the environmental impacts of operations and supply chains.

Calculations incorporate disclosed quantitative data on industrial facilities' actual pollutant releases where available. Trucost engages with companies so that they have the opportunity to verify their environmental profiles and provide more information. Analysts quality check any further disclosures made, which are exclusive to Trucost and further augment the database.

GHG emissions for each company analysed are measured in tonnes of carbon dioxide equivalents (CO₂e). The analysis includes the six GHGs covered by the UN Kyoto Protocol. Each GHG has a different capacity to cause global warming. Trucost's conversion of GHGs to CO₂e is based on the Global Warming Potential (GWP) index published by the Intergovernmental Panel on Climate Change, which assesses the effect of the emissions of different gases over a 100-year time period relative to the emission of an equal mass of CO₂.

Where reported, data on GHG emissions from operations and purchased electricity, under Scopes 1 and 2 of the Greenhouse Gas Protocol corporate accounting standard, are included in Trucost's database.

To limit any issues associated with double counting greenhouse gas emissions, Trucost analysed only the direct and first-tier indirect emissions for each company. First-tier emissions are emissions purchased upstream from the company's direct suppliers. These included purchased electricity and business air travel. Most companies are not major emitters of direct greenhouse gases and adopting this method ensures that the study assesses the carbon impacts of business activities – such as extraction, production, transport and logistics – outsourced to companies excluded from this analysis. In many sectors, indirect greenhouse gas emissions are greater than their direct emissions. It is important to take into account indirect exposure to carbon costs as suppliers may pass these on down the value chain.

Company carbon intensity is calculated throughout this report as total direct and first-tier indirect greenhouse gas emissions per GBP million of revenue, unless stated otherwise. This quantitative approach enables businesses of different sizes within different industries to be compared.

APPENDIX C: INTERPRETATION OF SECTOR ALLOCATION & STOCK SELECTION EFFECTS

Attribution analysis identifies drivers of carbon performance relative to a benchmark. Trucost conducts attribution analysis to identify the effects of sector allocation (based on the ICB Super Sector breakdown) and stock selection decisions on portfolio carbon footprints relative to the relevant indices selected as their benchmarks. The sum of these stock and sector allocation effects results in either a positive or negative overall portfolio carbon efficiency relative to a benchmark.

Where the percentage difference in the carbon efficiency of the portfolio against its benchmark is positive (indicated by a “+” sign), the portfolio is more carbon efficient than its benchmark. This indicates that the portfolio has a smaller carbon footprint than this benchmark. Conversely, where the percentage difference in the carbon efficiency of the portfolio against its benchmark is negative (indicated by a “-” symbol), the portfolio is more carbon intensive than its benchmark. The portfolio therefore has a larger carbon footprint than the benchmark index.

Sector allocation effects are based on a combination of the amount of the portfolio’s assets allocated to a sector relative to the benchmark allocation to that sector in apportioned revenue terms, and the average carbon intensity of the sector compared to the benchmark’s total footprint. For example, a portfolio derives 1.92% of its total apportioned turnover from the Oil & Gas sector, whereas the benchmark derives 24.64% of its total apportioned revenue from the oil & gas sector. The benchmark’s total footprint is 664.66 metric tons of CO₂e/£m, whereas the benchmark’s Oil & Gas sector carbon footprint is 1,382.51 metric tons of CO₂e/£m. The Oil & Gas sector allocation effect would therefore be +24.54%:

Portfolio is
underweight the Oil &
Gas sector in revenue
terms

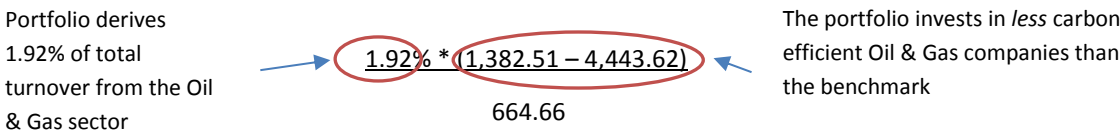
$(1.92\% - 24.64\%) * (664.66 - 1,382.51)$

664.66

The sector is less
carbon efficient than
the benchmark

Stock selection effects are based on the average carbon intensity of the companies held in the portfolio, combined with the holdings per company, compared with the companies present in their sector and their allocation in the benchmark. Stock selection effects indicate the potential to reduce carbon risk in the holdings without adjusting sector weightings. The carbon performance of companies directly contributes to the carbon embedded within portfolio holdings. For example, a portfolio derives 1.92% of its total turnover

from the Oil & Gas sector. The portfolio’s sector carbon footprint is 4,443.62CO₂e/£m. The benchmark’s total footprint is 664.66 metric tons of CO₂e/£m and the benchmark’s Oil & Gas sector carbon footprint is 1,382.5 metric tonnes of CO₂e/£m. The Oil & Gas stock allocation effect would be -8.84%



GLOSSARY

% Improvement/ % Difference:

The presentation of percentage figures in this report has been constructed such that a positive (negative) number is “good” (“bad”) news for the fund’s carbon risk exposure.

Carbon Footprint (tonnes CO₂e/£m):

The direct and first tier indirect GHG emissions apportioned to the portfolio per million GBP revenue generated by the portfolio. Each holding's contribution to the carbon footprint of the portfolio is calculated on an equity ownership basis. The carbon footprint of the fund is the sum of these contributions, normalised by revenue owned.

CO₂ Equivalent (CO₂e):

Each greenhouse gas differs in its ability to absorb heat in the atmosphere. HFCs and PFCs are the most heat-absorbent. Calculations of greenhouse gas emissions are presented in units of millions of metric tons of carbon equivalents (MMTCE), which weights each gas by its GWP value, or Global Warming Potential. The Global Warming Potentials used in this analysis are:

GREENHOUSE GAS	CO ₂ EQUIVALENT
Carbon Dioxide	1
Methane	21
Nitrous Oxide	310
Sulphur Hexaflouride	23,900
Per Fluoro Carbons	7,850
Hydro Flouro Carbons	5,920

See www.unfccc.org for more information about global warming.

Exposure (Coal Exposure and Renewable Energy Exposure):

An investor's "Coal Exposure" (or "Renewable Energy Exposure") is a measurement of the value of the fund facing the risk of a "stranded asset" – such as an inefficient coal power plant becoming uneconomic to run owing to stringent carbon regulation – considering both the value of holding in that company and the revenue-dependence of the company on coal. For example, a £1m investment in a company deriving 50% of its revenue from coal power generation and 50% from mortgage finance would contribute £0.5 to the Coal Exposure metric.

GHG:

Abbreviation for Greenhouse Gases. Emissions to air that contribute to the greenhouse effect and global warming. Each greenhouse gas differs in its ability to absorb heat in the atmosphere. HFCs and PFCs are the most heat-absorbent. Methane traps over 21 times more heat per molecule than carbon dioxide, and nitrous oxide absorbs 270 times more heat per molecule than carbon dioxide. Often, estimates of greenhouse gas emissions are presented in units of millions of metric tons of carbon equivalents (MMTCE), which weights each gas by its GWP value, or Global Warming Potential.

Sector allocation effects, Stock selection effects:

Please refer to Appendix C.

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Brunel Pension Partnership Ltd

Responsible Stewardship

Policy Statement



Approved by the Board of Brunel Pension Partnership Ltd 25 10 2018

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Brunel's Responsible Stewardship Policy

Brunel Pension Partnership was formed in July 2017 and will oversee the investment of the pension assets (around £30bn/\$40bn) of ten Local Government Pension Scheme funds in the UK. We use the name 'Brunel' to refer to the FCA-authorised and regulated company.

Brunel aims to deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

Responsible Stewardship is essential if Brunel is to deliver on these aims.

Stewardship is defined as the **job of taking care** of something, such as a company or property. As investors, we use the term assets.

Brunel is committed to responsible stewardship and seeks to contribute to the 'care' of all the assets under its remit. We believe that **active ownership** is how we can contribute to the care, and ultimately long-term success, of those assets. We do, however, recognise the approach needs to be tailored to each type of investment (asset class), take account of the level and legal structure of ownership, regulatory expectations and limitations, and be mindful of differences across geographies.

The purpose of this policy is to set out Brunel's overall approach to Responsible Stewardship, and should be read in conjunction with the [Responsible Investment \(RI\) Policy](#). The RI Policy sets out the development, accountability, review and compliance for all related policy statements.

The Brunel Board approved and is collectively accountable for Brunel's Responsible Stewardship Policy, but operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer. The policy is reviewed no less than annually.

As Brunel builds up its assets under management we will develop policy guidelines to set out the active ownership approach across each asset class. The roll-out is expected to be:

- Listed equities (passive and active)
- Private markets (property, infrastructure, secured income, private debt and private equity)
- Listed corporate debt (UK and global)
- Other fixed income
- Liquid alternatives

More information as to the definitions and objectives of these asset classes is outlined in [Our Portfolios](#) on our website.

Publicly listed equities account for nearly half of the assets that Brunel is expected to manage and is the most developed area of active ownership in the investment

industry. We have therefore included our approach to that asset class within this document.

Public Policy, UK and Global Codes of Best Practice

We are global investors and apply our principles of good stewardship globally, whilst recognising the need for local market considerations in its application. As a UK-based investor our key reference points are the **UK Stewardship Code** and **UK Corporate Governance Code** and guidance produced by UK industry bodies, for example, the **British Venture Capital Association** (BVCA – private equity) **RI toolkit**.

We are committed to supporting policy makers, regulators and industry bodies in the development and promotion of the codes and supporting guidance. We publicly disclose all our consultation responses on our website.

We also support the policy makers in other countries where practicable, but generally will contribute to a collaborative consultation submission. We will disclose a summary of our public policy advocacy work.

UK Stewardship Code

We believe this policy fulfils and goes beyond the current requirements of the UK Stewardship Code. However, we will publish a more detailed compliance statement. The compliance statement will also reflect specific requirements from other applicable global codes, for example, the Japanese Stewardship Code, which has additional requirements on resources, skills and knowledge.

UK Corporate Governance Code

We encourage companies either to comply with such codes or to fully explain their reasons for non-compliance. However, good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

Collaboration

We believe working collaboratively is essential to delivering our objectives as the scope and scale of our investments means that we need to draw on the expertise of others, not least the asset managers we employ. In addition to managers and specialist advisors, we are supporters of a number of organisations and initiatives that enable our ability to work collaboratively – the key ones are outlined in our RI Policy. Our reporting will evidence our activities.

Skills and Knowledge

One of Brunel's investment principles is that "decisions are informed through experts and knowledgeable officers and committees." We are committed to having a strong,



central core of expertise that has the breadth and depth of knowledge to manage the assets at the appropriate level and to provide scrutiny on the levels of skills and knowledge of our appointed asset managers and specialist service providers. Our website provides overviews of the whole team summarising their [skill and knowledge](#).

Transparency

Good stewardship requires a good understanding of the assets we invest in. Working closely with company Boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. We also acknowledge that when working collaboratively with other investors we must respect other disclosure requirements and restrictions. Being pragmatic to ensure we focus on the outcomes of active ownership does not diminish Brunel's commitment to transparency.

We will publish regular updates on our stewardship activities, including an annual summary of our engagement plan, quarterly engagement and voting activity analysis, voting records no less than twice a year and our annual PRI Transparency report.

We will publish an Annual Responsible Investment (RI) report which will show the progress we are making on our RI and Responsible Stewardship activities.

Conflicts of Interest

Brunel has a robust approach to conflicts of interest, with comprehensive controls operating at all levels within the business. The effective management of potential Conflicts of Interest is a key component of our due diligence on all asset managers and service providers, as well as our ongoing contract management. More details of Brunel's approach are available on our [website](#).

Listed Equities

A listed equity is one where you own a part or 'share' of a company that is publicly listed. In other words, anyone can buy it. As part of owning publicly listed companies, Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/EGMs¹).

We believe well-governed companies are critical to the creation of long-term value for shareholders, other stakeholders, society and the environment. We expect companies to comply with regulation and other company law in the countries in which they operate, as well as with any relevant regional or international requirements.

To support the development of and sustain well-governed companies, our active ownership focuses on two interrelated activities: engagement and voting. We have included an extract from the **Principles of Responsible Investment** guide to active ownership, which explains some of the key concepts and terms used in the policy.

Defining Engagement and Voting Practices

Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

Shareholder engagement captures any interactions between the investor and current or potential investee companies on ESG issues and relevant strategies, with the goal of improving (or identifying the need to influence) ESG practices and/or improving ESG disclosure. It involves a structured process that includes dialogue and continuously monitoring companies. These interactions might be conducted individually or jointly with other investors.

Collaborative engagements include groups of investors working together, with or without the involvement of a formal investor network or other membership organisation.

Voting refers to the exercise of voting rights on management and/or shareholder resolutions to formally express approval (or disapproval) on relevant matters. In practice, this includes taking responsibility for the way votes are cast on topics raised by management, as well as submitting resolutions as a shareholder for other shareholders to vote on (in jurisdictions where this is possible). Voting can be done in person, during an Annual General Meeting (AGM), or by proxy.

Ballot items are not always closely related to environmental and social issues and cover financial performance, risk management, strategy and corporate governance matters.

Voting and engagement practices are interrelated and feed into each other; one can be the initiator or the complementary tool of the other.

Source: PRI, [Introduction to active ownership in listed equity](#), February 2018.

¹ AGM – Annual General Meeting. EGMs – Extraordinary General Meetings.

Engagement

The engagement objectives for Brunel are identified in three ways. Firstly, top down, looking at Brunel's holdings and identifying thematic areas of risk and opportunity. The thematic priorities as identified in the RI Report are:

- UK regulation and policy framework
- Climate change (physical, adaptation and mitigation)
- Supply Chain (water, plastics, modern human slavery)
- Human capital & diversity (inclusion, welfare)
- Cost and Tax transparency
- Cyber security

Secondly, bottom up, reviewing our exposure to individual companies and to specific ESG risks and opportunities. Companies will be identified through asset managers, collaborative engagement forums, external research and Brunel's own internal ESG risk analysis. Thirdly, reactively to event risks, for example, after a specific, usually significant, incident. The companies that we actively engage with will be prioritised based on our level of exposure and the probability of successful outcome.

Engagement implementation will be undertaken by asset managers, our specialist provider Hermes EOS and via collaborative forums. However, Brunel will seek to undertake direct engagement where we feel that this will add value.

Brunel will operate a clear process of engagement escalation. Again, this will be supported by both our asset managers and by Hermes EOS. The escalation route starts with alerting companies to areas of concern through letters and face-to-face meetings. Initial engagement will usually focus on communication with the appropriate operational lead but will escalate as needed to the Board and Chair. Where a company Board is unresponsive and not already part of a collaborative engagement we will reach out to other investors. Addressing AGMs together with voting is an intrinsic part of the escalation process, including co-filing of shareholder resolutions. A recommendation to divest will be the last resort, but appropriate if we believe the risk to long-term shareholder value is being undermined.

One example of escalation is that we may choose from time to time to "pre-declare" or publicly announce our voting intentions for resolutions, for example, against the re-appointment of a Chair where there are serious governance concerns not being addressed or in support of a shareholder resolution relating to climate disclosure. On such occasions there will have been prior extensive engagement, a clear risk to shareholder value, and the objective will be to raise awareness with other investors to the risks presented. This type of action will be used sparingly as it is generally used when other attempts at active ownership have not proved successful.

Voting

Brunel aims to vote 100% of all available votes. However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified. Brunel will put in place the appropriate mechanisms to monitor voting execution.

Voting will be guided by a single voting policy for all assets managed by Brunel in segregated accounts. A segregated account is one in which the 'shares' are held separately from other investors and we are able to instruct the voting directly.

Voting will also be undertaken in the pooled listed equity funds in which Brunel invests. The most significant of these are our passive or index pooled funds. A pooled fund is one which has multiple investors in the same account. Pooled funds are used by pension funds as they are a very cost-effective way to get exposure to a large, diverse universe of companies. As with most pooled funds, our index provider is not bound by our specific voting guidelines. However, stewardship capability and implementation are important to the selection of our pooled index provider. **The below link provides information on Legal and General Investment Management's approach to [active ownership](#).**

We have a mechanism with our pooled index provider that on a limited number of occasions we will be able to direct voting for our pooled holdings so that it is aligned with our active segregated holdings. By working closely with our pooled index provider on engagement and voting we will aim for greater alignment so that the mechanism may not be necessary in the future.

Split Voting

In the spirit of pooling Brunel strives to operate with a single voice but is also committed to ensuring it meets needs of clients. We have made provisions to allow clients, by exception (where they have a specific investment policy commitment), to direct votes including the pooled funds as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM. Our voting procedure outlines the process in more detail.

Share Blocking

Share blocking is a mechanism used in some markets and results in shares being frozen, meaning that they may not be traded for a specified period prior to a shareholders' meeting. Where share blocking operates, a pending trade may fail if it settles during the blocked period. Our voting procedure includes approval requests from managers if blocking is operating.

Voting Process

Implementation of the Voting Policy will be supported by [Hermes EOS](#), our appointed engagement and voting services provider. This policy will guide their recommendations alongside other country and region-specific guidelines.

Voting decisions will be informed by investment considerations, consultation with portfolio managers, clients, other institutional investors and our engagement with companies. Another consideration is our work with collaborative forums and partners, for example, the Local Authority Pension Fund Forum (LAPFF), which acts as a collaborative framework for LGPS issues and voting. Brunel will be mindful of LAPFF voting alerts or other collaborative group recommendations but not bound by them. We will support shareholder resolutions and consider co-filing where we feel this is the appropriate course of action. We will not support shareholder resolutions where they are overly prescriptive and subvert the role of the Board.

Where a decision is made not to support the Board's recommendation on a resolution at a company, we aim to engage with the company prior to our vote. This will generally be at companies with whom we already have an engagement relationship, at other larger companies where we hold a material stake of the share capital or where there is a material concern.

Executing Voting Instructions

The industry process for executing votes, the 'voting infrastructure', is unhelpfully complicated. While there will be exceptions for some markets, the process will follow this path:

1. Notification of an AGM/EGM is sent to Brunel's Custodian, State Street
2. State Street will generate the share positions using its digital voting platform, Broadridge
3. Broadridge will issue electronic ballots* to the designated proxy voting provider, ISS
4. ISS will share the electronic ballots and research to our appointed advisor, Hermes EOS
5. Hermes EOS, with reference to our voting guidelines, will issue a recommendation 'alert' to Brunel and the asset manager/s who hold that company
 - o Where Brunel does not agree with Hermes recommendation, Brunel will discuss with Hermes and the recommendation updated accordingly
 - o Where the asset manager does not agree with Hermes' recommendation, the manager will contact Hermes to discuss with the analyst. If a consensus is reached, the voting instruction will reflect that view and Brunel will be informed if there has been a change

- Where consensus is not reached, Brunel, after taking feedback from Hermes and the asset managers, will direct the voting recommendation
 - Where there are multiple asset managers who hold a stock and one or more manager does not agree with the recommendation, Brunel, after taking feedback from Hermes and the asset managers, will direct the voting recommendation
6. Recommendations become vote instructions and are issued via the ISS and Broadridge platforms to sub custodians, the registrar and the issuing company where the vote is tabulated
 7. Analytics of voting activity and voting records by Brunel Client are generated every quarter and loaded onto the Client Portal
 8. Voting records, one for each client, plus a consolidated Brunel voting record are published not less than twice a year on Brunel's website.

*where Broadridge does not generate an electronic ballot, ISS will use its own systems or undertake manually, based on the information sourced directly.

Mergers and Acquisitions

The process for voting on 'standard' corporate actions will follow the same process as above, but managers will be required to ensure their corporate actions team are notified of the recommendation. For mergers and acquisitions the same process will apply except for contentious activity. For a contentious merger or acquisition, Brunel will direct the voting.

Stock Lending and Share Recall

We believe that stock lending is an important factor in the investment decision, providing opportunity for additional return, but that lending should not undermine governance, our ability to vote or long-term investing. We will recall stock where required. There may be some instances where we decide not to stock lend, particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote. Our approach to responsible stock lending is outlined in in further detail a separate policy.

Voting Policy

This section of the document sets out Brunel's Voting Policy. It provides broad guidelines within which voting decisions are assessed and implemented on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific market, company and meeting circumstances.

Below we set out a range of principles on key topics which sets out our expectations of companies and their Board and management. If any of these are not met, then this will contribute to the assessment of whether to support a relevant resolution proposed by management or by shareholders at a company's annual or extraordinary general meeting or otherwise in writing.

Our Responsible Investment policy sets out our engagement themes which are used to focus our engagement programme. Some engagement themes do not have a directly related voteable action – for these areas it can be more effective to communicate views via engagement with companies. We have included below our engagement outcomes to demonstrate how engagement and voting is linked and to indicate how we will engage and/or vote on each principle. Where we feel that companies are consistently not being receptive to engagement we will consider voting to oppose relevant Board members or resolutions. Omission of an issue in the voting policy does not preclude a vote against a particular resolution.

Brunel Voting Principles

What Companies Can Expect from Brunel

- **Voting:** We will always seek to exercise our rights as shareholders through voting
- **Consistency:** We aim to vote consistently on issues, in line with our Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. We will consider our engagement with companies when voting
- **No abstention:** We aim to always vote either in favour or against a resolution and only to abstain in exceptional circumstances or for technical reasons, such as where our vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision
- **Supportive:** We aim to be knowledgeable about companies with whom we engage and to always be constructive. We aim to support Boards and management where their actions are consistent with protecting long-term shareholder value
- **Long-term:** We seek to protect and optimise long-term value for shareholders, stakeholders and society
- **Engagement:** We support aligning our voting decisions with company engagement. We will escalate the vote if concerns have been raised and not addressed in the prior year

- **Transparency:** We will be transparent and publish our voting activity no less than twice per year

What Brunel expects of Companies

- **Accountability:** The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders
- **Transparency:** We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance
- **One Share, One Vote:** We support one share, one vote. Where a company issues shares with differing rights they must define these rights transparently and clearly explain why rights are not equal
- **Informed votes:** We expect companies to make available to shareholders complete materials for general meetings and where possible in advance of the legal timeframes for the meeting
- **Development:** We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion)

Voting Guidelines

We have set out our voting guidelines in the sequence that reflects the level of individual direct control that the company has in managing the topic. For example, climate change is a risk that a company, despite its individual action, in of itself has no direct control over – it can, however, control its response to that risk. In contrast, appointments to the Board, remuneration policy and systems of internal control are wholly within an organisation's sphere of influence. We believe that between these two extremes sits taxation and the availability and use of human and natural capital. By structuring our guidelines in this order, we are highlighting the need for companies to respond to high level global risks, which are often not a focus of attention but where a failure to manage can have significant financial consequences. The ordering of the voting principles does not quantify their level of importance.

Sustainability

Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability.

A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may impact significantly the company's long-term value creation. Issuers should recognise constructive engagement as both a right and responsibility.

Principle	Outcome/Voting Guideline
Sustainable Development Goals	
We encourage companies to demonstrate their commitment to the disclosure of sustainability information and data. Companies should assess the relevance of each UN Sustainable Development Goal (SDG) to their business and incorporate those which are material into their strategies. We encourage companies to report on how they support the SDGs and to engage with civil society on how best to respond to them. We also encourage companies to evaluate their fitness for the future, through benchmarks such as Future Fit .	We will engage with companies on developing their reporting on material sustainably-related financial disclosures and support the use of the SDGs as a framework for companies to articulate their approach.
Climate Change	
We expect companies to effectively identify and manage the financial material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business model.	We engage actively on the identification and management of physical and adaption risks, with a focus on specific companies/ sectors

Principle	Outcome/Voting Guideline
We expect each company to put in place specific policies and actions, both in its own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C. We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). This should include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. Companies will be measured against the Transition Pathway Initiative (TPI).	who are most financially exposed. We will use our vote to reinforce this engagement. We will vote against the re-election of the company chair where a company has not at least reached Level 2 of the TPI framework. We may use our vote to reinforce engagement with specific companies in relation to climate disclosure with reference to TCFD.
Tax	
Tax is complex, but it is also the way corporations contribute to the economies in which they operate. We believe openness about the approach taken is a key step to building understanding and trust. Aggressive tax strategies, even if structured legally, can pose potentially significant reputational and commercial risk for companies. We expect companies to: • Comply with all tax laws and regulations in all countries of operation • Recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely, and to commit to paying their fair contribution • Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence • Disclose the taxes paid by or collected by them in each country • Provide country-by-country reporting in order to demonstrate that taxes are paid where economic value is generated • Have an approach to tax policy that is sustainable and transparent	We will engage with companies on tax transparency.

Human and Natural Capital

Companies operate interdependently of the economy, society and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through the use of natural resources, e.g. water, waste and raw materials, and the physical environment can impact company productivity by damage caused by extreme weather both directly and indirectly from disrupted supply chains.

Companies should effectively manage their workforce and natural capital to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks.

Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve long-term returns.

Principle	Outcome/Voting Guideline
Human Capital Management Employees are a vital asset for companies. Boards should oversee development of human capital management strategies and accompanying objectives that seek to develop the potential of their employees, contributing to a positively engaged, committed and talented workforce. We expect companies to provide qualitative contextual information describing their approach, as well as annual disclosure of the key performance indicators.	We will be engaging on implementation of the relevant updates to the UK Corporate Governance code.
Human Rights Companies should comply with all legal requirements and the duty to respect all internationally recognised human rights, including the obligations of the Modern Slavery Act in the UK. We are supportive of companies who provide disclosure on their workforce and follow the Transparency in supply chains guide issued by the Home Office, and encourage companies to adopt and to increase use of appropriate technology to improve transparency on end-to-end supply chain. In addition, we support the Employer pays principle. Policies should apply to suppliers and sub-contractors.	We will be engaging with companies to improve transparency and disclosure. We support resolutions asking for companies to implement policies and management systems addressing human rights. Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.

Principle	Outcome/Voting Guideline
Natural Resource Efficiency	
We expect companies to value and appropriately limit their use of scarce and finite natural resources. This will include, where relevant, an assessment of the impact of water use in areas of water stress, opportunities to improve waste management such as reducing single use plastic and boosting resource efficiency by reducing demand, re-using products, recycling materials or otherwise recovering value prior to safe disposal, and explaining what steps the company is taking to help build a more circular economy.	We will engage with specific companies and sectors where we identify a principal risk. We generally support resolutions requiring regular review of business policies and procedures in relation to natural resource efficiency. Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.
Pollution	
We expect companies to avoid and to seek to reduce and mitigate the pollution of the air, water and soil by detrimental toxic or non-toxic materials through their operations, supply chain or products, whether in use or following disposal.	We will be engaging with companies to build a circular economy and control pollution to below harmful levels. Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors responsible for overseeing those risks.
Other Social and Environmental Issues	
Social and environmental issues are wide-ranging. We maintain more detailed guidance to support issues including but not limited to discriminatory practices, operating in controversial countries, forestry product certification standards, sustainable palm oil, forestry and GMOs.	Where there are substantial failures to manage ESG risks, we will vote against the re-election of directors in charge of those risks.

Company Boards

Conduct and Culture

Corporate culture and conduct have always been important, but recent evidence from incidences where conduct has fallen below the expected standards and the knock-on financial consequences has reinforced the need for conduct and culture to be an area of focus.

Principle	Outcome/Voting Guideline
Corporate Culture	
Companies should maintain the highest standards of conduct towards all stakeholders, including employees, customers, suppliers, government, regulators and the wider public across all markets. Companies should cultivate a culture that ensures the highest standards of integrity and a respect for others, promotes ethical behaviour and guards against sexual harassment and bribery and corruption, including through robust policies and processes.	We will consider voting against re-election of directors where we feel business conduct is poor, or against election where there has been a history at a prior company.

Board Composition and Effectiveness

The composition and effectiveness of Boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and to hold it to account.

The Board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.

Principle	Outcome/Voting Guideline
Board Committees	
Depending on the size and complexity of a company, we expect to see separate committees for key functions of the Board, including but not limited to audit, remuneration and director nomination and succession.	We will generally vote against the election or re-election of individual directors whose presence would cause a Board committee to fail to meet local

Principle	Outcome/Voting Guideline
Committees should generally comprise either entirely of or with a majority of independent directors, in line with local governance codes. For example, in the UK: • The nomination committee must comprise a majority of independent non-executive directors, including the Senior Independent Director (for larger companies) • The remuneration committee must consist entirely of independent non-executive directors, with a minimum of three for larger companies and two for smaller companies. The chair can only be a member if they were independent on appointment and do not chair the committee • The audit committee must consist exclusively of independent non-executive directors, with a minimum of three for larger companies and two for smaller companies. At least one member should have recent and relevant financial expertise and all members should have competence relevant to the sector in which the company operates	governance guidelines on composition.
Director Attendance and Commitment	
A director should be able to allocate sufficient time to the company to discharge their duties, alongside other commitments, with attendance at Board and committee meetings a requirement. The number of Board, committee and other meetings attended by each director should be disclosed routinely in annual reporting, with instances of less than full attendance explained. Whether a Board director is over-committed depends on a range of factors including the number of roles, the size and complexity of a company, travel requirements and any additional responsibilities such as that of a committee chair.	In the absence of a suitable explanation and disclosure to investors, directors should have attended no less than 75% of Board and committee meetings held. We will vote against the re-election of a director where disclosure of attendance is insufficient and without a valid explanation. We expect that non-executive directors should not hold more than five roles in total. Chair role is considered as two directorships and executive directorships as four due to increased complexity, oversight and time commitment. We will vote against directors considered to be over-committed.

Principle	Outcome/Voting Guideline
Diversity and Succession Planning	
We believe that to function and perform optimally, companies and their Boards should seek diversity of membership considering the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, as well as to reflect the diversity of society, including across race, gender, skills, nationality and background. We expect companies to be transparent about their diversity policies and encourage disclosure of breakdown of Board directors, executive directors, managers and employees by geography and skill set beyond gender reporting to encompass diversity in its broadest sense. We support reviews such as Hampton Alexander, McGregor-Smith and Parker, which set goals for the representation of women and people of colour on UK Boards, executive teams and senior management. In the UK, we advocate for continued development and endorse recommendations made in the Business, Energy and Industrial Strategy Committee report on gender pay gap reporting. Along with information on gender pay gaps, we expect companies to disclose the initiatives they have in place and the action they are taking in order to close any stated gap. We encourage companies with below 250 employees to consider gender pay gap disclosure where practical.	We will engage with companies to continue to improve disclosure on diversity, including gender diversity. We may vote against the financial statements and statutory reports of companies that provide inadequate disclosure on diversity or may escalate this to withdraw support for the chair's re-election In the UK, we will vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap.
Across all markets, we will engage with companies to seek progress on gender diversity at Board and executive team level, as well as promoting gender diversity throughout the organisation. As members of the 30% Club and supporters of the Diversity Project, we strongly believe that UK Boards should aim to achieve at least 33% female representation on FTSE 350 Boards by 2020, as set out in the report Women on Boards: 5 year summary by Lord Davies, and the findings of the Hampton-Alexander review, proposing that by 2020 at least 33% of the members of executive teams at FTSE 100 companies should be women. Given the proximity of the target year to achieve these levels, we expect companies to already have achieved a minimum of 30% female representation on Boards and 25% on their executive teams.	In the UK, in 2019, we will vote against the election of the chair of the nomination committee of FTSE 350 companies where women or men comprise less than 30% of the Board, and against the chair of smaller companies with no female or male Board representation. We will vote against the chair of the nomination committee of FTSE 100 businesses which have no women or men on their executive teams, and expect to increase this threshold in 2020. Consideration may be given where a credible plan is in place to rectify low levels of gender

Principle	Outcome/Voting Guideline
If not at these levels, we expect companies to outline clear credible plans to achieve them. We look favourably on companies who seek to improve diversity across all executive committee functions, expanding beyond common support functions where diversity currently tends to be higher, such as HR, communications, marketing and treasury.	diversity or where a company is faced with exceptional mitigating circumstances such as a sudden departure. We will be working closely with the <u>30% Club</u> and <u>Diversity Project</u> to promote diversity on Boards and within the pipeline.
A Board capable of drawing on a range of thought, experience & expertise is a Board that can engage with an increasingly diverse range of stakeholders. Nomination committees of all FTSE 100 and FTSE 250 companies should require their human resources teams or search firms (as applicable) to identify and present qualified people of colour to be considered for Board appointment when vacancies occur. We support the recommendations of Sir John Parker that from 2021 FTSE 100 Boards should have at least one director of colour and by 2024 FTSE 250 Boards should have at least one director of colour. We expect to see disclosure from companies on how they consider and promote ethnic diversity.	We will be engaging with companies during 2019 to improve disclosure and diversity of ethnicity. In 2020 we will consider voting against the election of the chair of the nomination committee of businesses that are not on track to achieve the recommendations of the Parker review.
Robust succession planning at the Board and senior management level is vital to safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes. Succession plans should seek to build a diverse pipeline of candidates from within the organisation, with appropriate consideration given to promoting diversity and inclusion, including across race, gender, skills and backgrounds.	We may vote against the chair of the nominations committee, or other relevant resolutions, if there is insufficient evidence of robust succession planning.
Effectiveness, Evaluation & Election Process	
Companies should continually assess the effectiveness of their Boards to ensure they are operating optimally, with the right governance structures. This should include independent evaluation at regular intervals, with honest and transparent reporting to shareholders on the main findings and the steps needed to address any issues. To preserve the Board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote.	In markets where companies are not required to put all directors up for annual re-election (as in the UK), we will vote for a resolution to institute annual elections for all directors.

Principle	Outcome/Voting Guideline
Independence Boards should have a balance of executive and independent non-executive directors to ensure that no single individual or small group dominates the Board's decision-making. In the UK, FTSE 350 company Boards should comprise at least half independent non-executive directors, excluding the Chair. There should be clear division of responsibilities between leadership of the Board and executive leadership of the business. Factors which may compromise the independence of individual directors include: • Long tenure: a director's ability to act independently can be eroded by long tenure, for example, above 10 years • Significant shareholdings or share options in a company or being a representative of a significant shareholder • Other direct or indirect material relationships with the company, other directors or its executives	We will generally vote against the election or re-election of individual directors whose presence would cause a Board or its committees to fail to meet local governance guidelines on composition. We will generally vote against the re-election of a combined CEO and Chair, the promotion of a former CEO to chair, or the election of a Chair who is not independent on appointment. We will generally support resolutions to institute a separate CEO and Chair.

Executive Remuneration

Our principles for executive remuneration are aligned with Hermes' published Remuneration Principles. The most recent iteration was published in November 2016.

Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

Simplicity Pay schemes should be clear and understandable for investors as well as executives. Pay structures should be much simpler and less leveraged than they are at present, for example taking the form of a single incentive scheme and lower variable and total possible pay. Remuneration reports must explain how alignment with long-term shareholders is achieved.

Shareholding The executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success. Significant shareholding requirements for directors should remain in place for a specific period of time following departure from the company, with no share sales allowed for at least one year.

Alignment and quantum Pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership. Pay is often too high and pay schemes often seem to pay out significant sums which conflict with many shareholders' and other stakeholders' views of performance. Boards should be able to justify to investors, the workforce and the public the rationale for the CEO's and the most senior management's pay, taking account of the pay of the wider workforce. If they are not able to do so, directors should use their discretion to adjust actual or potential pay downwards. The rules of pay schemes should support this.

Accountability Remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of, or drop in the reputation of the company. Remuneration committees should take a more robust view on pay, using their judgement and being accountable for their decisions. They should avoid paying more than is necessary and not place too much reliance on existing practice and benchmarking which help to perpetuate many of the problems that we seek to address. The potential outcomes of a pay policy should be rigorously scenario tested with a cap on the total possible pay published in advance, to help reduce the risk of unintended consequences.

Stewardship Companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration. Executives should be encouraged to achieve strategic goals, rather than focus attention on total shareholder return or stock price appreciation. They should take account of the company's effect on key stakeholders.

Behaviour The most senior executives should willingly embrace the approach we have described. If they do not, boards should consider the implications. Remuneration committees must take responsibility for the design, disclosure and dialogue on executive pay and we will hold them accountable for this.

Principle	Outcome/Voting Guideline
Clawback/Malus	
Companies should include provisions and specify the circumstances in which the committee would consider appropriate to recover sums paid or to withhold payment of any sum.	We will vote against the remuneration report and policy where there is not a provision for clawback and malus or where deemed insufficient.
Recoupment should be sought for inappropriate financial reporting, deceptive business practices and from any senior executive whose behaviour caused direct financial harm to shareholders, reputational risk to the company or resulted in criminal investigation.	
Fixed vs. Variable Pay	
To reduce risk-taking, increase transparency and reduce excessive levels of pay in any one year, we wish to see a lower variable pay opportunity relative to fixed pay. We will therefore look carefully at the ratio of variable to fixed pay.	Variable pay of more than four times base salary is concerning and may result in engagement. Variable pay of more than eight times is considered excessive and will likely result in a vote against the remuneration policy and subsequent remuneration reports.
Living Wage	
We are supportive of encouraging adoption of a living wage or pay packages of equivalent value in driving stability and productivity of the workforce. Where appropriate – for example, where existing reward packages, including benefits like pension contributions, do not meet or exceed the value of the living wage – we encourage companies to become accredited by the Living Wage Foundation . We would not expect adoption to be at the detriment of existing benefits to staff and to result in a worse position overall.	We may consider voting against remuneration reports of companies where, through our engagement, we identify risks relating to workforce pay levels.
Measurements	
Pay should be aligned to the long-term strategy and the desired corporate culture throughout the organisation.	We may vote against remuneration policies and

Principle	Outcome/Voting Guideline
The remuneration committee should consider strategic, financial and non-financial measurements. Companies should exclude the potential short-term effects of share buybacks on reward outcomes. Adjustments should be made to earnings per share (EPS) metrics used in incentive plans. Targets for mitigating and managing material E&S risks and impacts should also be considered in the assessment of annual bonuses to prevent short term financial gains from impacting longer term targets and sustainability of the company. These should be a meaningful amount to the level of risk – targets should not be perverse, e.g. reserves replacement ratios.	reports which have an over-reliance on metrics that do not reflect long-term sustainable growth or which over-emphasise shareholder returns.
Pay Ratio Disclosure of CEO to employee pay ratios is an important new section of the annual remuneration report. We encourage early adoption by companies and the use of 'Option A' for calculating the ratios, whereby companies determine the full-time equivalent total remuneration for all UK employees and identify the 75th, 50th and 25th percentile employees, rather than using other indicative data such as gender pay gap data.	We will be engaging with companies on this topic in 2019. Failure to meet mandatory requirement to disclose by 2020 will result in a vote against the remuneration report.
Remuneration Reporting We expect clarity in the reporting of remuneration structures and practices. This includes disclosure of targets under incentive schemes either in advance or within a year following the end of the relevant reporting period, with full justification for any lack of disclosure, which is usually only acceptable for a time-limited period, typically of one year. We endorse the guidance provided by the GC100 and Investor Group and the principles and provisions of the Code.	We will be engaging with companies to improve disclosure. Where disclosure against a metric is deemed commercially sensitive we expect a full explanation why it hasn't been published.
Remuneration Committee Remuneration committees should ensure that remuneration structures and practices are relevant to their businesses, appropriate in the context of policies and practices for wider workforce pay and incentives, aligned to the company's purpose and values, and support the delivery of its long-term strategy and the creation of sustainable value. We expect remuneration committees to exercise discretion to ensure total awards – including the unforeseen outcomes of performance-based schemes – remain appropriate.	We may vote against the election of the chair of the remuneration committee where we believe they have failed to exercise their responsibilities, including where remuneration practices materially fail to meet our expectations.

Principle	Outcome/Voting Guideline
Shareholding Requirements It is desirable for shareholding requirements to increase to a minimum of: • 500% of salary for FTSE 100 • 300% for FTSE 250 • 200% for all other companies We also encourage incentive structures that increase employee shareholding and cascade ownership and alignment through an organisation. We expect to see remuneration committees develop formal policies for post-employment shareholding requirements, encompassing vested and unvested shares, for a reasonable period of time. We would suggest this is no less than three years.	We will vote against policies where requirements are not at least 300% (FTSE 100) or 200% (FTSE 250).
Structure and Fairness Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company. Base salary should not increase significantly without clear, compelling and exceptional justification. We do not believe that a bonus should be paid where a department is directly linked to a catastrophic incident. We are not supportive of pay-outs which do not support the long-term success.	We may vote against the election of the remuneration committee chair and members accountable for questionable pay policies or inappropriate outcomes.
Quantum Boards should be able to justify to the workforce and the public the rationale for pay awards to management and, if they are not able to do so convincingly, should use their discretion to make adjustments. We expect remuneration committees to exercise discretion to ensure total awards – including the unforeseen outcomes of performance-based schemes – remain appropriate.	We will review on a case-by-case basis whether executive pay outcomes are considered excessive and unjustifiable.

Audit

The audit process is vital to ensuring the integrity of company reporting ensuring presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

Principle	Outcome/Voting Guideline
Audit Committees Audit committees play a critical role in overseeing the audit process and ensuring the quality of reporting to investors. They should describe to investors the key aspects of their work, including descriptions of the following: • The significant issues considered and how they were addressed • How the audit committee assessed the effectiveness of the internal and external audit process and how it sought to remedy any concerns • The committee's approach to the appointment and reappointment of the auditor, including an explanation of how auditor objectivity and independence are safeguarded Audited accounts should show a true and fair view of profit or loss and assets or liabilities, including but not limited to climate-related liabilities.	We will vote against the annual report and accounts where transparency is lacking and there is insufficient explanation. We may vote against the chair of the audit committee if a viability statement does not cover a period of at least three years.
Auditor Fees Fees for external audit should be disclosed in the annual reporting. In general, non-audit fees should not exceed 50% of the audit fees.	We do not support non-audit fees in excess of the audit fee and will vote against proposals authorising the Board to fix fees unless these are clearly justified.
Auditor Independence If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders and resignation letters should be posted on the company's website. We see compliance with the Audit Directive as a minimum standard. In the UK, this requires mandatory auditor retendering at 10 years and mandatory rotation after 20 years for major companies. We expect companies to exceed this minimum expectation, and to put the role	We will vote against the chair of the audit committee for companies that fail to meet minimum audit rotation guidelines, or where we have material concerns about audit independence.

Principle	Outcome/Voting Guideline
of the external auditor to tender on a regular basis, ideally every 7 years, with rotation every 15 years. Where the audit firm is rotated, the personnel who assume responsibility for conducting the audit should not be the same personnel (for example, situations could arise where an audit partner moves firms) and the incoming partner should be named in the Audit Committee report. There should be a period of at least five years before an audit firm can be re-appointed. There should be no “Big four only” restrictions implemented in audit firm tenders, where smaller firms have the scope to audit, and companies should resist the imposition of such requirements by lenders or others.	
Bribery and Corruption Boards should ensure that companies have best practice anti-bribery and corruption policies and processes in place. There should be robust compliance mechanisms to enforce them. Boards should oversee the bribery and corruption controls and set the right tone to ensure the highest ethical standards and adherence to their company values.	We will vote against the financial statements and statutory reports where there are concerns of fraud or material misstatement.
Cyber Security Risks relating to data security and privacy have increased substantially and are increasingly important to investors, companies and regulators. We support research and initiatives to promote corporate awareness and action on cyber security. Boards must take the right steps to protect the company, particularly in high risk sectors. We support Boards that take a proactive stance on cyber-security internally and through the supply chain. Cyber security should be a regular Board discussion agenda item, where there is an incident, we expect this to be disclosed to the market and customers in a timely manner.	We will be engaging with companies on their approach to cyber security and support Boards that take a proactive stance. We support attainment of the Cyber Essentials Badge.
Internal Control The Board’s internal control statement should provide shareholders with a clear understanding of the company’s internal control and risk management processes.	We will vote against the report and accounts where internal controls do not include substantial explanation and level of detail.
Whistleblowing The ability for a person to disclose any kind of information or activity that is deemed illegal, unethical, or not correct within an organisation, that is either public or private, is in	We will consider voting against the audit committee chair where there are

Principle	Outcome/Voting Guideline
the public interest and that of investors. We expect companies to have a whistleblowing policy that aims to safeguard any whistleblower's identity. Staff should be made aware of the policy, which should be publicly disclosed and open to third-party use.	concerns over the deficiency in risk oversight on whistleblowing.

Protection of Shareholder and Bondholder Rights

We seek the protection of shareholder and bondholder rights, including the right to access information, equal treatment and propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the ability to vote distinctly on the general and enhanced authorities to issue shares as separate items on the agenda of shareholder meetings. We also support adherence to the highest possible standards on listed stock exchanges.

Principle	Outcome/Voting Guideline
Mergers & Acquisitions/ Commercial Transactions/ Joint Ventures	
When voting on a commercial transaction, we will consider the following: • Governance: Including the extent to which due process is followed and information is made available to shareholders • Consistency with strategy: Whether the transaction is consistent with the prior stated strategic aims of the company • Risks: The key risks to the business from the transaction and the extent to which these appear to have been managed • Conflicts of interest: Any conflicts of interest which may affect the alignment of the interests of directors or particular shareholders with those of long-term shareholders, including the following: ◦ Whether the proposal is a related party transaction and, if so, whether appropriate disclosures or other steps to protect the interests of long-term shareholders have been made ◦ Whether the transaction erodes any shareholder rights, which may occur under anti-takeover provisions ◦ Any potential conflict of interest concerning the directors' duty to act in the interests of shareholders, in particular, as these may arise from either existing or newly applicable remuneration arrangements.	Please refer to our Mergers & Acquisitions section above for further detail on our approach to voting.

Principle	Outcome/Voting Guideline
Responsiveness to Shareholders Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions, and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company. When 20 per cent or more of votes have been cast against the Board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. We believe that for some resolutions lower levels of dissent would be an indication of concern and a response by management by wholly warranted. Engagement between companies and shareholders can provide a constructive forum to discuss points of contention and development before they come to a vote. We generally believe companies should be responsive to shareholder concerns. We will consider our own experience with asset managers when voting resolutions.	
Share Capital Management We support measures to protect the value of each share issued to shareholders, including on the following matters: • Pre-emption rights: We believe the rights of existing shareholders should be protected against the erosion of value or control without their prior approval. We will therefore only support the waiver of pre-emption rights in limited circumstances. General Authority to issue shares should be limited to two-thirds, with any issuance over one third applying pre-emption rights. Any request to increase the authorised share capital without pre-emption rights should be limited to 5%. A max of 10% is supported where the additional 5% is for the purpose of financing an acquisition or a specified capital investment • Share buy-backs: We encourage companies to provide explicit assurance to shareholders that share buybacks are only conducted in the best interests of all shareholders. Buybacks should be limited to 15% of the issued share capital in any given year. Companies should exclude the	

We may vote against director election when responsiveness to shareholders is considered to be poor.

We will only support the waiver of pre-emption rights in limited circumstances.

Principle	Outcome/Voting Guideline
potential short-term effects of share buybacks on executive remuneration. Adjustments should be made to earnings per share (EPS) metrics used in incentive plans. Where a buyback triggers Rule 9 of the takeover code where there is a significant shareholder, companies should ensure that a buyback does not result in a significant shareholder's holding increasing. We generally would not support a dispensation to Rule 9 under these circumstances.	We will generally vote against Rule 9 waivers.
Share Class Structures	
We advocate for 'one share, one vote' share class structures, and generally do not support the dilution of minority rights through multiple class shares.	We will vote against resolutions which reduce this right and vote for resolutions which introduce this right.
Share Dilution	
Dilution of shareholders through the issuing of shares to employees can represent a significant transfer of value. Dilution limits are an important shareholder protection and should be respected. The rules of a scheme must provide that commitments to issue new shares or re-issue treasury shares, when aggregated with awards under all of the company's other schemes, must not exceed 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10-year period.	We will generally vote against the remuneration report where dilution limits are not adhered with.
Remuneration Committees should ensure that appropriate policies regarding flowrates exist in order to spread the potential issue of new shares over the life of relevant schemes in order to ensure the limit is not breached. Commitments to issue new shares or re-issue treasury shares under executive (discretionary) schemes should not exceed 5% of the issued ordinary share capital of the company (adjusted for share issuance and cancellation) in any rolling 10-year period.	
Political & Trade Association Donations	
We do not support direct political donations to political parties or individual political candidates by companies. As contextualised by PLSA a blanket ban on donations, due to the legal definition of this term, could prevent donations to charities and educational causes, and would also preclude all party parliamentary groups.	We will consider on a case-by-case basis voting against the authority to make political donations, particularly where there is no cap on the level of donations and/or disclosure is not adequate.

Principle	Outcome/Voting Guideline
Companies should fully disclose all political contributions along with an explanation on how it benefits the company. There should be increased transparency around memberships of and monies paid to trade associations and lobbying groups and direct lobbying activity and indirect via trade associations. Transparency should include: • Clear explanations of how each association, contribution and action etc. benefit the causes of the company • A public statement from the company outlining where it disagrees with the associations of which it is a member on a particular issue, and the reasons why it believes it to be beneficial to remain a member	
Virtual/Electronic General Meetings Physical shareholder meetings are fundamentally important to the exercise of shareholder rights and for publicly holding Boards accountable to all their shareholders. We see the benefit technology can play in increasing investor participation at general meetings as an extension of the physical meeting. We believe that such technology should be used in conjunction with physical meetings. A move towards virtual only meetings is not favoured due to potential reduced levels of engagement and the potential risk it appears companies are attempting to filter questions. We encourage companies to explore the use of technology such as block chain to improve voting and confirmation.	We will vote against proposals allowing for the conveying of virtual-only shareholder meetings.
Transparency Companies should adopt an open approach to the public disclosure of information, within the limits of what can be disclosed, in a way that allows investors to understand the main risks that the Board has identified for the business and how the company manages and mitigates them. Improved transparency fosters informed voting and engagement. It allows for better integration of ESG into investment, particularly where companies might not currently comply with best practice.	We will be engaging with companies and policy makers to improve transparency.

Annex 1

Stewardship Codes Compliance Statement

This annex summarises how the policy meets the Stewardship Code expectations of the UK Stewardship Code, but also other codes internationally.

Policy Commitment	Brunel fully follows this principle:	And in practice:
1. Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	Our Stewardship approach is outlined in the above policy. Stewardship responsibilities extend to all assets held by Brunel. Brunel has published policy documents which details how we discharge our stewardship responsibilities. This includes, but is not limited to our Responsible Investment Policy and Stewardship Policy which contains our Voting Policy .	Our website has a dedicated area detailing our stewardship activities, this is updated regularly. All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. Our summary on Stock Lending is detailed above. Our Stewardship policy will also be available on the Brunel website.
Conflicts of Interest	Brunel fully follows this principle:	And in practice:
2. Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly available	Our approach to Conflicts of Interest is captured in the above policy.	Conflicts of interest are highlighted in our investment management agreements (IMA's) and contracts with external parties. Declaration of conflict of interest is a standing agenda item for board committees and is detailed in terms of reference for departmental committees. An annual report is submitted to risk and compliance who undertake an annual review.
Corporate Engagement	Brunel fully follows this principle:	And in practice:
3. Institutional investors should monitor their investee companies.	Engagement implementation will be undertaken by asset managers, our specialist provider Hermes EOS and via collaborative forums. However, Brunel will seek to undertake direct engagement	Engagement plans agreed with all managers, with progress included in quarterly reports (as appropriate). Engagement is also discussed at each fund manager review meeting.

Orientation to sustainable growth	where we feel that this will add value. Our approach to Stewardship is part of our overall approach to Responsible Investment. The aim of our RI Policy is “to deliver stronger investment returns over the long term, protecting our clients’ interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society”	Engagement and voting activity undertaken by Hermes EOS will be published on our website quarterly. We also aim to publish case studies and other adhoc reporting to enhance stewardship disclosure. Our quarterly report and Annual RI Report provides more detail in our quarterly and annual reports. Our full approach to engagement is detailed in our Stewardship Policy.
Enhancing Value & Integration	Brunel fully follows this principle:	And in practice:
4. Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	Our engagement themes are detailed in our responsible investment policy and imbedded into our voting policy. Specific objectives and targets are set in relation to engagement.	Brunel aims to be constructive and work with investee companies to resolve issues of concern. However, we will escalate our engagement activity based on risk and the companies’ response to our concerns, and those of other stakeholders. Our escalation approach is explained above.
Common understanding to solve problems. Incorporating corporate governance and sustainability considerations.	Collaboration is central to our values and our approach to all aspects of operation at Brunel. Manager policies, including those relating to engagement and escalation are reviewed prior to appointment and, during our regular review meetings. ESG issues are fully integrated into all our investment process. Our Responsible Investment Policy outlines this in more detail.	Engagement plans will be identified with each active equity manager on an annual basis. A public engagement report, detailing activity undertaken on our behalf by Hermes EOS will be made available on our website. Our portfolios are analysed using a mixture of ESG risk tools. We will work with our fund managers to address arising issues in their activities.

Working with Others	Brunel fully follows this principle:	And in practice:
5. Institutional investors should be willing to act collectively with other investors where appropriate.	Collaboration is one of the three pillars of our Responsible Investment approach. Collectively engaging amplifies impact and outcomes through utilising the scale that comes from collaboration. Brunel actively works with other pension funds, asset managers and many organisations to promote responsible investment. A list of our partnerships and affiliations is detailed on our website and Appendix 1 of our Responsible Investment Policy.	All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our annual report and accounts and our quarterly reports to our clients and pension board. Alongside the IMA's Brunel has Accord's with managers which details the partnership approach we expect and sets out how we wish to work together. Collaborative engagements contact details are RI.Brunel@brunelpp.org
Monitoring and engaging with regulators and policy makers (Canadian – CCGG Code)	We are focused on working with regulators, other institutional investors and service providers to the financial industry. UK Policy Framework is a key theme for Brunel. We will support policy makers in the development of a robust framework that promotes sustainable economic growth.	Brunel actively engages with regulators by responding to public consultations either individually or collaboratively through industry groups. Responses to consultations are published on our website.
Voting	Brunel fully follows this principle:	And in practice:
6. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy should be designed to contribute to sustainable growth on investee companies.	Brunel believes that voting is an integral part of the responsible investment and stewardship process. Our index tracking fund manager has a publicly available policy and has been delegated to vote on all the fund's shares, at their discretion. We reserve the right to direct the voting in exceptional circumstances, in line with our split voting. The implementation of our voting policy is undertaken by Hermes EOS.	We demand high standards in stewardship from our managers. Their approach and associated policies are evaluated as part of the manager selection process. Although the proxy has been removed managers are notified of recommendations and encouraged to engage as outlined in the voting process. Voting statistics are included in quarterly reports and voting execution evaluated as part of on-going manager and service provider monitoring.

	Our published voting policy outlines specific guidelines across several areas.	Full voting records will be available on our website . These will be updated no less than every 6 months.
Reporting	Brunel fully follows this principle:	And in practice:
7. Institutional investors should report periodically on their stewardship and voting activities. This report should include voting and be shared with clients and beneficiaries.	A comprehensive annual review of our activities is included in our Annual Report and Financial Statements. We also report regularly to our clients. We are committed to being open and transparent and use a variety of media to communicate with our stakeholders.	Our website provides comprehensive information on our policy commitments and evidence of implementation of our stewardship responsibilities. Public engagement reports are updated quarterly on our website. www.brunelpensionpartnership.org We require all our managers to provide us with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF01/06
Skills and Knowledge	Brunel fully follows this principle:	And in practice:
8. To contribute positively, institutional investors should have in-depth knowledge of the investee companies and their business environment with the skills and resources needed. (Japan SC Principle 7)	We have dedicated internal resource for Responsible Investment, Strategy, Policy and oversight. RI activities is integrated into all staff objectives. We believe in being an active, responsible owner. We do this directly, through our managers, through specialist service providers and through collaborations and partnerships. In-depth knowledge of investee companies is delegated to the managers that select and monitor the companies on a day-to-day basis.	The capability and performance of each manager, in assessing environmental, social and governance factors of investee companies and their business environment, is a key component of our selection and retention criteria. Monitoring of fund manager performance is reviewed and reported regularly to clients and forms part of formal annual reviews of each manager.



Getting in touch

If you have any questions or comments about this policy, please email Faith Ward, Chief Responsible Investment Officer at RI.Brunel@brunelpp.org.

For general fund manager enquiries, meeting requests and other materials (updates, newsletters, brochures and so on), please contact us on investments.brunel@brunelpp.org

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 DECEMBER 2018	AGENDA ITEM NUMBER
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes of Brunel Oversight Board meeting Exempt Appendix 2a – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 2b – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 3 – APF Risk Dashboard June 2018 Exempt Appendix 4 – Passive equities transition report Exempt Appendix 5 – Fee savings analysis Exempt Appendix 6 - Business Plan & Budget 2019/20 Exempt Appendix 7 – MHCLG update report		

1 THE ISSUE

- 1.1 This report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.
- 1.2 The Investment Panel reviewed specific investment aspects at its meeting on 12 November 2018.
- 1.3 The Fund has its own project plan for transitioning its assets to Brunel, consistent with the Brunel project plan. The Fund’s plan identifies governance and risks for the Fund and Committee.
- 1.4 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee notes:

- 2.1 the progress made on pooling of assets.
- 2.2 the updated project plan for the transition of assets.

3 FINANCIAL IMPLICATIONS

- 3.1 The management fees that Avon will pay to Brunel are included in the budget for 2018/19. They have been calculated in line with the pricing policy that was agreed for 2018/19.
- 3.2 Brunel's budget for 2019/20 is in the process of being approved by the shareholders.

4 PROGRESS UPDATE

4.1 Governance:

- a) Brunel Oversight Board (BOB) has met twice since the September update report. The minutes of September 2018 BOB meeting is attached in Appendix 1. (Minutes for November meeting not yet issued).
- b) The Client Group (CG) meets each month for a full meeting; there is also a weekly update call and 6 sub-groups working with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at weekly calls.
- c) Client Group and Brunel are drafting the KPIs for monitoring all aspects of Brunel service that will be used for reporting back to BOB and Committees. This includes the assurance framework for monitoring the transition process to ensure the process is in line with Brunel policies and the process for monitoring portfolios once managed by Brunel.
- d) Engagement days for members were held during the week of 5 November. Members from Avon's committee and pension board attended.
- e) The Autumn Progress Report submitted to MHCLG is in Exempt Appendix 7.

4.2 Investments:

- a) The selection process for the two active equity portfolios, UK Equities and Low Volatility Equities is complete, on track with timetable. The Portfolio Selection Report for the UK Equity Portfolio was reviewed by the Investment Panel at its last meeting. Avon has transitioned c. £195m of its active UK Equity assets into the UK Equity Portfolio. Mercer has confirmed that this will meet our strategic objective.
- b) The transition report for the passive equity portfolios is in Exempt Appendix 4. The Brunel Report sets out the full transition outcome. Inalytics advised Brunel on the transition and provided separate external validation of the costs.
- c) Brunel has published its Stewardship Policy which sets out how it will fulfil its role as an active investor including its voting guidelines. The policy is attached as an Appendix to the Responsible Investing item elsewhere on the agenda.

4.3 Transition Plan:

- a) Avon's project plan for the transition of its assets (see Exempt Appendix 2a) which is based on Brunel's timeline for transitioning the assets has been updated. The timing of transitioning of assets is continuously reviewed by Brunel and the Client Group to ensure Client priorities are considered. Actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Please note that this plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. Avon will only be responsible for the transition costs relating to the portfolios the Fund invests in.

- b) Avon's project plan includes a Risk Register (see Exempt Appendix 2b) of risks specific to the transition for Avon. There are no changes to this since the March Committee meeting.
- c) An update of the fee savings achieved to date from transitioning to Brunel Portfolios is included in Exempt Appendix 5.

4.4 Operational/Finance:

- a) Brunel provides BOB with a business update at each meeting which includes monitoring of the budget and the transition plan. Brunel has also prepared the Business Plan and Budget for 2019/20.
- b) Client Group and Brunel have reviewed the Original Business Case (OBC) which forms part of the business planning, for actual savings for completed transitions, cost changes and revised assumptions due to known changes. Following each transition the business case is updated with actual transition costs incurred and agreed management fee rates. A summary of the 2019/10 Business Plan and review of the OBC can be found in Exempt Appendix 6.
- c) Brunel is developing their Internal Control Environment for recording, monitoring (including compliance) and managing client assets and reporting to their clients. The systems required will be compliant with FCA standards. The Client portal is being rolled out to Clients following extensive testing.
- d) Middle office administration for the private market portfolios is operational with Colmore appointed to maintain client records for all private market assets.

4.5 The Avon Brunel Risk dashboard is in Appendix 3.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

10.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 The Investment Panel is consulted on investment related issues.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 Report is for noting.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Brunel Oversight Board Meeting

Minutes

Purpose: To review Brunel/Client progress agree next steps
Date and time: Thursday 27 September 2018, 10:30 – 13:00
Location: Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
Dial-in details: Dial In: 0330 336 1949 | Participant Pin: 566525

<i>Pension Committee Representatives</i>		
David Veale	Avon	
John Chilver	Buckinghamshire	
Derek Holley	Cornwall	Phone
Ray Bloxham	Devon	
Peter Wharf	Dorset	Apologies
Joanne Segars	EAPF	Apologies
Hywel Tudor	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair - Apologies
Mark Simmonds	Somerset	
Tony Deane	Wiltshire	
<i>Member representative observers</i>		
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	
<i>Fund Officers and Representatives</i>		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	Phone
Mark Gayler	Devon	
David Wilkes	Dorset	Phone
Craig Martin	EAPF	
Mark Spilsbury	Gloucestershire	
Sean Collins	Oxfordshire	Chair – CG
Nick Weaver	Wiltshire	
Jenny Devine	Wiltshire	
Nick Buckland	JLT – Client Side Executive	
Sophie McClenaghan	JLT – Client Side Assistant	Minutes
<i>Brunel Pension Partnership Ltd</i>		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Matthew Trebilcock	Brunel, CRD	
Dawn Turner	Brunel, CEO	
Joe Webster	Brunel, COO	
Mark Mansley	Brunel, CIO	
Faith Ward	Brunel, CRIO	Item 5 only

David Anthony	Brunel, CFO	
Laura Chappell	Brunel, CCO	Item 4 only

Item	Agenda	Paper provided	Owner
1	Apologies and welcomes Confirm agenda Requests for AOB Any new declarations of conflicts of interest	Agenda C of Interests	Chair
	Apologies were received from Joanne Segars, Kevin Bulmer and Peter Wharf. NW introduced Jenny Devine who will be taking over from him at Wiltshire. No AOB was received. No new conflicts of interest were received.		
2	Review 18 July BOB minutes Matters arising - SRMs	Minutes	Chair
	A query was received from HT around the level of detail included in the July minutes and whether the exact figures should be included. It was noted that the minutes were written to be publically available and as such, in some instances, are deliberately light in detail. Any supporting figures will be included in the supporting documentation. The July minutes were agreed and confirmed as final. <u>Matters arising</u> Two shareholder reserved matters requests (SRMs) were issued in July, both of which required 100% shareholder approval. - Private markets – approved - Remuneration policy – consisted of 4 items - Maximum chair and NED payments – approved - Recognition awards - rejected - Salary caps linked to CPI - rejected - External review, once every 2 year – approved Brunel has confirmed it can continue to be operational for this year (to the end 31 March) without the two remuneration policy items having been approved.		
3	Pricing Policy	Report	DT/JW
	The original interim pricing policy expires in March 2019, however the review needs to be brought forward as the ACS is not included in the		

	current policy. The paper presented was designed to be futureproof by detailing the high level principles of the pricing policy rather than exact detail. MG noted that the original pricing policy was always intended to be an interim policy during the set up of Brunel. He confirmed that the CG had reviewed the document and believes the principles are fair and appropriate. It was queried whether the CG are happy with the definition of direct costs. MG and MS confirmed this has been reviewed by the CG. It is a requirement of the shareholders agreement that Brunel provide a pricing schedule to Clients for the following year by the end of February. The Clients will receive invoices to provide evidence of the Brunel costs. Investment management fees within the ACS will be will be charged as units but Clients will receive statements that will detail the amounts. The CG will bring the draft reporting templates to BOB before they are finalised. The costs will be reported in the business plan which will also come to BOB for approval. Track changes had not been used for this policy as this was a significant rewrite from the previous version; however, the main changes were highlighted in the cover report. The BOB supported the recommendations included in the cover report. I. The Oversight Board support the revised Pricing Policy and the issuing of a Special Reserve Matter.		
4	Business Plan • Draft Business Plan • Business Case Review • Transition Plan options	Report and presentation	DT/JW
	DT provided an overview of the business case review via a presentation. It was noted that the figures included in the report have been calculated using a sophisticated financial model. The FSG had not yet scrutinised and audited the model and they would be doing so the following week during a full day meeting. The original business case demonstrated that pooling would be advantageous to Clients. Brunel has updated the business case to reflect its position today, then it is evaluating how Brunel can proceed going forward. MS noted that the FSG has invited any additional CG members to attend the upcoming meeting, and that three additional CG members will be attending the FSG model validation session.		

	The UK active equities transition resulted in investment management fees of around 50% of the original estimate. Part of the reason for this high level of saving was the full procurement exercise that was undertaken. However because of this, where Brunel had originally estimated that each selection process would take 6 months per portfolio, it revised its estimates to around 9 months. This was a key learning point for future transitions. In addition to the desire to do a fully transparent procurement, FundRock, the ACS provider will require Brunel to undergo a significant level of due diligence. DT highlighted that in addition to the lack of resource identified within Brunel the underlying Funds have also struggled to meet timelines. The open, transparent tender process meant that Brunel can build up research on all managers in that area. Portfolios include a blend of managers so mitigate the risk of a manager underperforming. Brunel is using other companies' assessments such as Inalytics. MM was keen to point out that they didn't select a manager because of the lowest fee, the weighting is quite low for fees in the selection process, they attempt to find the best managers and then negotiate on fees. Brunel presented three potential options for the transition of assets two of which resulted in some delay in the remaining portfolios. Option 2 was highlighted as the favoured option. It was also noted that the UK and Low Vol portfolios were completed early, transitioning in November 2018 rather than in July 2019, as per the indicative timetable in the original business case. In addition the private markets portfolios have been brought forward vs the business case. Brunel doesn't believe option 3 is deliverable, as it will take time to get additional resource. Option 2 is indicative. Option 1 pushes out the business plan to 2024 which Brunel and the CG think is too far to produce the benefits. Option 2 is a halfway house but the assumptions are to be assessed by the FSG and then the timetable will be finalised. Brunel and the CG are looking for support from BOB that options 1 and 3 are not attractive and that the direction of travel that should be further explored is option 2. It was asked whether the right resource was available. DT responded that this was the issue with option 3, Brunel and the CG do not believe recruitment can happen fast enough to make option 3 feasible, however it is believed that option 2 is a reasonable lead time, and, to date. Brunel has not had any problems with recruitment. DH asked if next year there will be another set of delays. SC as Chair of the CG noted that the CG has emphasised to Brunel that the business plan in November needs to be a realistic timetable and therefore needs to include sufficient recourse. The UK and Low Vol portfolios are the first time the process has been thoroughly tested; previous timeframes have been	

	based on estimates. LC joined the meeting and provided an overview of the impact regulation has caused. MiFID II has put some robust and painful requirements around transparency on the entire firm in addition to the day to day work. The ACS vehicle also brings with it additional regulatory requirements; however this method reduces the tax burden significantly. LC left the meeting. A question was asked on "Overlay services", and these were described as bring more bespoke to individual funds such as LDI or TAA. BOB agreed that option 2 is the favoured direction of travel and supported Brunel refining the detail with examination of the figures from the FSG, to be presented at the 1 Nov BOB meeting. The timeline was highlighted as the new business plan being presented to the BOB meeting on 1 November, and provided it was agreed, the business plan will be incorporated in the engagement days 5, 6, and 7 Nov. this will provide addition opportunity for the shareholder reps to ask any questions. A Special Reserved Matter Request will be issued after the engagement days on 8 November with shareholders having 20 business days to respond. It was emphasised that the agreement of this SRM is crucial to Brunel's on-going operation so Brunel requested that Funds raise any potential issues early. It was requested that Brunel send this timetable to the shareholder reps notifying them of the process and indicating the significance. The notice should indicate that this was agreed in March. It was noted that it is the CG representatives' role to keep the shareholders informed throughout this process. The BOB supported the recommendations included in the cover report. I. The Oversight Board note the figures included in this report are indicative and although they provide a robust view of the potential outcomes they still require the detailed assurance review by the Financial Services Group (FSG) II. ii. The Oversight Board note the progress made on the full review of the Original Business Case. III. iii. The Oversight Board note the lessons learnt from establishing the first three portfolios within the core markets and the implications for the core markets transition plan. IV. iv. The Oversight Board noted the options under consideration and resolved to ask Brunel to incorporate a worked up option 2 into the Business Plan to be presented to the Oversight Board 01 November	Brunel

	2018.		
5	Stewardship policy	Paper	FW/MM
	FW joined the meeting and presented the Brunel policy. She highlighted that it had been written for multiple audiences which is why definitions are included in text boxes. The RI sub Group have extensively reviewed the policy but have not highlighted any fundamental issues. The policy will be published in November so FW asked for any comments by end October, however this is a dynamic document and will evolve over time. The policy goes above and beyond the UK Stewardship Code as Brunel is a global investor. The Policy incorporates issues from other regions, particularly any areas Brunel believes may be incorporated in the UK stewardship code in the next year. There will be a slight adjustment in the wording around the split voting to make it stronger. Stock lending won't be available until early 2019 so the policy will come out towards the end of the year. Brunel will provide a paper indicating the stock lending discussion factors for the end October. The stewardship policy and stock lending will be discussed at the November engagement days. FW is happy to draft the individual stewardship statement should Funds wish. IB requested that it was made clear that shareholder resolutions shouldn't attempt to influence the business plan of companies. FW agreed to make that reflection, but some judgement calls will be required.		Brunel
6	AOB Future meeting dates - 1 November 2018 - Agree next year dates Engagement days - Oxford - Mon 5 Nov - Bristol - Tue 6 Nov - Exeter - Wed 7 Nov		Chair
	MT attended the CPCG on 26 September 2018, and a meeting of Chairs of Funds had been scheduled by the LGA to look at Infrastructure. MT noted that if Chairs haven't been invited they should ask their officers to contact Jeff Houston at the LGA. JLT and Brunel agreed to plan next year's BOB meeting dates.		Chairs/ Officers JLT/ Brunel

	The engagement days are open to all attendees. BOB members were encouraged to promote the dates to Committee and Board members.	All

Produced: JLT on 02/10/2018

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Brunel – Avon Pension Fund Risk Dashboard

Governance & Legal

Risk Area	Aspects	Status
Council sign off of Full Business Case	1Q2017	Complete
Key legal documents	Articles of Association, Shareholders Agreement, Services Agreement, Pricing Policy, Remuneration Policy, Exit Policy, Funding Policy	Complete
Avon representation	- Committee representative on Oversight Board - Officer representatives on Client Group	Complete

People & Resources

Risk Area	Aspects	Status
BPP company set up on track	- Chair and NED appointments - Company set up	Complete
Staffing implications	- Brunel Staff recruitment - Resourcing of APF team - Governance and Risk Manager	Amber Amber – in progress

Processes and providers

Risk Area	Aspects	Status
Relationship management	Identify all contract and specification changes (advisors, managers, custodian during transition)	Green - Ongoing
Custody contract	Transitioned to new custodian Dec 2017	Complete
Client Group activity (CG)	- Portfolios - CG sub groups established for next phase to focus on key areas: - Accounting - Financial - Service Delivery - Investments - Responsible Investing - Strategic & Governance	Green Avon will be represented on the financial, investments and RI subgroups
Internal process /policy change	Cash Management, Rebalancing, Custody processes, Investment management and reporting	Green – in progress
Transition of assets	- Agree transition plan - Monitor transition plan, transitions, risks and costs/savings	Amber Green – Avon project plan; Brunel providing reports to capture costs and analyse transitions to Brunel portfolios

Budget & expenditure

Risk Area	Aspects	Status
Clarity on budget agreed as part of Original Business Case	- Budget update reported to Oversight Board and Client Group 2019/20 Business Plan agreed by Shareholders	Green – ongoing
APF budget for Brunel costs 2018/19	- Investment and operational costs of Brunel included in APF budget - Governance costs of supporting Client side work included separately	Green – Brunel investment management fees in 2018/21 service plan; CG support in governance costs
Delivery of OBC objectives - costs/savings	- Will be monitored as part of client reporting suite - Client Group to review costs against OBC	Green – reporting to BOB began 2018 including actual costs vs. budget. Green – ongoing after each transition

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1975/18

Meeting / Decision: Avon Pension Fund Committee

Date: 7th December 2018

Author: Liz Woodyard

Report Title: Brunel Pension Partnership – Update on pooling

Appendix 1 – Minutes of Brunel Oversight Board meeting

Exempt Appendix 2a – Project plan for transition of Avon's assets to Brunel portfolios

Exempt Appendix 2b – Risk Register for transition of Avon's assets to Brunel portfolios

Appendix 3 – APF Risk Dashboard June 2018

Exempt Appendix 4 – Passive equities transition report

Exempt Appendix 5 – fee savings analysis

Exempt Appendix 6 - Business Plan & Budget 2019/20

Exempt Appendix 7 – MHCLG update report

The Appendices to the Report contain exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

- 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and would prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1959/18

Meeting / Decision: Avon Pension Fund Committee

Date: 7 th December 2018

Author: Liz Woodyard

Exempt Report Title: INTERIM ACTUARIAL VALUATION 2018

Exempt Appendix Title:

Exempt Appendix 1 – 2018 Funding review report (Workshop presentation)

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

- | |
|---|
| <p>3. <i>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</i></p> |
|---|

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt Report and Appendices contains strategic and financial information about the proposal, which is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 DECEMBER 2018	AGENDA ITEM NUMBER
TITLE:	INVESTMENT PANEL ACTIVITY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 12 November 2018 EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 12 November 2018		

1 THE ISSUE

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel has held one formal meeting since the September 2018 Committee meeting, on 12 November 2018. The draft minutes of this meeting provides a record of the Panel's debate before reaching any decisions or recommendations and can be found in Appendix 1 and Exempt Appendix 2.

2 RECOMMENDATION

- 2.1 That the Committee notes the Panel's decisions as recorded in the meeting minutes.**

3 FINANCIAL IMPLICATIONS

- 3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.
- 3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

- 4.1 Two decisions were made by Panel at the 12 November meeting, details of which can be found at the appendices to this report.

5 INVESTMENT PANEL DELEGATION

- 5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

- 1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
- 2. Review the Statement of Investment Principles and submit to Committee for approval.*
- 3. Report regularly to Committee on the performance of investments and matters of strategic importance*

and have delegated authority to:

- 4. Approve and monitor tactical positions within strategic allocation ranges.*
- 5. Approve investments in emerging opportunities within strategic allocations.*
- 6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
- 7. Approve amendments to investment mandates within existing return and risk parameters.*
- 8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
- 9. Delegate specific decisions to Officers as appropriate.*

6 RISK MANAGEMENT

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.
- 6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability

Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary as the report is primarily for information only.

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	none
Please contact the report author if you need to access this report in an alternative format	

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AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Monday, 12th November, 2018, 2.00 pm

Members: Councillor Patrick Anketell-Jones (Chair), Councillor David Veale, Councillor Rob Appleyard, Pauline Gordon and Shirley Marsh

Advisors: Steve Turner (Mercer) and Ross Palmer (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager) and Nathan Rollinson (Assistant Investments Manager)

24 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

25 DECLARATIONS OF INTEREST

There were none.

26 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Mary Blatchford.

27 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

29 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

30 MINUTES: 10 SEPTEMBER 2018

The public and exempt minutes of the meeting of 10 September 2018 were approved as a correct record and signed by the Chair.

31 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2018

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

Mr Turner presented the Mercer Performance Monitoring Report. He drew attention to Unigestion's stellar outperformance during the period; they had made excellent

returns in a falling market because their low volatility approach favours stocks that did well in that environment.

Before considering the Mercer Risk Management Framework Quarterly Monitoring Report, the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the consideration of this report, and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined by paragraph 3 of Part I of Schedule 12A of the Act as amended.

After the Panel had returned to open session, Mr Turner presented three Mercer papers: “Is there a Bear Market on the Horizon?”, “Political Risk: ‘Big Things’ lie ahead” and “From QE to QT”.

Members noted Mercer’s view that there would be a higher volatility environment for some time. The Head of Business, Finance and Pensions agreed that the political dynamics of an increase in nationalism and populism were likely to cause high volatility into the next valuation, and it would be difficult to assess the likely impact on economic growth. Incorporating the right balance between investment growth and liquidity into the strategy would be a challenge.

The Chair asked how the review of the investment strategy would be co-ordinated with the transition to Brunel. The Investments Manager replied that the review of strategy will have to take into account the timeline of the Brunel transition. The new strategy would take some time to implement. If a suitable Brunel portfolio did not exist to enable the Fund to implement part of its strategy, she would want to start discussions with them as soon as possible.

A Member said that the Panel had noted that sometimes the approach of one manager complemented that of another. She wondered how that kind of linkage could be implemented through Brunel. The Investments Manager replied that this can be done through Brunel; their proposed UK equities portfolio, for example, contains managers of quite contrasting styles. Brunel can tweak the allocation between the different managers in a portfolio depending on their view of the market and how each managers style will perform in that environment; this is an important means by which pooling can add value over the longer term.

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

32 DIVERSIFIED GROWTH FUNDS UPDATE

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the consideration of this item, and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined by paragraph 3 of Part I of Schedule 12A of the Act as amended.

After discussion the Panel **RESOLVED** to approve the officer recommendations with amendments.

33 CASH MANAGEMENT - EXCHANGE-TRADED FUND SOLUTION

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the consideration of this item, and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined by paragraph 3 of Part I of Schedule 12A of the Act as amended.

After discussion the Panel **RESOLVED** to approve the officers' recommendations.

34 UPDATE ON POOLING OF ASSETS

The Investments Manager presented the report.

Before considering the appendices the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the consideration of this item, and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined by paragraph 3 of Part I of Schedule 12A of the Act as amended.

After discussion the Panel **RESOLVED** to note:

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

35 WORKPLAN

RESOLVED to note the Panel workplan to be included in the Committee papers.

The meeting ended at 4.10 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	7 DECEMBER 2018
TITLE:	INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 September 2018)
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Quarterly Investment Review Appendix 3 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level; and policy and operational aspects of the Fund.
- 1.2 This report contains performance statistics for periods ending 30 September 2018.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1 **Note the information set out in the report**
- 2.2 **Note LAPFF Quarterly Engagement Report at Appendix 3**

3 FINANCIAL IMPLICATIONS

- 3.1 The returns achieved by the Fund from 1 April 2016 will affect the next triennial valuation in 2019. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

- 4.1 Using information provided by the Actuary, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. **It should be noted that this is just a snapshot of the funding level at a particular point in time.**
- 4.2 Key points from the analysis are:
- (1) The funding level has remained steady over the quarter at c.97% (based on 2016 valuation assumptions).
 - (2) Positive returns on assets (particularly from developed market overseas equities and infrastructure) offset an increase in the present value of the liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

- 5.1 The Fund's assets increased by £72m (c.1.7%) over the quarter ending 30 September 2018 giving a value for the investment Fund of £4,782m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to benchmark is summarised below.

Table 1: Fund Investment Returns

Periods to 30 September 2018

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	1.7%	5.6%	10.0%
Avon Pension Fund (excl. currency hedging)	1.9%	6.3%	11.4%
Strategic benchmark (no currency hedging) <i>(Fund incl. hedging, relative to benchmark)</i>	2.5% (-0.8%)	7.6% (-2.0%)	11.5% (-1.5%)

- 5.2 **Fund Investment Return:** During the quarter global equities were largely flat and moved lower late into the quarter, with the exception of US equities which benefited from strong economic growth. The combination of rising US interest rates and a strong US Dollar presented a challenge for many regions, particularly for Emerging Markets where borrowing is often US Dollar denominated. The oil price rose by 6% and notably US bond yields moved higher, with the yield on the 10-year bond breaching 3% for the first time since 2013. This, along with mounting trade tensions between China and the US, provided the impetus late into the quarter to push equity prices down; a trend that continued into 4Q18. For the calendar year to October the MSCI World and Emerging Markets Indices posted losses of 11% and 20% respectively. At time

of writing, the US technology sector had been leading declines. The NASDAQ, the index that comprises many US technology companies, posted losses of 11% in October, which made it the worst performing month since 2008. Over the quarter, sterling depreciated against the US Dollar by 1.2% and against the Euro by 0.7% and appreciated against the Japanese Yen by 1.3%.

5.3 Fund Performance, exclusive of LDI and currency hedging, was 1.8% over the quarter versus a Benchmark return of 2.5% The relative -0.7% over the quarter is attributed to;

- (1) **Asset Allocation:** The contribution to relative performance from asset allocation was **+0.2%** over the quarter. An overweight versus the strategic benchmark in developed overseas equities was the lead contributor.
- (2) **Manager Performance:** In relative terms, the aggregate contribution of manager performance was **-0.9%** over the quarter. Stock selection in developed overseas equities was the biggest detractor (-1.0%) from relative performance due to the fall in value of the equity protection strategy. On a like-for-like basis - with the equity protection strategy neutralised - the stock selection effect of overseas equities would have been close to zero; reflective of active managers broadly performing in line with their respective benchmarks.

Note: The Fund's LDI strategy and currency hedge are excluded from attribution analysis as they are not represented in the strategic benchmark.

5.4 Currency Hedging: The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted 0.2% from the total Fund return over the quarter and 0.7% over the year.

5.5 Liability Risk Management Strategy Performance: The liability risk management strategy seeks to 'lock in' to attractive levels of real interest rates to achieve increased long-term certainty of real returns. Any increase in the present value of the Fund's liabilities should be met with a subsequent increase in the value of the liability hedging component of the BlackRock QIF. Over the quarter long-term interest rate and inflation expectations both increased. Given the liability hedging portfolio currently has more exposure to inflation than interest rates; the net result was a positive return for the hedging assets. No triggers were breached over the quarter.

5.6 Equity Protection Strategy Performance (EPS): The EPS is structured to protect the Fund from a sharp draw down in equity valuations over the 2019 triennial valuation as equities, although c. 40% of assets, contribute c. 75% of risk. The EPS will pay out a cash amount to compensate for any significant falls in the equity market and simultaneously allow the Fund to participate in upside gains to a predetermined level or 'cap'. Over the quarter the underlying markets returned 4.7% in GBP terms as equity markets rose across the four hedged regions. As a result the corresponding market value of the EPS fell 2.7%. For reference, the extent to which the strategy adds or detracts value is driven by the likelihood of equity markets being above the upside 'cap' at maturity of the strategy. As market levels moved closer to the 'cap' and further from the protection levels the strategy detracted value, as expected.

5.7 Collateral Management - Collateral held in the Qualified Investor Fund (QIF) that is used to capitalise the risk management strategies remained within its

prescribed parameters and was sufficient to absorb the stress tests that are routinely carried out to ensure operational efficiency. Part way through the quarter the 'early warning test' was triggered which is designed to alert Officers to a potential collateral call. Market prices then retraced and no action was required. To allow additional collateral to be raised when required and in order to keep leverage within the QIF guidelines, the investment manager has discretion to sell down a passive equity fund and replace any lost equity exposure synthetically.

B – Investment Manager Performance

- 5.8 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **There were no changes to manager ratings this quarter.**
- 5.9 Manager absolute returns over the quarter were mixed, with the strongest returns coming from overseas developed market equity mandates. Over the year most mandates delivered positive absolute returns, with the exception of the Fund's Multi-Asset Credit mandate and one DGF manager. On a rolling 3 year basis, and with the exception of one DGF manager, all investment mandates delivered positive absolute returns. On a relative basis a number of active funds underperformed their benchmarks over the period.

6 INVESTMENT STRATEGY

- 6.1 **Asset Class Returns:** Developed market equity returns over the last 3 years were 20.1% p.a., materially ahead of the assumed strategic return of 8.1% p.a. on the same basis. The 3 year return from emerging market equities was 17.5% in 3Q18; again well ahead of the assumed 3 year return of 8.7%. Index-Linked Gilts remain considerably above the assumed strategic return as yields remain low relative to historic averages. Over the three-year period index-linked gilts returned 7.2% p.a. versus an assumed return of 2.2%. Similarly, property and infrastructure are significantly ahead of their assumed strategic returns on a 3 year basis. Hedge funds remain below the strategic return of 5.1% due in part to exceptionally low cash rates.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

- 7.1 As at 30 September 2018 all asset allocations were within the control ranges for rebalancing based on the strategic benchmark. Officers did not undertake any rebalancing activity during the quarter.

Cash Management

- 7.2 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.
- 7.3 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

8 CORPORATE GOVERNANCE UPDATE

8.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	246
Resolutions voted:	3155
Votes For:	2926
Votes Against:	213
Abstained:	4
Withheld* vote:	12

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

8.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 3.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

10 EQUALITIES

10.1 An Equality Impact Assessment has not been completed as this report is for information only.

11 CONSULTATION

11.1 This report is for information and therefore consultation is not necessary.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)

Background papers	Data supplied by Mercer & SSBT Performance Services
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND VALUATION - 30 SEPTEMBER 2018

	Passive Equity	Passive Corporate Bonds	QIF	Active Equities					Funds of Hedge Funds	DGFs			MAC	Property		Infra-structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Brunel	BlackRock	BlackRock	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	JP Morgan	Pyrford	Standard Life	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities & Liquid Alts																				
UK				194.4	189.8														384.2	8.0%
Emerging Markets						110.4	114.4												224.8	4.7%
Global Developed Markets			451.4		10.7			393.7											855.7	17.9%
Global Low Carbon	532.9																		532.9	11.1%
Equity Derivatives ¹			-59.1														53.0		-6.1	-0.1%
Total Overseas	532.9		392.3	0.0	10.7	110.4	114.4	393.7									53.0		1607.4	33.6%
Total Equities	532.9		392.3	194.4	200.4	110.4	114.4	393.7									53.0		1991.6	41.6%
DGFs										139.1	237.0	229.7							605.8	12.7%
Hedge Funds									231.7										231.7	4.8%
MAC													477.8						477.8	10.0%
Property														232.0	205.5				437.4	9.1%
Infrastructure																318.7			318.7	6.7%
LDI Assets & Bonds																				
LDI Assets			557.2																557.2	11.7%
Corporate Bonds		80.3																	80.3	1.7%
Total Bonds		80.3	557.2																637.4	13.3%
Cash				0.7	11.0			5.4						2.6				85.2	104.9	2.2%
FX Hedging																	-23.6		-23.6	-0.5%
TOTAL	532.9	80.3	949.5	195.2	211.4	110.4	114.4	399.1	231.7	139.1	237.0	229.7	477.8	234.6	205.5	318.7	29.4	85.2	4781.7	100.0%

¹ Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

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AVON PENSION FUND
COMMITTEE INVESTMENT
PERFORMANCE REPORT
QUARTER TO 30 SEPTEMBER 2018

NOVEMBER 2018

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IMPORTANT NOTICES

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

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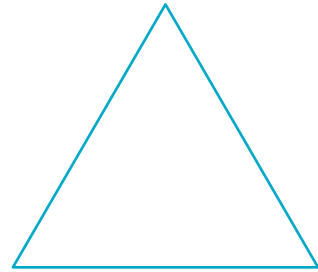
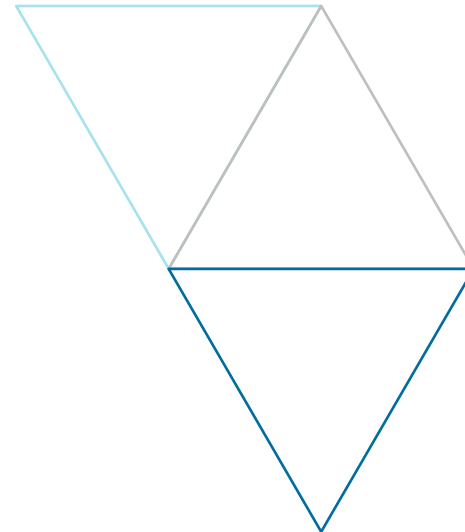
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SECTION 1

EXECUTIVE SUMMARY

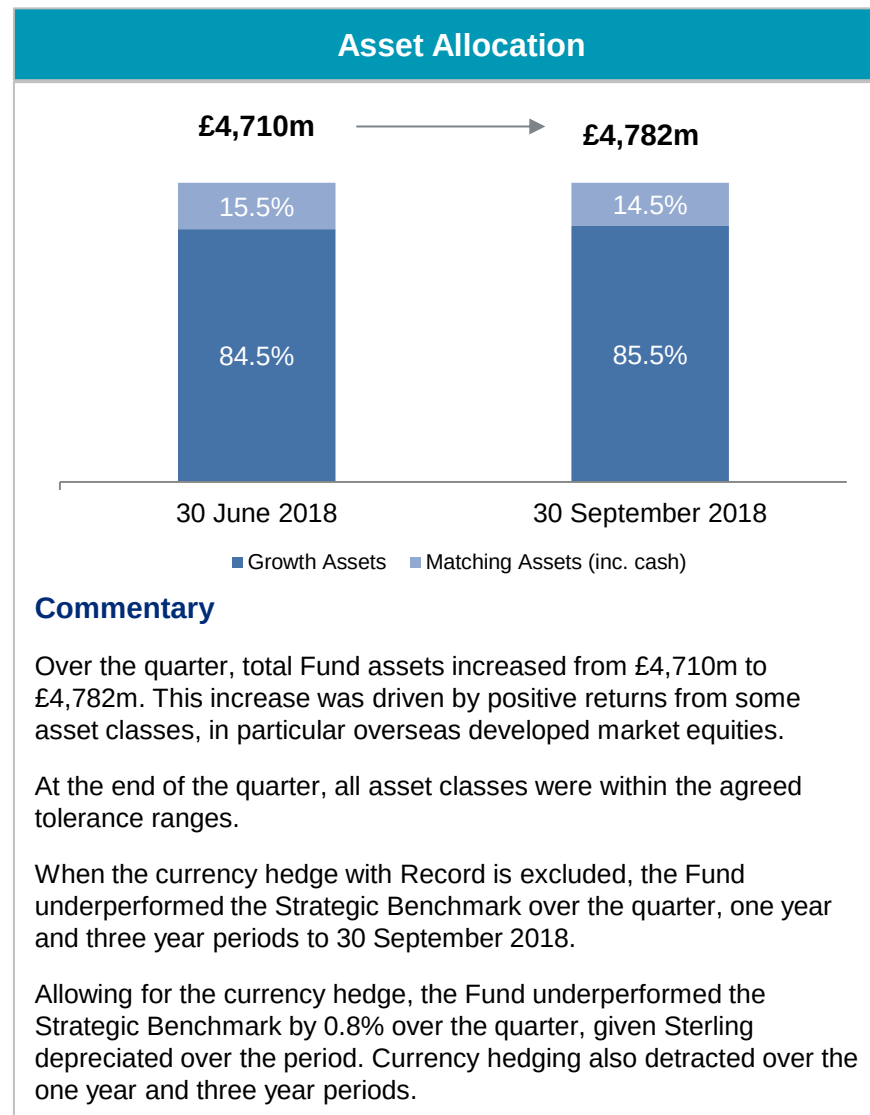
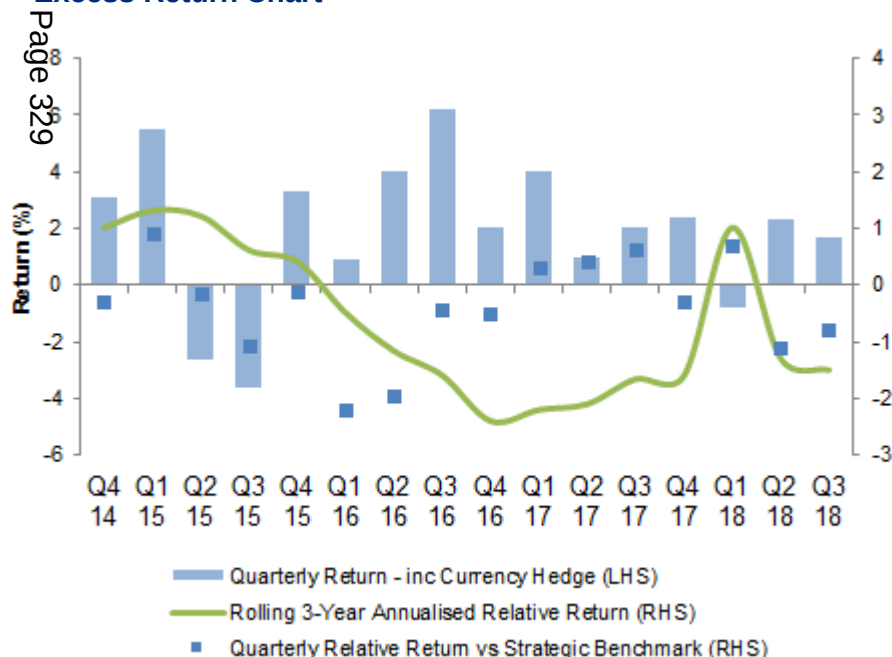
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EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	1.7	5.6	10.0
Total Fund (ex currency hedge)	1.9	6.3	11.4
Strategic Benchmark (no currency hedge)	2.5	7.6	11.5
Relative (inc currency hedge)	-0.8	-2.0	-1.5

Excess Return Chart



EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund (“the Fund”), to assess the performance and risks of the Fund’s investments.

Funding Level

- The estimated funding level remained relatively steady over the third quarter of 2018 at c.97%, as the return on the assets offset the increase in liabilities.

Fund Performance

- The value of the Fund’s assets increased by £72m over the quarter, to £4,782m. This increase was driven primarily by positive returns from overseas developed market equities.

Strategy

- Page 330
- Global (developed) equity returns over the last three years were 20.1% p.a., above the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years). Investor sentiment seems to be mixed with expectations of corporate sector growth offset by the uncertainty stemming from trade tensions.
 - Emerging market equities have returned 17.5% p.a. over the three-year period. It is above the assumed return of 8.70% p.a. as returns have been reasonably strong and fundamentals have improved. Compared to developed market equities, we are slightly more positive in our medium-term outlook for emerging market equities over the next one to three years, although our enthusiasm for the space has tempered a bit. Although slowing current activity indicators and lackluster equity market performance may continue in the near term, long-term economic fundamentals remain solid, the global economy continues to expand and continued forward earnings growth remains above 10%.
 - UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 5.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 7.2% p.a. versus an assumed return of 2.15% p.a. Gilt yields increased over the quarter, and as a result gilt returns were negative over the period.
 - UK corporate bonds returned 4.4% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
 - The three-year UK property return of 7.8% p.a. remains materially higher than the assumed return of 5.75% p.a.

EXECUTIVE SUMMARY

Strategy (continued)

- Hedge fund returns picked up this quarter but remain below long-term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.
- The Fund's currency hedging policy was negative overall for Fund performance, since Sterling depreciated against the US Dollar and the Euro over the quarter (despite appreciating against the Japanese Yen).

Managers

- Manager total returns over the quarter were mixed, with the strongest performance coming from Overseas Developed Market Equity managers. Two out of the Fund's three Diversified Growth Fund ("DGF") strategies also posted modest positive returns, whilst the third posted a negative return. The Fund's Infrastructure mandate was also a standout performer over the quarter.
- Absolute returns over the year to 30 September 2018 were again mixed across the Fund's investment managers. The majority of mandates posed positive absolute returns, but some mandates detracted value on an absolute basis, namely the Multi-Asset Credit strategy and the hedge fund-type DGF. In terms of relative performance, out of the active equity managers, only one mandate outperformed its benchmark over the year. Of the equity managers underperforming, the UK Socially Responsible Investing ("SRI") strategy delivered the largest underperformance. Two of the Fund's DGF mandates delivered material underperformance versus their respective absolute return targets.
- Over the three-year period all mandates with a three-year track record (except the hedge fund-type DGF) produced positive absolute returns. A number of active funds underperformed their benchmarks over the period, such as the UK and Emerging Market Equity mandates and some of the DGF and Illiquid Growth mandates. The Fund of Hedge Funds and UK Property mandates achieved their performance objectives, net of fees.

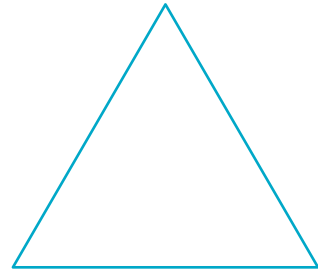
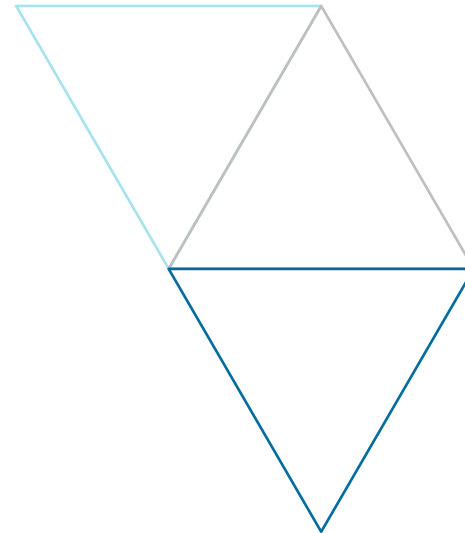
Key Points for Consideration

- The passive Global Low Carbon Equity mandate was transferred to the Brunel pool during the quarter.

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND INDEX PERFORMANCE

Equity Market Review

The GDP growth in global economies has continued, led by the US, which grew by 2.8% on a quarterly basis over the second quarter in spite of the Federal Reserve continuing to raise rates both in June and September to the current 2.00 – 2.25%.

UK equities as a whole went through a negative quarter, amid ongoing political uncertainty despite improved economic data. Within the UK market, small cap equities stagnated, large cap equities fell by 0.7% while mid cap stocks fell by 1.8%. The UK economy expanded by 1.6% annualised over the second quarter due to growth in services and construction. CPI inflation remained at 2.4% at the end of August and the Bank of England increased short-dated interest rates by 0.25% during the month.

Within global equity markets, US economic fundamentals remained sound while sentiment has been boosted by tax cuts, deregulation and the generally business-friendly stance of the Trump administration although the escalation of protectionist measures was not deemed good news for business. European economic data weakened significantly and concerns about the Euro's future remained. Italy's budgetary crisis continued and Italian bonds sold off in late September when a higher than expected budget deficit was announced. 10 year bond yields rose close to 3.5%, the highest level in over four years. Emerging market equities had a better quarter than the two previous ones even though equity performance remained subdued due to weakness in Chinese markets and threats of trade tensions. Ongoing balance of payment crises in Argentina and Turkey continued to worry investors.

Bond Market Review

Nominal yields were up across the curve over the quarter.

The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -3.3%.

Real yields also rose across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.4%.

Movements in credit spreads were muted over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.2% p.a. UK credit assets returned -0.3% over the quarter.

Currency Market Review

Over the quarter, sterling depreciated against the dollar by 1.2% and against the euro by 0.7% and appreciated against the Japanese yen by 1.3%.

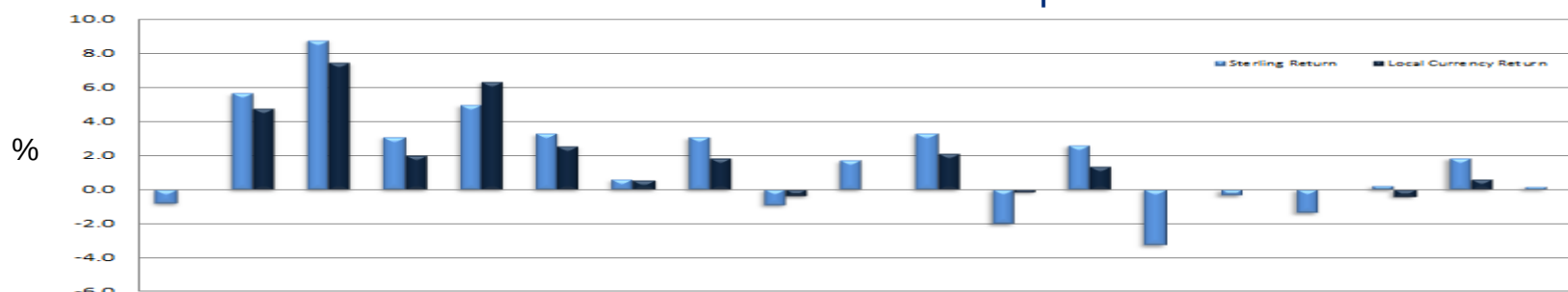
Commodity Market Review

Commodity performance was mixed over the quarter with energy and livestock being the only sectors with positive returns. Energy increased by 4.3%, amid the continued upwards trend in oil prices due to concerns over supply restrictions while oil demand remained stable. Industrial metals fell sharply. Precious metals are expected to do not so well in an environment of rising interest rates as the opportunity costs of holding them increases.

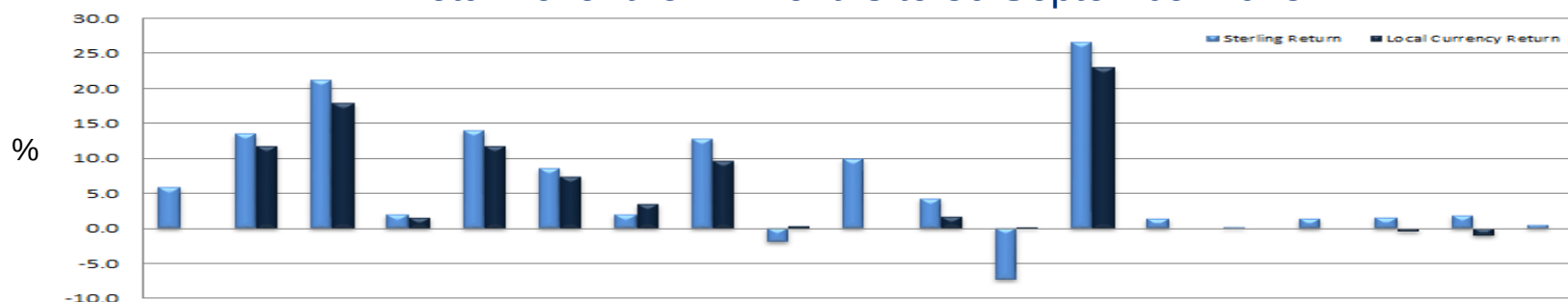
Source: Thomson Reuters Datastream.

MARKET BACKGROUND INDEX PERFORMANCE

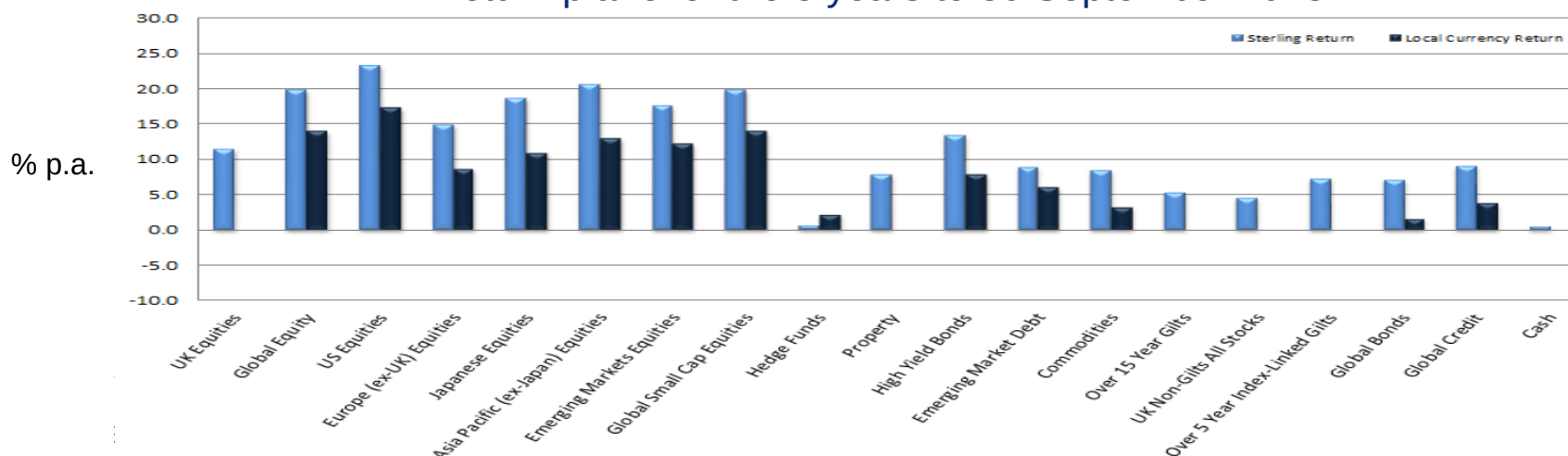
Return over the 3 months to 30 September 2018



Return over the 12 months to 30 September 2018



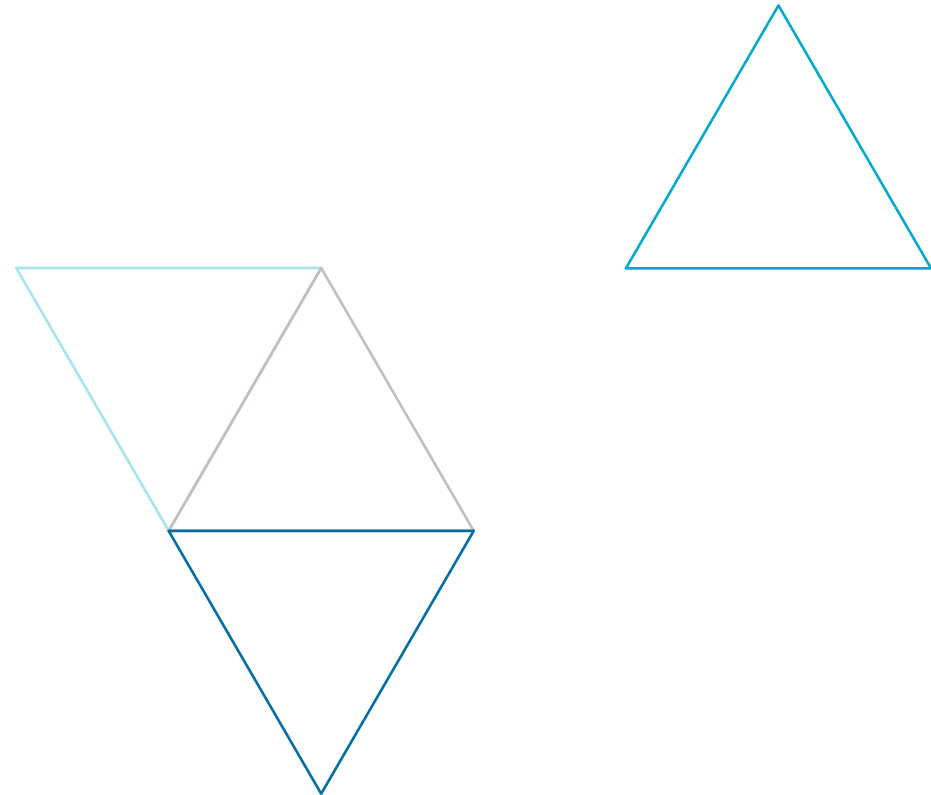
Return p.a. over the 3 years to 30 September 2018



SECTION 3

STRATEGIC CONSIDERATIONS

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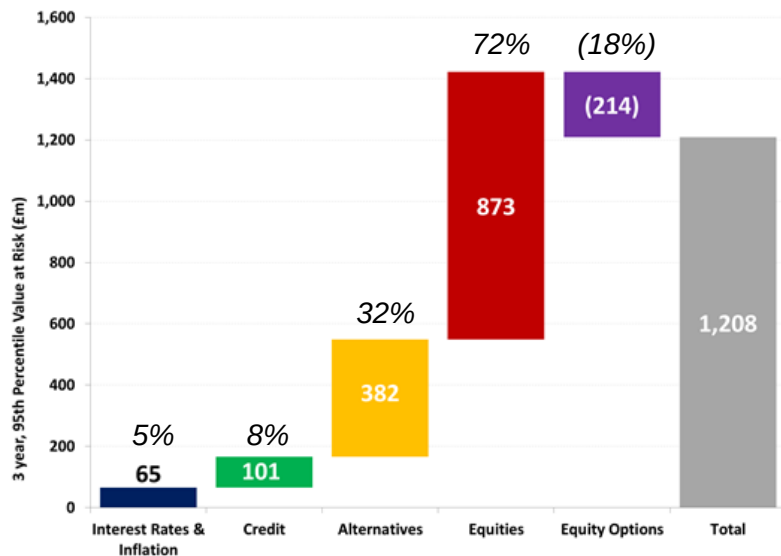
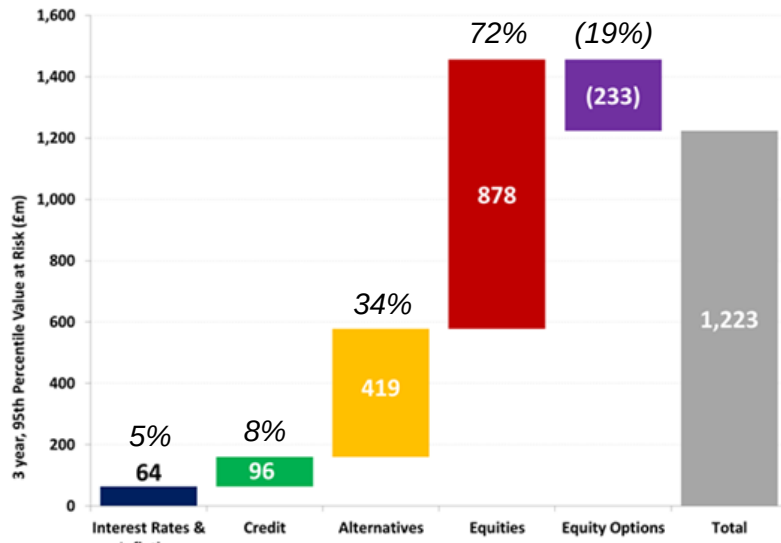
STRATEGIC CONSIDERATIONS

RISK DECOMPOSITION

30 June 2018

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30 September 2018



- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2016 funding basis and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 30 September 2018, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit would increase by at least an additional **£1.2bn** on top of the current deficit of **£0.1bn**, creating a deficit of at least **c.£1.3bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads volatility of alternative assets and equity markets, and the benefit from equity options).
- The two charts show that the three-year **VaR has decreased by c.£15m over the quarter**. This is largely attributable to a slight reduction in Mercer's asset volatility assumptions for some of the alternative asset classes.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

MARKET BACKGROUND

INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	20.1	Remains ahead of the assumed strategic return. This has increased from 15.8% p.a. last quarter as the latest quarter's return of 6.2% was materially higher than the -4.8% return of Q3 2015, which fell out of the 3 year return.
Emerging Market Equities (FTSE AW Emerging)	8.70	17.5	The three year return from emerging market equities has increased from 10.9% p.a. last quarter, as the return of 0.6% over Q3 2018 was higher than the return for the quarter that fell out of the period (-15.6%). The three year return is above the assumed strategic return.
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 8.1)	DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means benchmark has underperformed the long term expected return from equity, but recent higher inflation means RPI benchmark has outperformed. An absolute strategic return of 6.95% p.a. has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	5.3	UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were negative for nominal gilts and index linked gilts as yields rose. Corporate bond returns are broadly in line with the strategic assumed return.
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	7.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.4	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	0.6	Hedge fund returns picked up this quarter but remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.
Property (IPD UK Monthly)	5.75	7.8	Actual property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 1.7% over the second quarter of 2018.
Infrastructure (S&P Global Infrastructure)	6.95	13.5	The infrastructure three year return is above the strategic return. This performance was in part driven by currency as sterling depreciated against the US dollar and euro over the last three years. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.

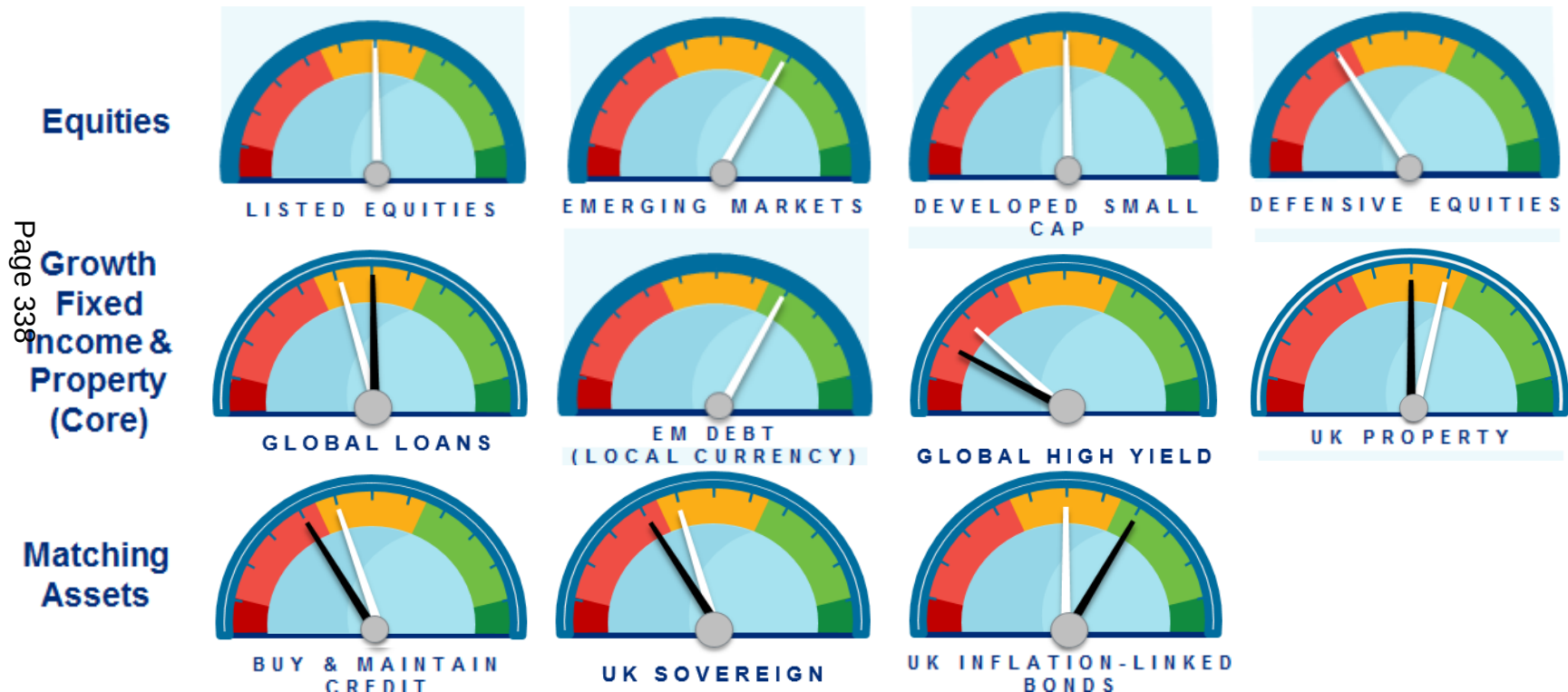
Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2018

● Extremely Unattractive
● Unattractive
● Neutral
● Attractive
● Extremely Attractive

Mercer's current DAA position/view
 Position/view last time (if changed)

- The views or tilts shown below are relative to a reference portfolio chosen to be suitable for the majority of the UK clients, and as such these views are communicated relative to each other across both major asset classes and also sub-asset classes.

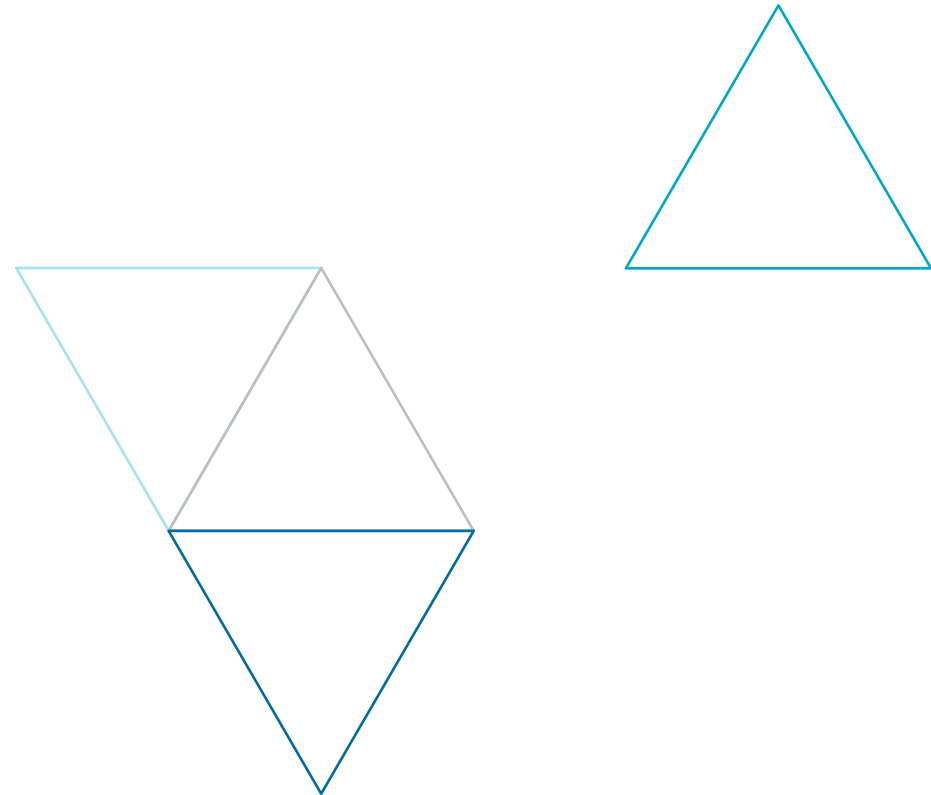


The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Scheme to make frequent tactical changes to their asset allocation based upon these views.

SECTION 4

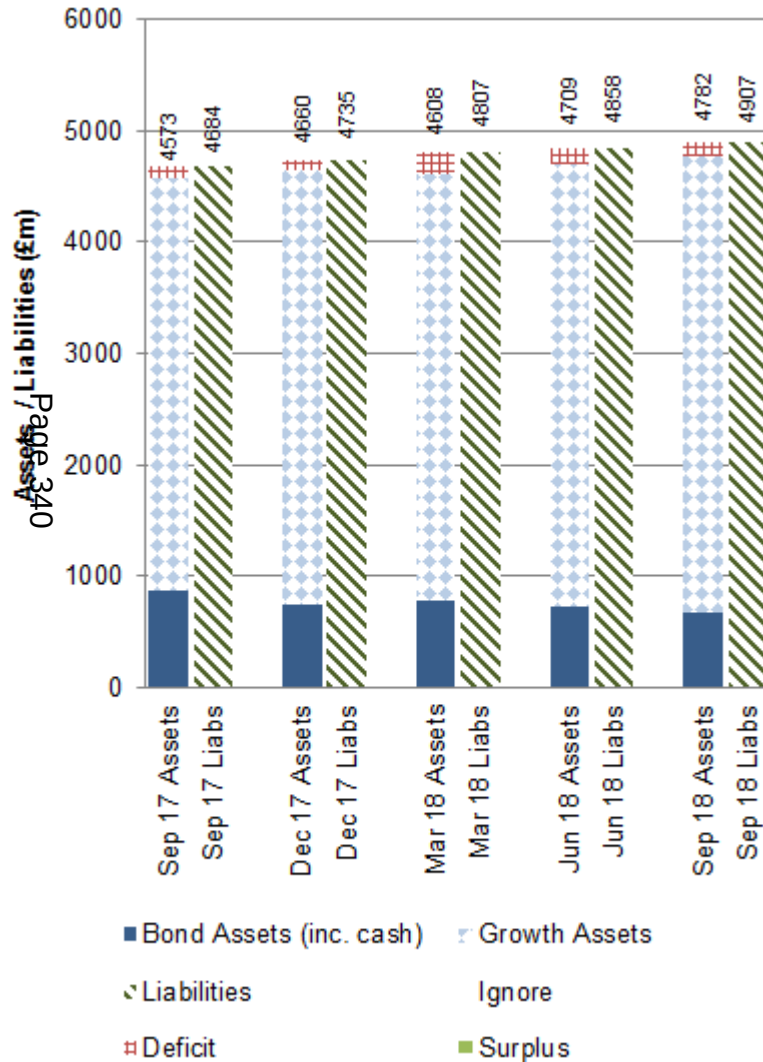
CONSIDERATION OF FUNDING LEVEL

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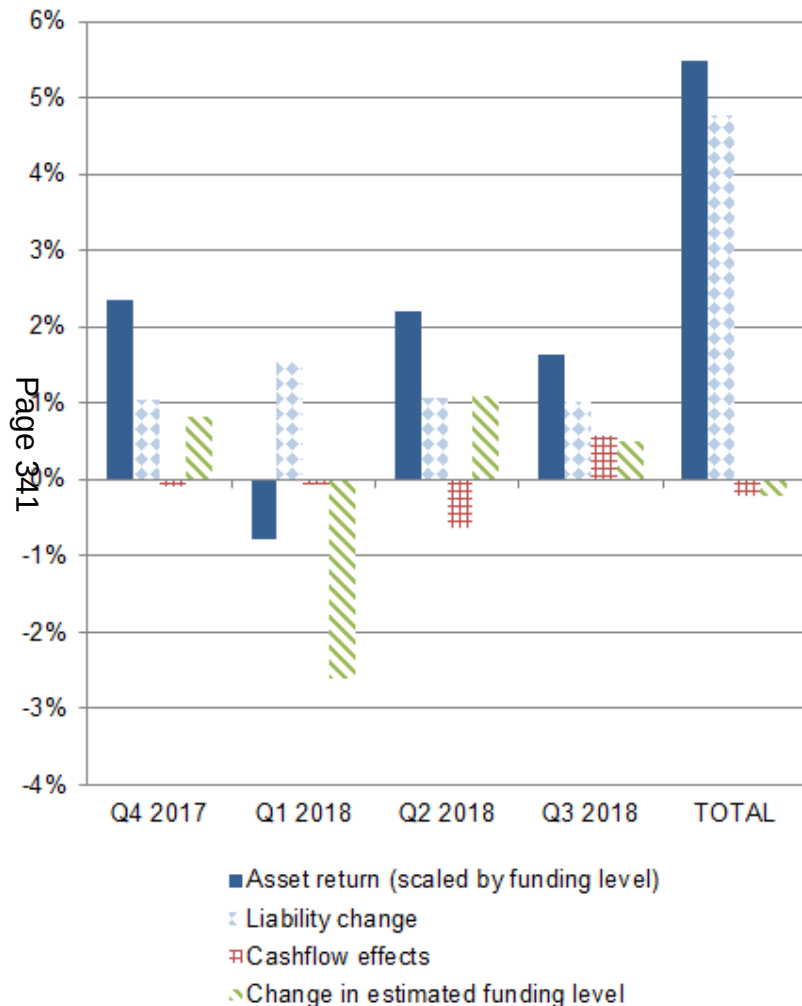
CONSIDERATION OF FUNDING LEVEL

ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level remained broadly stable over the third quarter of 2018 at 97%, all else being equal.
- This stability in funding level resulted from the positive return on the Fund's assets being offset by the increase in the present value of the liabilities over the quarter.
- This is calculated using the actuarial valuation assumptions as at 31 March 2016 and the 'CPI plus' discount basis.

CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES

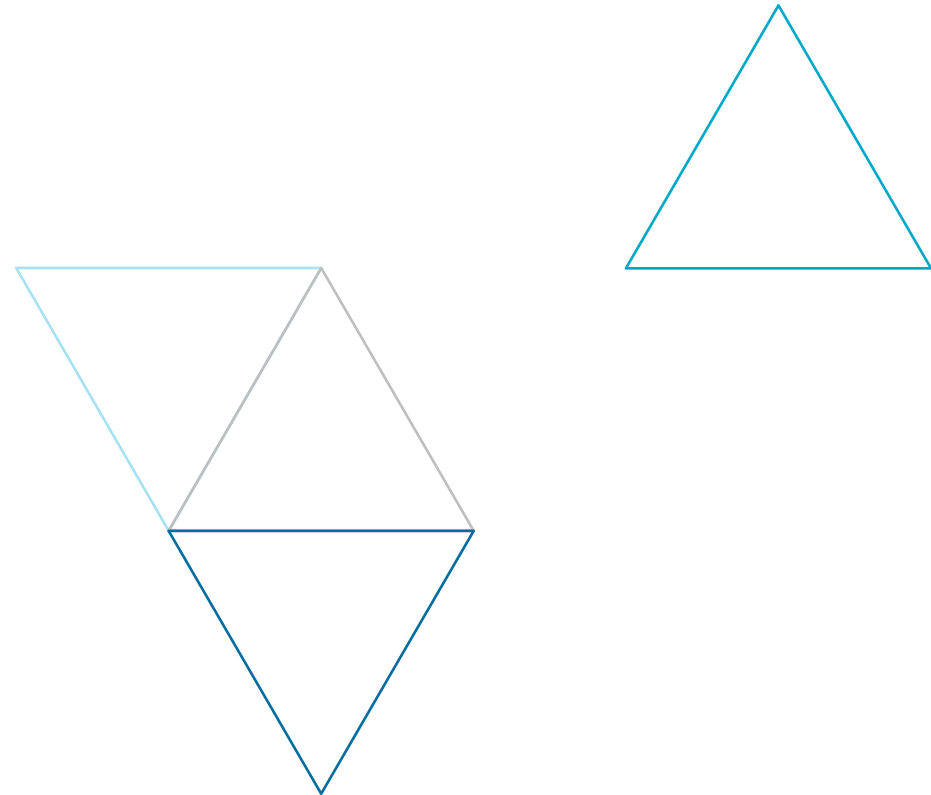


- The Fund's assets returned 1.7% over the quarter which, when allowing for the funding position, increased the funding level by 1.6%.
- The Fund's estimated liabilities increased by 1.0% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was positive but small.
- Overall, the combined effect has not materially changed the estimated funding level, which remained at 97% .
- Over the one-year period, the estimated funding level has also not changed materially, albeit there has been volatility during the year, particularly in the first quarter of 2018.

SECTION 5

FUND VALUATIONS

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FUND VALUATIONS

VALUATION BY ASSET CLASS

Asset Allocation									
Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)			Difference (%)
Developed Market Equities	1,715,587	1,790,290	36.4	37.4	34.0	29	-	39	+3.4
Emerging Market Equities	221,936	224,816	4.7	4.7	6.0	3	-	9	-1.3
Diversified Growth Funds	606,449	605,788	12.9	12.7	15.0	10	-	20	-2.3
Fund of Hedge Funds	225,974	231,734	4.8	4.8	5.0	0	-	7.5	-0.2
Property	437,617	440,154	9.3	9.2	10.0	5	-	15	-0.8
Infrastructure	294,540	318,714	6.3	6.7	5.0	0	-	7.5	+1.7
Multi-Asset Credit	474,781	477,807	10.1	10.0	11.0	6	-	16	-1.0
Corporate Bonds	81,040	80,258	1.7	1.7	2.0	No set range			-0.3
LDI*	523,136	497,558	11.1	10.4	12.0	No set range			-1.6
Cash (including currency instruments)	128,829	114,646	2.7	2.4	-	0	-	5	+2.4
Total	4,709,889	4,781,764	100.0	100.0	100.0				0.0

Source: Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

* Valuation includes mark-to-market value of equity protection strategy.

- Invested assets increased over the quarter by £72m due to positive returns from some asset classes, in particular overseas developed market equities. All of the asset classes remain within their tolerance ranges.

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global Low Carbon Equities	-	510,299	532,884	-	11.1
BlackRock	Global Equities	927,375	-511,211	451,513	19.7	9.4
BlackRock	Corporate Bonds	81,040	-782	80,258	1.7	1.7
BlackRock	LDI*	523,136	-	497,558	11.1	10.4
TT International	UK Equities	198,165	-	195,422	4.2	4.1
Jupiter	UK Equities	202,977	-	200,748	4.3	4.2
Jupiter	Global Sustainable Equities	9,996	-	10,652	0.2	0.2
Schroder	Global Equities	377,073	-6	399,071	8.0	8.3
Genesis	Emerging Market Equities	113,320	-245	110,373	2.4	2.3
Unigestion	Emerging Market Equities	108,615	-	114,443	2.3	2.4

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

* Valuation includes mark-to-market value of equity protection strategy.

FUND VALUATIONS

VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Pyrford	DGF	137,986	-	139,091	2.9	2.9
Aberdeen Standard	DGF	235,935	-	236,975	5.0	5.0
Ruffer	DGF	232,528	-	229,721	4.9	4.8
JP Morgan	Fund of Hedge Funds	225,974	-	231,734	4.8	4.8
Schroder	UK Property	229,059	-36	234,696	4.9	4.9
Partners	Property	208,559	-5,379	205,458	4.4	4.3
IFM	Infrastructure	294,540	29	318,714	6.3	6.7
Loomis Sayles	Multi-Asset Credit	474,781	-	477,807	10.1	10.0
Record Currency Management	Currency Hedging	42,883	-32,119	29,380	0.9	0.6
Internal Cash	Cash	85,946	-	85,266	1.8	1.8
Total		4,709,889	-39,450	4,781,764	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

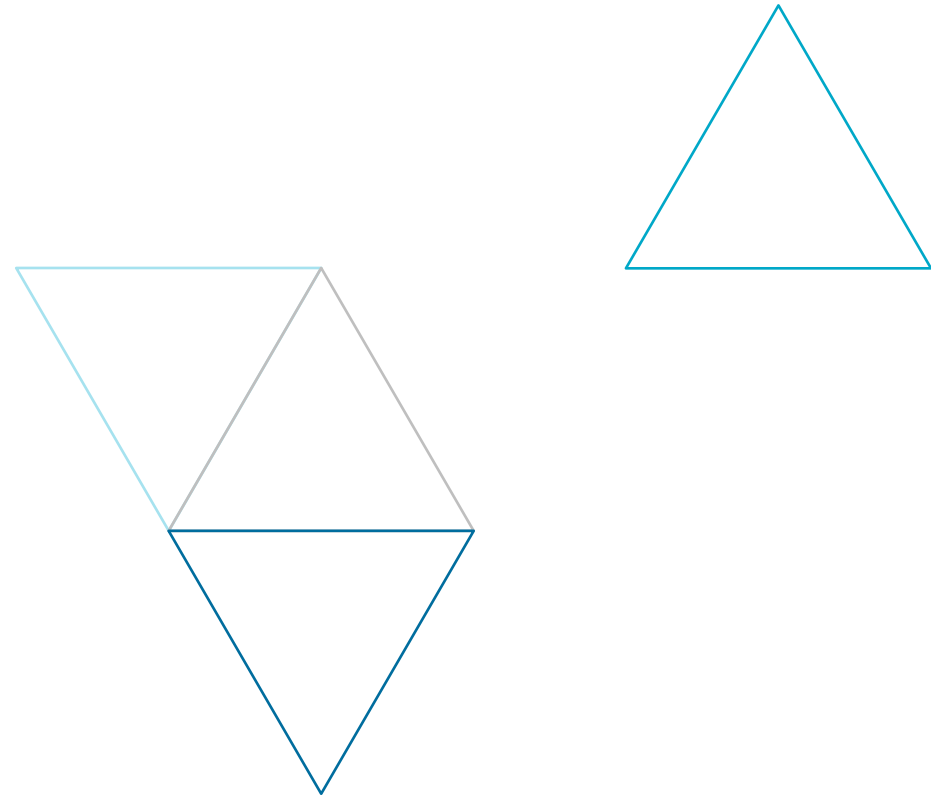
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

SECTION 6

PERFORMANCE

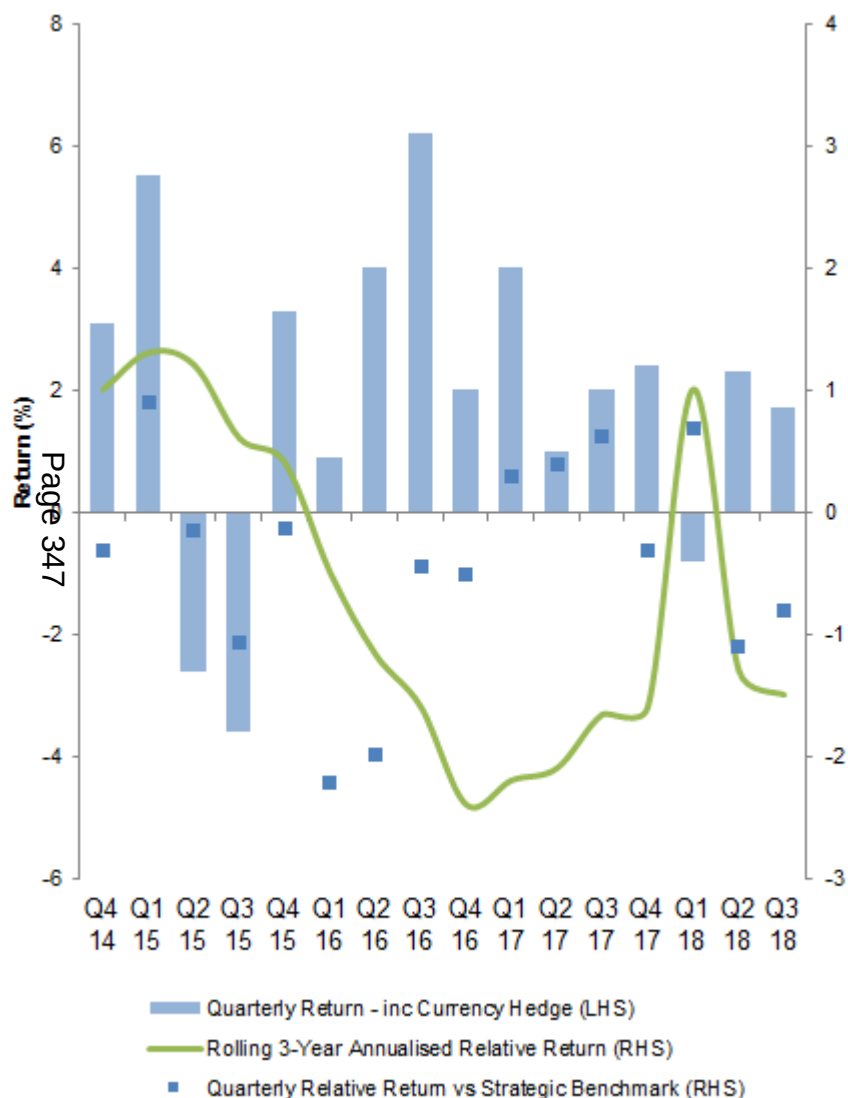
SUMMARY

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PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE



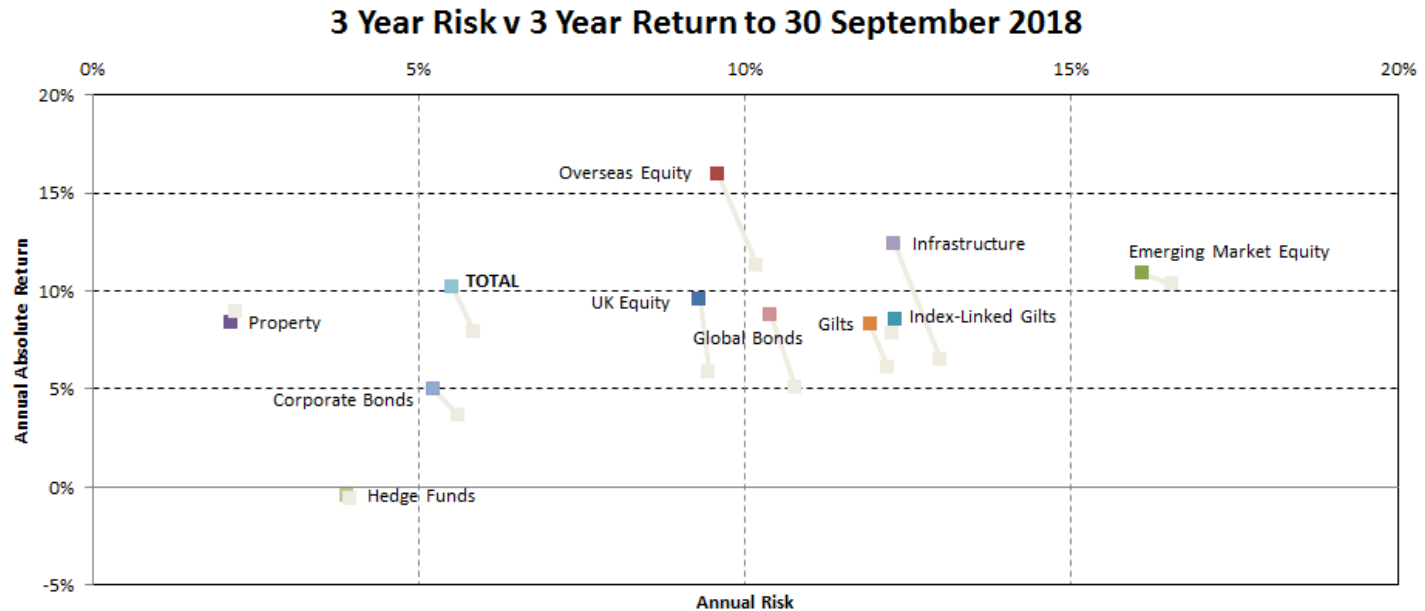
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (inc currency hedge)	1.7	5.6	10.0
Total Fund (ex currency hedge)	1.9	6.3	11.4
Strategic Benchmark (no currency hedge)	2.5	7.6	11.5
Relative (inc currency hedge)	-0.8	-2.0	-1.5

Comments

- Over Q3 2018, the Fund underperformed the Strategic Benchmark by 0.6% when excluding currency hedging and by 0.8% when including currency hedging (as sterling depreciated).
- The Fund has underperformed the Strategic Benchmark over the year by 2.0%. The underperformance was mainly due to material underperformance from the following managers:
 - Pyrford (-6.7% relative to benchmark, absolute returns of 1.2%) – the defensive positioning continues to detract from performance.
 - Aberdeen Standard (-6.7% relative to benchmark, absolute returns of -1.3%) – the Emerging Market debt and European banks positions were in particular material detractors from performance.
 - Loomis Sayles (-5.8% relative to benchmark, absolute returns of -1.5%) – the exposure to Emerging Market debt in countries in credit repair and the recovery phase of the credit cycle has hurt relative performance.
- The Fund underperformed the Strategic Benchmark over the three year period by 1.5% p.a., albeit this was largely down to the impact of the currency hedge. Excluding the currency hedge, the Fund marginally underperformed by 0.1% p.a.

MANAGER MONITORING RISK RETURN ANALYSIS

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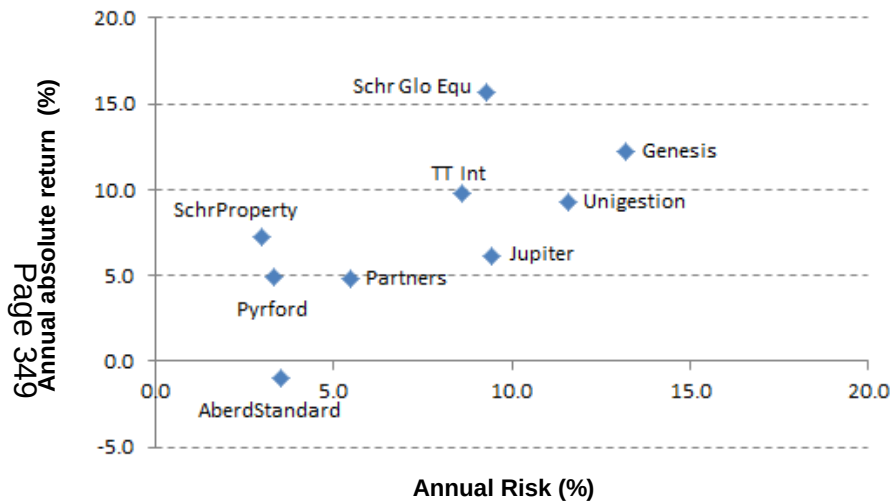


Comments

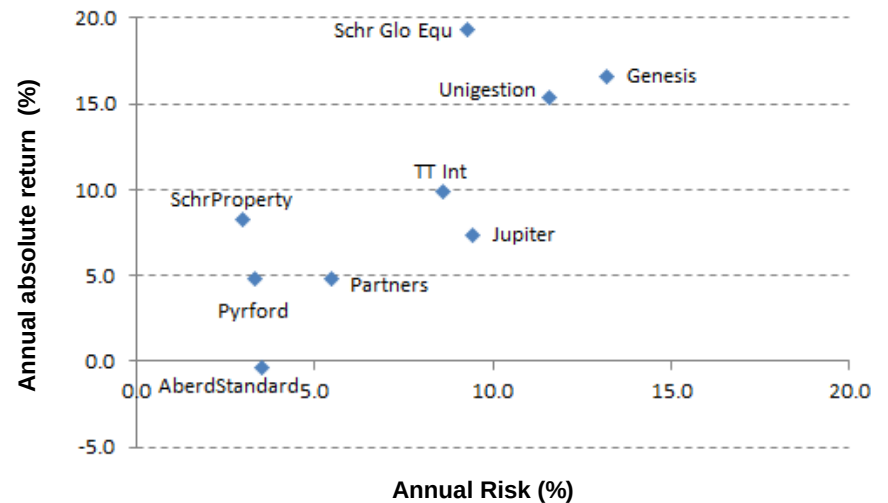
- This chart shows the 3-year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2018, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.
- Changes in observed returns and volatilities over the quarter were limited to some asset classes. Infrastructure and overseas equities saw the most notable three-year return increases.

MANAGER MONITORING RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 30 June 2018



3 year Risk vs 3 year Return to 30 September 2018



Comments

- The overseas equity mandates saw their three-year return increasing over the quarter.

MANAGER MONITORING

MANAGER PERFORMANCE TO 30 SEPTEMBER 2018

Manager/ Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
Brunel Passive Low Carbon Equity	4.4	4.5	-0.1	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Equities	9.5	9.5	0.0	16.4	16.6	-0.2	18.9	18.8	+0.1	-	N/A
BlackRock Corp Bonds	-1.0	-0.9	0.0	-0.6	-0.7	+0.2	6.8	6.7	+0.0	-	N/A
BlackRock LDI	3.6	3.6	0.0	8.7	8.7	0.0	9.2	9.3	-0.1	-	N/A
TT International	-1.4	-0.8	-0.6	5.0	5.9	-0.8	9.9	11.5	-1.4	+3-4	Target not met
Jupiter UK Equity	-1.1	-0.8	-0.3	1.2	5.9	-4.4	7.3	11.5	-3.8	+2	Target not met
Jupiter Glb Sust Equity	6.6	5.7	+0.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	5.8	5.7	+0.1	12.7	13.5	-0.7	19.3	19.9	-0.5	+4	Target not met
Genesis	-2.6	0.3	-2.9	0.5	2.4	-1.9	16.6	18.5	-1.6	-	Target not met
Unigestion	5.4	0.1	+5.3	10.0	2.0	+7.8	15.4	18.1	-2.3	+2-4	Target not met
Pyram	0.8	2.2	-1.4	1.2	8.5	-6.7	4.8	8.1	-3.1	-	Target not met
Aberdeen Standard	0.4	1.5	-1.1	-1.3	5.8	-6.7	-0.4	5.6	-5.7	-	Target not met
Ruffer	-1.2	1.5	-2.7	1.3	5.5	-4.0	N/A	N/A	N/A	-	N/A
JP Morgan	1.3	1.3	-0.1	5.1	4.8	+0.3	4.1	4.1	0.0	-	Target met
Schroder Property	2.5	1.6	+0.9	11.0	8.8	+2.0	8.3	7.1	+1.1	+1	Target met
Partners Property *	0.7	2.5	-1.7	7.3	10.0	-2.4	4.8	10.0	-4.7	-	Target not met
IFM	6.9	1.2	+5.6	20.2	4.2	+15.4	17.7 **	3.9 **	+13.3**	-	N/A
Loomis Sayles	0.6	1.2	-0.6	-1.5	4.6	-5.8	N/A	N/A	N/A	-	N/A

- Source: Investment Managers, Mercer estimates.
- Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan, Partners and IFM, whose performance is shown as IRR in local currency terms.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

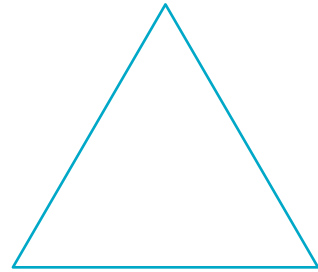
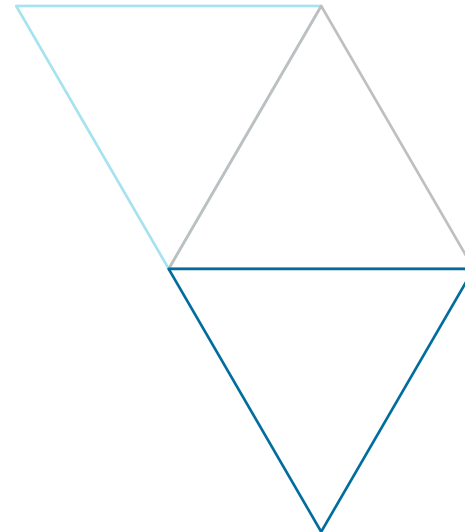
* Performance to 30 June 2018 as this is the latest date that this is available to.

** Performance is shown since inception.

APPENDIX 1

SUMMARY OF MANDATES

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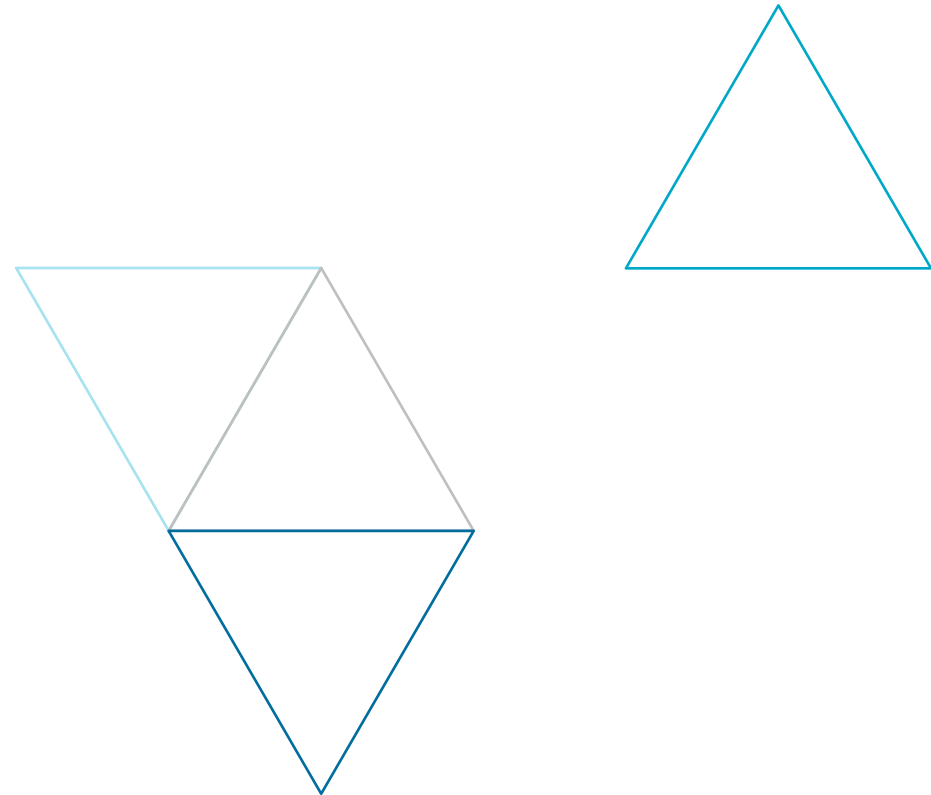
SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-
BlackRock	Passive Global Equity	MSCI World	-
BlackRock	Passive Corporate Bond	iBoxx £ Non-Gilts Over 15 Years	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Global Sustainable Equities (SRI)	MSCI AC World	+2-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World	+4%
Genesis	Emerging Market Equities	MSCI Emerging Markets IMI TR	-
Unigestion	Emerging Market Equities	MSCI Emerging Markets NET TR	+2-4%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Aberdeen Standard	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

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MARKET STATISTICS INDICES

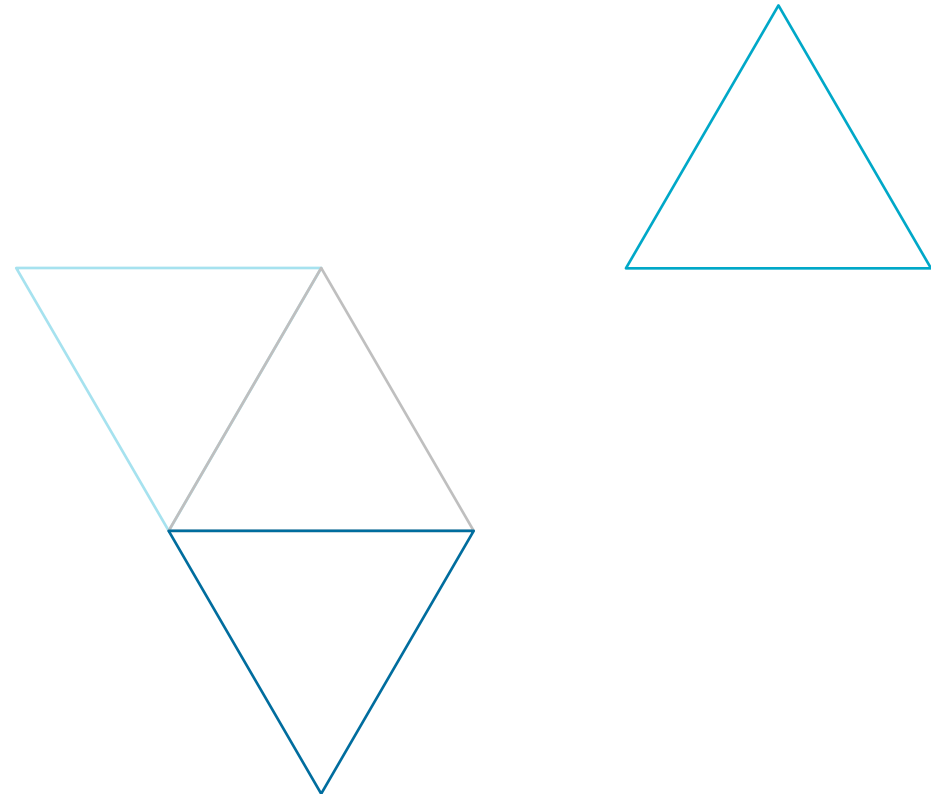
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

APPENDIX 3

CHANGES IN YIELDS

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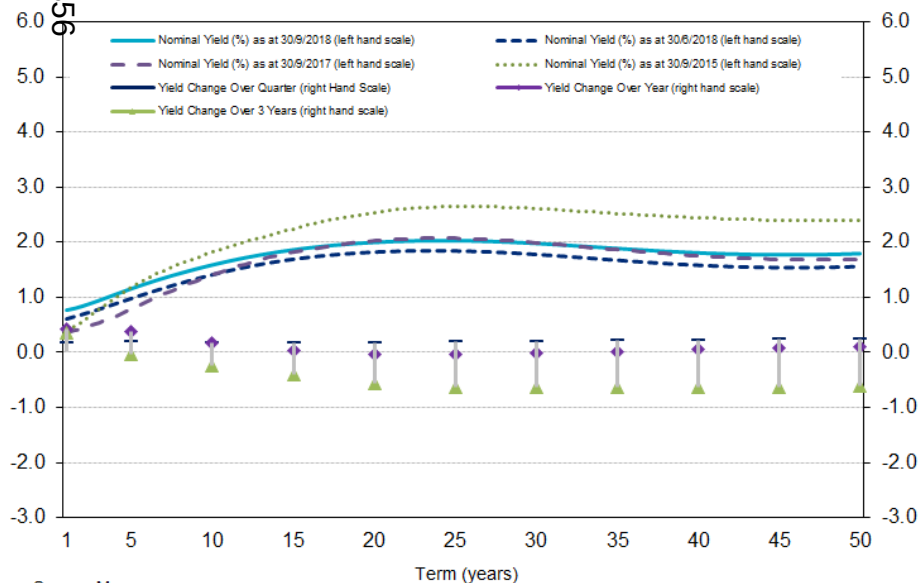
CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2018	30 Jun 2018	30 Sep 2017	30 Sep 2016
UK Equities	3.80	3.64	3.68	3.46
Over 15 Year Gilts	1.86	1.67	1.84	1.42
Over 5 Year Index-Linked Gilts	-1.49	-1.58	-1.51	-1.78
Sterling Non Gilts	2.63	2.50	2.30	1.99

- Nominal yields were up across the curve over the quarter.
- The Over 15 Year Gilt Index underperformed the broader global bond market over the quarter, generating a return of -3.3%.
- Real yields also rose across the curve over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning -1.4%.
- Movements in credit spreads were minimal over the quarter, with the sterling Non-Gilts All Stocks Index credit spread ending the quarter at c.1.2% p.a. UK credit assets returned -0.3% over the quarter.

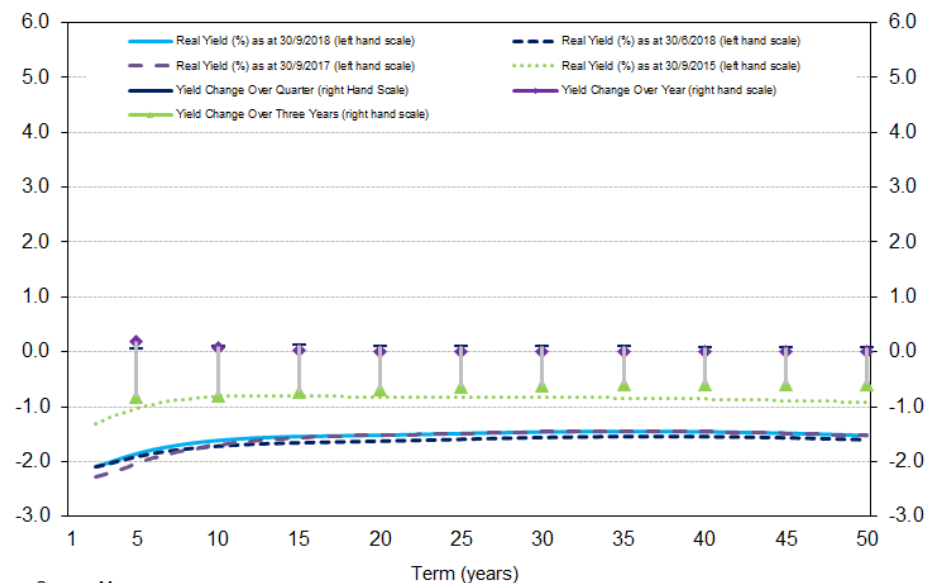
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Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

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QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2018



Vote recommendations to oppose the election of Ryanair and Sports Direct Chairs amid employment concerns

Response to the Kingman Review sets out that the Financial Reporting Council is 'beyond repair'

Meetings with the Chairs of Sainsbury's and Pearson on governance risks prove useful

Executive Summary

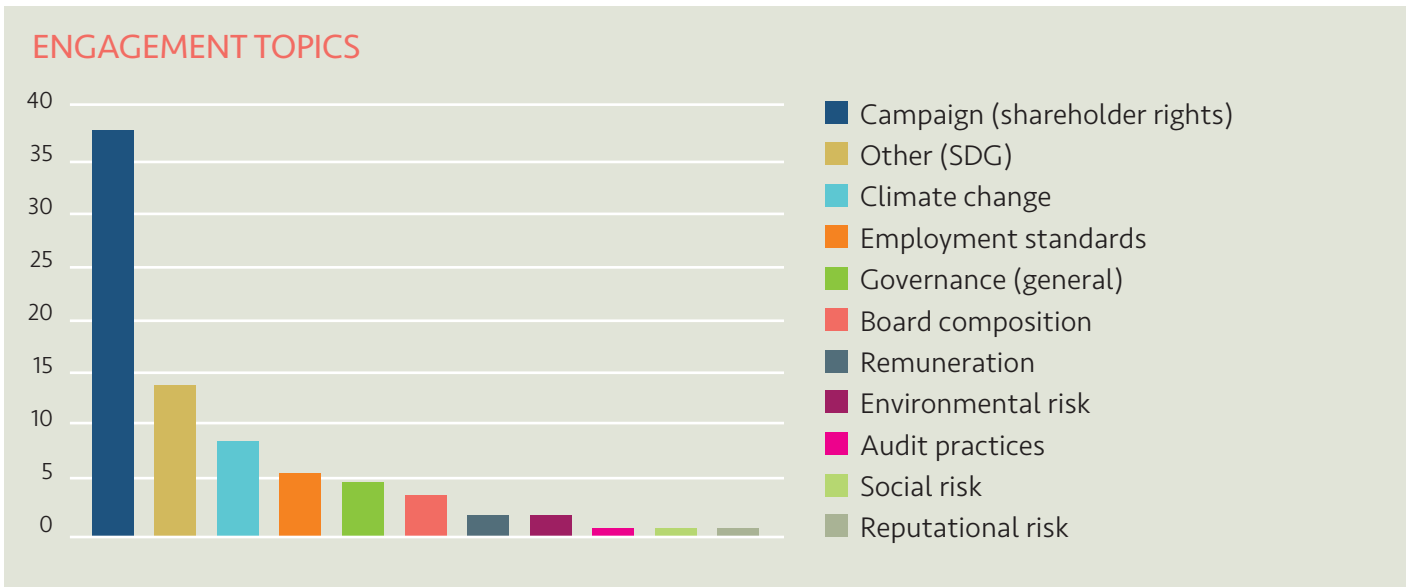
During the last quarter, LAPFF has engaged with 63 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights.

The Forum issued two voting alerts ahead of the Ryanair and Sports Direct AGMs in September. Poor human capital management, along with continued concerns related to poor board oversight over governance issues led to recommendations to oppose annual reports and the Chair at both companies. The Forum also attended both companies' AGMs.

With an aim to better understand how companies approach the UN Sustainable Development Agenda, LAPFF has liaised with 14 companies to discuss the topic of sustainable cities and climate risk management, as well as water stewardship and access to water and sanitation.

The Forum has submitted its response to the Kingman Review that aims to review the role and power of the Financial Reporting Council (FRC). Despite the responses not being public, the Forum considers that its position on disbanding the current FRC is widely shared.

Company Engagement



GOVERNANCE RISK



Sidney Taurel, Chair of Pearson

At a meeting with **Sainsbury's**, LAPFF Executive member Cllr Doug McMurdo spoke with Chair David Tyler about cybersecurity management post-General Data Protection Regulation (GDPR) and how this is managed at the Board level. The meeting also covered the 2016 acquisition of Argos as well as the planned Asda merger and how these can impact investor value, customer experience and employment.

LAPFF also met with the Chair of **Pearson**, Sidney Taurel, to better understand the company's approach to the changing publishing environment and to discuss the new focus on digital content and book rentals. The Forum was also pleased to hear about positive changes to the Company's executive remuneration and plans to increase female representation throughout the Company. Other topics covered included climate-related financial disclosure and eliminating plastics in packaging for printed materials.

Along with 80 investors, the Forum was named on letters to more than 40 US companies that serve on the **National Association of Manufacturers' (NAM)** board. NAM has launched an aggressive critique of shareholder engagement especially on climate and is working against shareholders being able to file resolutions as well as any responses received. The letter expressed concerns regarding a recent report funded and distributed by NAM, which states that shareholder resolutions diminish company value. The letters call for the companies to distance themselves from NAM's position and to communicate their concerns to NAM leadership.

With an aim of gaining a better understanding of companies' approach to the Sustainable Development Goals, LAPFF wrote to **Stagecoach Group, Go-Ahead Group, Taylor Wimpey, Persimmon, Berkeley Group, Bovis Homes** and **Barratt Developments** on the topic of sustainable cities and climate risk management. The Forum also wrote to the most widely-held food and beverage companies on their approach to water stewardship and ensuring adequate water and sanitation practicalities across the supply chain, as well as to **United Utilities** and **Severn Trent** on sustainable and efficient water use.

Voting alerts

Ahead of the **Sports Direct International** Annual General Meeting, LAPFF issued a [voting alert](#) advising members to oppose the annual report, share repurchase and the re-election of Chair Keith Hellawell, Chief Executive Mike Ashley and Senior Independent Director Simon Bentley. Owing to the unresolved employment issues, the Forum continues to consider that the company does not have adequate governance structures and processes in place to foster the creation of long-term shareholder value. The Forum further recommended a vote in favour of the remuneration report and to abstain on the remuneration policy.

An [alert](#) was also issued recommending a vote against **Ryanair's** annual report and the Chair, David Bonderman, amid continuing human capital management issues across the company and the company's failure to deliver adequate customer service during flight cancellations. There are further concerns over the overall level of independence on the board, including Mr Bonderman himself, who has been on the Board for over twenty years.

ENVIRONMENTAL AND CARBON RISK

The Forum Vice Chair Cllr Doug McMurdo spoke with **Unilever** representatives on the topic of sustainable palm oil and the recent critiques of the Roundtable on Sustainable Palm Oil (RSPO), of which Unilever is a founding member. The Forum was interested to know how the Economic, Social and Governance (ESG) components are balanced within RSPO and discussed how the S component can be more integrated within the work of RSPO. The Company also provided insight into the decision to move to a single share class structure.



Amu Power plant

LAPFF co-signed a letter to the chair and chief executive of **General Electric**, John Flannery, asking the company to re-consider the acquisition of a stake in Amu Power coal plant in Kenya. The Forum is of the view that the investment is at odds with the Company's public positioning on climate change and the Paris Agreement.

Collaborative engagement with **BP** continued with one of the regular '8 on 8' meetings with investors and senior BP staff, as part of the Climate Action 100+ initiative.



Discussions focused on the company's 'race to lower carbon' including an efficiency focus in upstream technology and the company's new technology and investments. As BP is the lead provider of methane in the US, LAPFF asked about the focus on methane emission control in the US and promoting methane management beyond the company's direct impact. The Forum also asked about the ambition and scale of the company's plans for Electric Vehicle charge points.

At a collaborative meeting with Simon Thomas, the Chair of **Rio Tinto**, LAPFF joined other members of the Institutional Investors Group on Climate Change (IIGCC) to follow up the Company's progress in disclosing more information subsequent to the shareholder resolution at this year's AGM on membership of trade bodies and lobbying practices. It was noted that Rio has sold all its coal operations, but still relies on coal as an energy source in Mongolia and South Africa.



In September, LAPFF continued its collaborative engagement with **Ford Motor Company** under the aegis of Climate Action 100+. The meeting sought to pursue existing dialogue on the company's position on public policy on vehicle greenhouse gas emission standards, in the context of the Climate Action 100+ requests on emission reduction and enhanced disclosure.

SOCIAL RISK

Employment Standards

Following strong investor concern over governance and employment practices at Sports Direct and Ryanair, the Forum attended both of the companies' AGMs in September. At the **Sports Direct** AGM, LAPFF spoke to the employee representative about the election process and inquired about some of the feedback from staff. The Forum also spoke to the newly elected Chair and the new female director. The Forum considers that the changes in leadership are likely to result in a more constructive discussion with the Company in the future.

LAPFF Vice Chair Cllr Paul Doughty attended the **Ryanair** AGM in Dublin. He inquired about alleged disciplinary actions against staff for not reaching sales targets and noted the issues around workers on Irish contracts. Cllr Doughty also asked about potential repayments for the delays and cancellations during industrial strikes.

Diversity

Through its membership of the 30% Club investor group, the Forum requested meetings with companies from the energy sector to discuss board governance processes around nominations and succession planning for both non-executives and executives and how diversity is considered in this process.

RELIABLE ACCOUNTS/CONSULTATION RESPONSES

LAPFF submitted its [response](#) to the Kingman Review, with the main recommendations being: disbanding the current FRC, creating a stand-alone UK Financial Accounting Standard Board, putting some audit oversight functions into a Companies Commission with the Insolvency Service, and creating a UK auditing oversight board. Disappointingly, the Kingman Review team have decided not to make the responses public. However, it is clear from those that have been published by the party making the submission, that the LAPFF position is widely shared.

These statements are from the response of fifth largest accounting firm BDO: 'It is our view that the FRC's reputation for regulation is poor...' '...the FRC's reputation for standard-setting has been, and will continue to be, undermined. For this reason alone, we believe that the two functions should be separated into different bodies.' and 'the FRC's failings are partly due to the conflict of interest engendered by its dual responsibilities for standard-setting and compliance, and partly through its "negative" impact on the audit market place.'

MEDIA COVERAGE

Ryanair

[Ryanair cancels flights after strike by pilots and cabin crew](#) – Financial Times, 28 September 2018

[UK public pension group call for 'oppose' votes at Ryanair AGM](#) – Business Insider, 14 September 2018

[UK public pension group to oppose Ryanair at AGM](#) – Reuters, 14 September 2018

[Local authority pension group seeks to outst Ryanair chair](#) – Local Government Chronicle, 14 September 2018

[UK pension fund will oppose Ryanair at annual meeting](#) – The Guardian, 14 September 2018

[Ryanair chairman David Bonderman facing turbulence](#) – The Times, 15 September 2018

[Michael O'Leary's lockdown won't keep Ryanair's woes a secret](#) – The Guardian, 15 September 2018

[Ryanair says shareholder will back Bonderman at AGM](#) – Independent, 19 September 2018

[Ryanair CEO O'Leary admits he needs to improve his performance](#) – Bloomberg, 19 September 2018

[Ryanair investors Royal London to oppose re-election of airline's chair at AGM](#) – City AM, 19 September 2018

[Ryanair faces growing backlash at annual shareholder meeting](#) – The Guardian, 19 September 2018

[Ryanair shareholders re-elect O'Leary and Bonderman](#) – RTE, 20 September 2018

[Ryanair chief survive shareholder revolt](#) – Travel Weekly, 20 September 2018

[Ryanair faces turbulent AGM](#) – The Times, 20 September 2018

[Ryanair boss Michael O'Leary may leave within five years](#) – BBC, 20 September 2018

[Ryanair reports 30% votes against re-election of chairman Bonderman](#) – Morningstar, 20 September 2018

[Ryanair chair survives shareholder revolt but investors want change](#) – The Guardian, 20 September 2018

[Council pension fund rebel at Ryanair meeting](#) – The MJ, 20 September 2018

[Ryanair chairman re-elected at AGM by narrower margin amid concerns about strikes](#) – Proactive Investors, 20 September 2018

[Ryanair board survives AGM intact but dissatisfaction evident](#) – The Irish Times, 20 September 2018



Sports Direct

[Debenhams comment by Sports Direct forces watchdog to intervene](#) – The Guardian, 12 September 2018

[Ashley turn on shareholder after shambolic week for Sports Direct](#) – Shropshire Star, 14 September 2018

Reliable Accounts

[Britain needs a companies commission](#) – Economia, 9 August 2018

[UK accountancy watchdog 'too close' to big four, say critics](#) – Financial Times, 20 August 2018

[Independent Review considers calls for UK audit regulator to be shut down](#) – IPE, 28 August 2018

[UK accounting watchdog to publish hospitality register](#) – Financial Times, 13 September 2018

[Accountancy can be made to work for investors](#) – Financial Times, 13 September

Climate

[Investor group opposes General Electric plans for Kenyan power plant](#) – Reuters, 19 July 2018

[UK pension fund forum urges greater climate action from 16 firms](#) – Environmental Finance, 10 August 2018

[Fracking investments by council pension funds 'unlawful'](#) – BBC, 3 September 2018

Other

[How gender pay gap data is being used in investor engagement](#) – Professional Pensions, 28 August 2018

[Barnet pension scheme votes to join the LAPFF](#) – Pensions Expert, 9 July 2018

COMPANY PROGRESS REPORT

63 companies engaged over the quarter

Q3 2018 ENGAGEMENT DATA			
Company	Activity	Topic	Outcome
A3M Company	Letter	Campaign (Shareholder rights)	Dialogue
ABB Ltd	Letter	Campaign (Shareholder rights)	Dialogue
Abbott Laboratories	Letter	Campaign (Shareholder rights)	Dialogue
American Electric Power Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Barratt Development plc	Letter	Other (SDGs)	Dialogue
Berkeley Group Holdings plc	Letter	Other (SDGs)	Dialogue
Bovis Homes Group plc	Letter	Other (SDGs)	Dialogue
BP plc	Meeting	Climate Change	Substantial improvement
Bristol-Myers Squibb Company	Letter	Campaign (Shareholder rights)	Dialogue
Brown-Forman Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Cairn Energy plc	Letter	Board composition	Dialogue
Caterpillar Inc	Letter	Campaign (Shareholder rights)	Dialogue
Conocophillips	Letter	Campaign (Shareholder rights)	Dialogue
Cummins Inc	Letter	Campaign (Shareholder rights)	Dialogue
Deere & Company	Letter	Campaign (Shareholder rights)	Dialogue
Devon Energy Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Dow DuPont Company	Letter	Campaign (Shareholder rights)	Dialogue
Eli Lilly and Company	Letter	Campaign (Shareholder rights)	Dialogue
Emerson Electric Co	Letter	Campaign (Shareholder rights)	Dialogue
ExxonMobil Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Fluor Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Ford Motor Company	Meeting/Letter	Climate change/Campaign (Shareholder rights)	Small improvement
General Electric Company	Letter	Campaign (Shareholder rights)/ Climate change	Dialogue
Glencore plc	Letter	Audit practice	Dialogue
Go-Ahead Group plc	Letter	Other (SDG)	Dialogue
Intel Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Johnson & Johnson	Letter	Campaign (Shareholder rights)	Dialogue
Johnson Controls Inc	Letter	Campaign (Shareholder rights)	Dialogue
Leggett & Platt Inc	Letter	Campaign (Shareholder rights)	Dialogue
Lockheed Martin Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Marathon Petroleum Corporation	Letter	Campaign (Shareholder rights)	Dialogue
McCormick & Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Merck & Co Inc	Letter	Campaign (Shareholder rights)	Dialogue
Microsoft Corporation	Letter	Campaign (Shareholder rights)	Dialogue
National Grid plc	Letter	Climate change	Dialogue
Nestle SA	Letter	Other (SDG)	Dialogue
Nostrum Oil & Gas plc	Letter	Board composition	Dialogue
Novartis AG	Letter	Campaign (Shareholder rights)	Dialogue
Pearson plc	Meeting	Governance/Remuneration	Moderate improvement
Pennon Group plc	Letter	Other (SDG)	Dialogue
PepsiCo Inc	Letter	Other (SDG)	Dialogue
Persimmon plc	Letter	Other (SDG)	Dialogue
Pfizer Inc	Letter	Campaign (Shareholder rights)	Dialogue
PPG Industries Inc	Letter	Campaign (Shareholder rights)	Dialogue

Q3 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
Procter & Gamble Company	Letter	Campaign (Shareholder rights)	Dialogue
Rio Tinto Group (GBP)	Meeting	Climate change	Moderate improvement
Ryanair Holdings plc	Alert issued/AGM	Employment standards/Board composition	Change in process
Sainsbury (J) plc	Meeting	Governance (General)	Dialogue
Severn Trent	Letter	Other (SDG)	Dialogue
Southern Company	Letter	Climate Change/Campaign (Shareholder rights)	Dialogue
Sports Direct International plc	Alert issued/AGM/ Letter	Employment standards/Board composition	Dialogue
Stagecoach Group plc	Letter	Other (SDG)	Dialogue
Suez Environment	Letter	Other (SDG)	Dialogue
Taylor Wimpey plc	Letter	Other (SDG)	Dialogue
Textron Inc	Letter	Campaign (Shareholder rights)	Dialogue
The Boeing Company	Letter	Campaign (Shareholder rights)	Dialogue
The Coca-Cola Company	Letter	Other (SDG)	Dialogue
The Goodyear Tire & Rubber Company	Letter	Campaign (Shareholder rights)	Dialogue
Tullow Oil plc	Letter	Board composition	Dialogue
Unilever plc	Meeting	Environmental risk/Social risks/ Governance	Small improvement
United Technologies Corporation	Letter	Campaign (Shareholder rights)	Dialogue
United Utilities Group plc	Letter	Other (SDG)	Dialogue
Verizon Communications Inc	Letter	Campaign (Shareholder rights)	Dialogue

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by or on behalf of LAPFF representatives during the quarter:



In July, the Forum organised an investor briefing to discuss governance and workforce issues at Ryanair, chaired by Cllr Ian Greenwood. The meeting heard from Ryanair cabin crew, representatives from the International Transport Workers Federation, an HSBC analyst and a partner at Charles Russell Speechlys.



The Local Government Pensions Minister, Rishi Sunak MP, spoke at the July meeting of the All Party-Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, the meeting covered the importance of investing in infrastructure, pooling and revisited the topic of including Councillors as members of LGPS. Richard Murphy, Professor of Practice in International Political Economy and Director of Tax Research LLP also addressed the group on the lack of transparency within the big four accountancy firms – Deloitte, KPMG, Ernst & Young and PwC – and emphasised the importance of having strong accountancy standards. The minutes from the meeting can be accessed [here](#).



The Forum joined a new investor alliance to engage companies on plastic pollution, led by the As You Sow Initiative. The Plastic Solutions Investor Alliance are intending to primarily focus on plastic packaging and to initiate dialogue with four large international consumer goods companies: PepsiCo, Procter & Gamble, Nestle and Unilever.



Through its membership in the Principles for Responsible Investment (PRI) Investor Working Group on Sustainable Palm Oil, the Forum attended a webinar on the risks that banks associated with deforestation face and the importance of investor engagement. The Forum also attended a webinar on companies that allegedly buy illegal palm oil in Indonesia.



Attendance at the Global Climate Action Summit in San Francisco emphasised the central importance of investors in sending strong signals to government to step up action by 2020, when global emissions need to peak and then swiftly decline. Conference outcomes set out a 'call to action' for all parties to take advantage of the opportunities to transition to a low-carbon economy.



In September, LAPFF also attended the annual Climate Week in New York. The summit, which was launched by The Climate Group in 2009, gathers politicians, nongovernmental organisations, activist, policy makers and representatives from businesses to drive climate action forward.



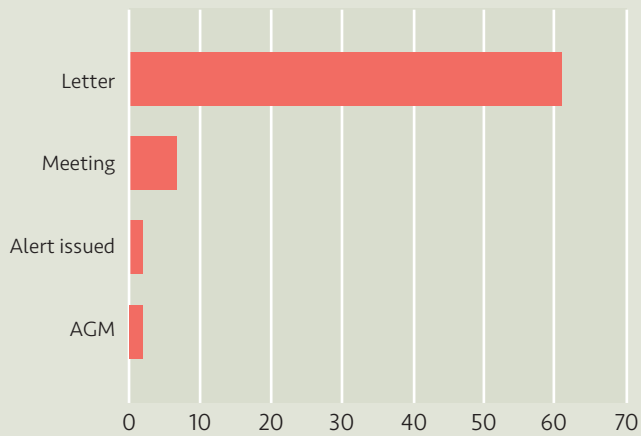
At a CEO Investor Forum organised by 'CECP: The CEO Force for Good,' the Forum heard from a range of CEOs including from NRG Energy, IBM and GSK. The event reviewed the positive impact of communicating long-term value creation with investors.



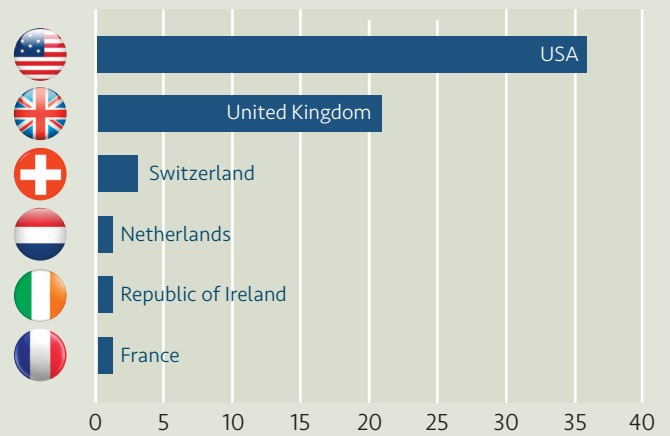
The Financial Reporting Council (FRC) has launched independent research into FTSE350 companies' diversity and inclusion reporting. The Forum attended an event organised by the FRC on current trends in reporting and related initiatives.

COMPANY ENGAGEMENT ACTIVITIES

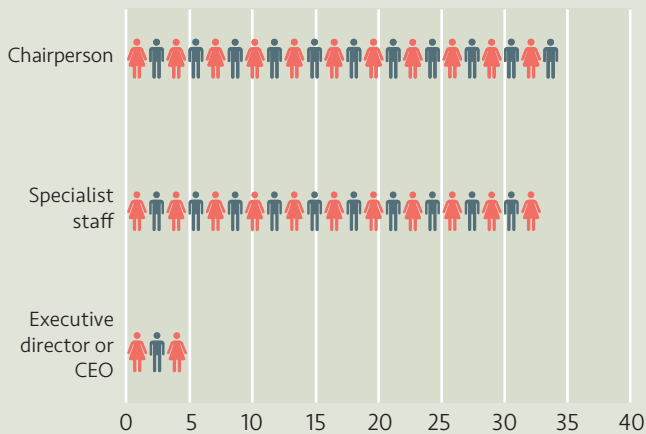
Company engagement activities



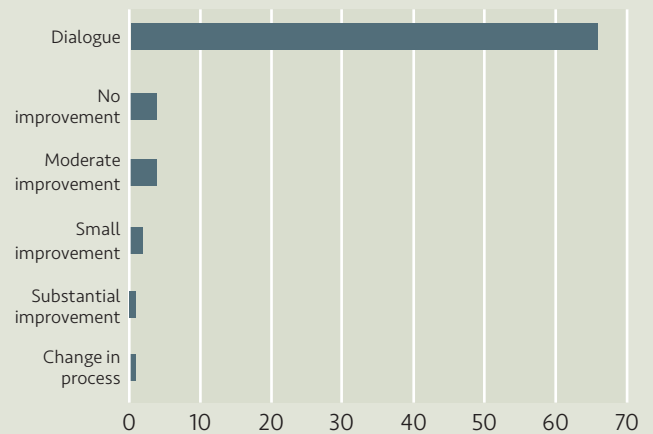
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding Of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Environment Agency Pension Fund
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Hammersmith and Fulham LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham LB
- Lincolnshire CC
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys CC Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pension Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk CC Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster LB
- Wiltshire CC
- Worcestershire CC

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 September 2018	AGENDA ITEM NUMBER
TITLE:	GMP Reconciliation: Verbal Update	
WARD:	ALL	
Attachments to this report: Appendix 1 – Letter to Scheme Advisory Board from Chair of South West Pension Officers Group,		

1 THE ISSUES

- 1.1 At the previous Committee, decisions were made regarding tolerance levels and potential over or underpayments of GMP increases. Whilst these were agreed the Committee requested that other regional funds should be contacted to see if some collective consensus could be reached.
- 1.2 A meeting was held on 1st Oct amongst LGPS pension funds in the South West area and following some constructive debate it was the combined decision that the matter be escalated up to national level. It was proposed that the Chair of the South West Area Pension Officers Group (SWAPOG) send a letter to the Chair of the Scheme Advisory Board (SAB) and the Minister for Housing Communities and Local Government (MHCLG) asking for some direction from the centre on this matter.
- 1.3 A draft letter was discussed at SWAPOG and the finished letter sent out on 19 November 2018. A copy of the letter is attached as Appendix 1
- 1.4 A verbal update will be made at the Committee

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Councillor Roger Phillips
Chair LGPS Scheme Advisory Board
18 Smith Square
Westminster
London
SW1P 3HZ

Date: 19 November 2018

Dear Councillor Phillips ,

I am writing as Chair of the South West Area Pension Officers Group. This includes Cornwall, Devon, Somerset, Dorset, Avon, Wiltshire and Gloucester pension funds.

The Local Pension Officer Groups were asked to consider how rectification could be achieved following the GMP reconciliation exercise.

Whilst other public sector schemes have been directed on a scheme basis the LGPS Funds are required to individually decide a course of action.

It is expected that a number of members will be found to have been overpaid pensions as a result of both DWP and the pension fund paying pension increases on the GMP element.

These likely overpayments will, in some cases, have accrued over a number of years with the higher overpayments occurring on those who reached State Pension Age [SPA] 25-30 years ago.

The reason for this higher overpayment is that the GMP in these cases is predominantly on a GMP accrued pre 1988 where full indexing is the responsibility of the State and the incorrect pension has then built up over the long period since SPA.

This means that any rectifications made on these higher overpayments will affect members who are aged 80 and above.

It is likely that some of these member's pensions are currently being overpaid in excess of £100 per month.

This has left Administering Authorities with a dilemma of any potential rectifications.

On the one hand they need to consider the fact that this is money from Public Funds and on the other the sensitivity towards those affected. Appeals to the Pensions Ombudsman would almost certainly follow with adverse publicity that would result.



Either way there would be reputational damage to the public sector arising from any decision on rectification.

The South West Area Pension Officers Group met on 2 October 2018 to discuss the issues of rectification and the various options available. The intention was to come to a collective approach on the way forward in this matter.

Authorities put forward their proposed options, one had gone to Committee but before approving any course of action the Committee had requested that other Funds be consulted to see if a collective approach could be agreed.

When going through the options it soon became apparent that there was no easy solution

Appendix 1 sets out the various options and pros and cons involved

The problems ranging from

- Potential rectification of records both on administration and payroll
- Notifications to all affected members who would need to be able to understand the GMP process and what had occurred with a sensitivity around any recovery on overpayments and pension reductions
- Furthermore there could be difficulties if a member was affected in two separate Funds and the decision on rectifying was different.
- References were even made to at least one authority, not in the South West, that had decided not to engage with the reconciliation and would thus avoid such problems.

It was agreed that the overpayments to date should be written off.

The discussion on a solution regarding rectification of current pensions where any overpayment was occurring produced various options but no definitive answer.

The decisions made in Scotland were also discussed where The Scottish LGPS are making use of regulation 14(5) Registered Pension Scheme (Authorised Payments) Regulations 2009 and their scheme rules are to be amended The GMP related overpayment would be converted into an 'increased pension entitlement' which will continue to be increased.

No similar action is forthcoming regarding LGPS[England and Wales] as to be allowed to go down this route would require agreement from HM Treasury.



Funds are in a no win situation and are then all setting out their own rectification programme.

The main consensus of the SWAPOG meeting was that along with other public sector schemes a consistent approach should be made at a national level so that all Funds in England and Wales have a definitive course of action that is constant throughout the LGPS. This would remove decisions being made at local levels.

The Scheme Advisory Board / MHCLG are requested to make representations to HM Treasury to see if the Scottish approach is one that could be adopted by LGPS [E&W]

If this solution is not possible then can Funds be notified as to how such rectifications should be address so that the whole of LGPS (E & W) have a uniform approach like all other public sector schemes and not be in a position that numerous decisions are made across the scheme. This notification should include guidance on how authorities should address any repercussions that arise.

Yours sincerely



Calvin Matthews FPMI
Pensions Administration Manager
Cornwall Pension Fund
Tel: 01872 322304
Email: cmatthews@cornwall.gov.uk



Appendix 1

Rectification of GMP overpayments options

The prospective options would appear to be as follows:-

			Comments	
Recover Overpayment		Adjust monthly overpaid rate	Pros	Cons
1	Yes	Yes	Rectifies overpaid public monies and future overpayments	Reputational Damage
2	No	Yes	Rectifies any future overpayment of public monies	Potential appeals Reputational Damage Eg. Taxpayers Alliance Possible numerous appeals Media coverage of "reducing a vulnerable person's pension" and the "potential stress caused as a result"
3	No	Freeze current levels until catches up with correct level	Goes part way to appeasing both sides	Whilst protecting against future increases the current level would still mean further overpayments Legality position required Tax implications
4	No	No	Would be good from a reputational position by avoiding any alarm in a very sensitive section of the membership	This could again be subject to possible appeal claims Increased administration in monitoring such cases Contrary to legal position Tax implications Although it would be usual to rectify some other public sector schemes have been reported as having taken a decision to ignore and write off these payments.

It is accepted that where an underpayment is found that this would be rectified accordingly

If it is decided that future pension rates must be changed then option 3 was the group's preferred option



INVESTOR IN PEOPLE

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	7th DECEMBER 2018
TITLE:	PENSION FUND ADMINISTRATION (1) SUMMARY PERFORMANCE REPORT TO 30th September 2018 (2) PERFORMANCE INDICATORS TO 30th September 2018 (3) TPR COMPLIANCE
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Membership data Appendix 2 – Performance Measurement against SLA and Workloads Appendix 2a – SLA Measurement Schedule Appendix 2b – Performance Measurement against Statutory Legal Deadline Appendix 2c – Statutory Legal Measurement Schedule Appendix 3 – Employer Performance Appendix 4 – TPR Data Improvement Plan Appendix 5 – Late Payers Appendix 6 – Customer Feedback Appendix 7 – IDRP Current Cases Appendix 8 – Risk Register Top 10	

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of performance figures for Fund Administration for the three months to 30th September 2018.
- 1.2 Further to the introduction of The Pension Regulator (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, this report includes progress on the TPR Data Improvement Plan and levels of employer compliance.

2 RECOMMENDATION

The Committee is asked to note:

- 2.1 Membership data, Fund and Employer performance for the 3 months to 30th September 2018.
- 2.2 Progress and reviews of the TPR Data Improvement Plan.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications related to this report as it is an information report.

4 MEMBERSHIP TRENDS

- 4.1 *Appendix 1* provides a detailed breakdown of employer/member ratio and split between whole time and multiple employment membership as well as a snapshot of individual employer and member make up. The increasing number of new smaller employers to the Fund as part of the fragmentation of the employer base (newly created Academies/MAT's and Transferee Admitted Bodies) has a direct impact on the administration workload with increased movement between employers, especially within the education sector. Continued development of data reporting going forward will enable further understanding of the demographic nature of employer type and associated member make up as employers continue to evolve.

5 AVON PENSION FUND – ADMINISTRATIVE PERFORMANCE

- 5.1 Key Performance Indicators for the 3 months to 30th June 2018.
- 5.2 The information provided in this report is based on the Avon Pension Fund's performance against the Service Level Agreement which falls in line with the industry standards set out by the LGPC & used in CIPFA benchmarking. All standards fall within the regulatory guidelines set out in The Occupational & Personal Pension Schemes (Disclosure of Information) Regulations (as amended) which require provision of information to members.
- 5.3 Full details of APF performance against SLA targets, in tabular and graph format, are shown in *Appendix 2; Annex 1 to 4*. *Appendix 2a* provides further context around the measurement of APF performance against the SLA.
- 5.4 *Appendix 2b* sets out APF performance against legal statutory deadlines and *Appendix 2c* provides legal context. In all cases the legal deadlines are less stringent than the SLA targets.
- 5.5 Performance against SLA targets are reported remain below the benchmark in most areas of administration work, this is due to the continuing requirement for training of new members of staff and existing members of staff who are acting up into more senior roles.
- 5.6 The project to clear the backlog of aggregation cases began on the 1st July with 3,869 cases identified as project work. The project has proved to be very successful to date with 1,733 cases being cleared as at 30th September leaving a further 2,136 cases outstanding meaning the team have cleared approximately 45% of the cases in 3 months. The project is on track for completion within the designated 8 month period. The Trivial Commutation project, to extinguish the number of small pensions we are currently paying by making a one-off payment to a member, is underway and we have recently received a feasibility study from the scheme actuary and are in the process of reviewing this to determine the best way forward with the project.

5.7 Admin Case Workload *Annex 5 & 6*: The level of work outstanding from tasks set up in the 3 month period is reported in *Appendix 2; Annex 5 & 6* by showing what percentage of the work is outstanding. As a snapshot, at 30th September there were 7,802 cases outstanding (a decrease of 732 cases from previous report) of which 46.91% represents actual workable cases, ie 3,660 cases, and 53.09% represents cases that are part complete, pending a third party response. The decrease in outstanding cases is mainly due to the volume of cases being cleared by the aggregation project.

6 RESOURCE UPDATE

6.1 **Member Services** - Two apprentices joined the team in September. The apprentices will be involved with a variety of activities within the section in addition to undertaking their studies. Training to develop officers who are newer to their roles continues to put a strain on existing resource.

6.2 **Employer Services** – Two apprentices joined the team in September. They will be involved in a variety of employer services work in addition to undertaking their studies. Recruitment into posts previously agreed to cover both staff churn and temporary projects has resulted in the addition of a further 5 new staff members.

6.3 Overall the amount of training and mentoring required across new staff and apprentices has resulted in a general downturn on performance. It is expected that this will continue in the short term until the new staff bed in.

6.4 TPR data improvement plan *Appendix 3* highlights employer performance for the 3 months to 30th September 2018. The report is now updated to show performance for retirements only as leaver forms are not required for other types of leaver (eg refunds and deferred benefits) once employers are using monthly online returns.

6.5 During the period from 1st July to 30th September a total of 1,486 leaver forms were received with an average accuracy rate of 83%.

6.6 Once all the Unitary Authorities and larger employers are submitting monthly online returns there should be an overall reduction in leaver forms of at least a third.

6.7 The project to roll out monthly online returns (IConnect) across the APF portfolio commenced at the end of March 2018. As at the end of September app 148 employers are now live and submitting returns monthly, covering 75% of the active membership. Phase 1 (employers with less than 50 members) is now complete and Phase 2 (employers more than 50 members) of the project is now under way. In the pipeline there is active engagement with 13 organisations who are working towards a live submission by the end of December. This will cover a further 159 employers.

6.8 A review of the reporting of data from the online returns is currently under way.

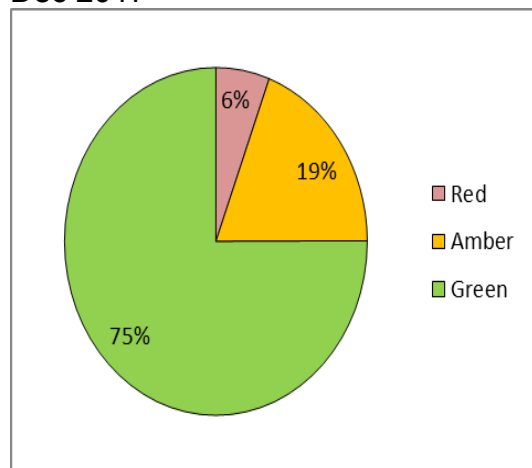
7 TPR DATA IMPROVEMENT PLAN

- 7.1 A 'Data Score' has now been added to the TPR reporting as shown in Appendix 4. This has been calculated in accordance with the Pension Regulator's guidance. The Fund's overall data score as at 30 September 2018 is calculated as 94.45%.
- 7.2 Although the overall data score has remained constant the split of queries for active members is now across an increased number of smaller employers who may only need one or two data queries to put them in the red category.
- 7.3 Since the commencement of the address tracing project 846 deferred member addresses have been confirmed found, but over the same period 478 new missing addresses have been flagged as missing for deferred members. This is mainly as a result of returned annual benefit statements.
- 7.4 A summary of the RAG rating by employer is shown below. The RAG rating has been adjusted so that outstanding queries over 10% = Red, between 0.1% & 10% = Amber and 0% = Green.

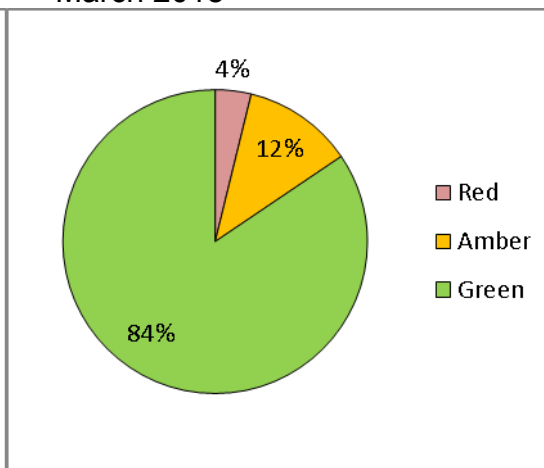
No of employers Dec 2017	No of employers Mar 2018	No of employers June 2018	No of employers Sept 2018	Queries	RAG rating
20	14	19	58	10% >	Red
67	43	57	89	0.1 to 10%	Amber
262	310	316	257	0%	Green

Equivalent % rating of whole Fund

Dec 2017

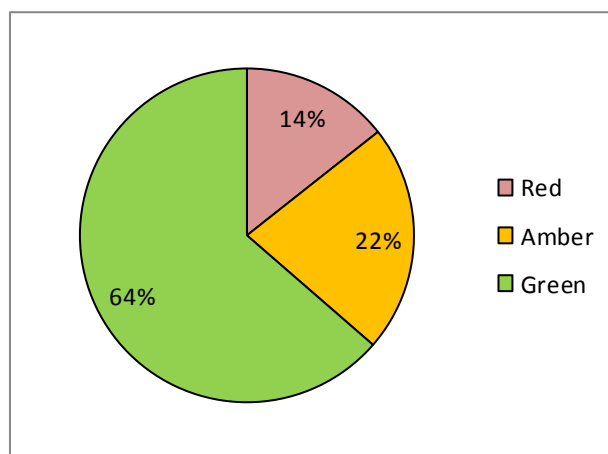
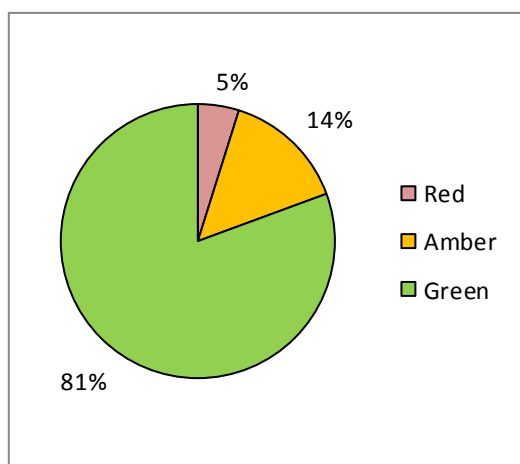


March 2018



June 2018

September 2018



Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Dec 17	Queries Mar 18	Queries Jun 18	Queries Sept 18	Member ship	RAG	
BANES	87	38	187	194	3324	5.84%	Amber
Bristol City	82	64	199	159	8966	1.77%	Amber
North Somerset	6	0	240	76	2335	3.25%	Amber
South Gloucestershire	61	54	81	62	6215	1.00%	Amber

7.4 The Pension Committee had previously agreed the Fund's proposal to use a tracing agency to locate both missing and 'gone away' member addresses.

7.5 Results to date are shown in the tables below.

5,236 cases were originally sent to the Tracing Company

Tracing Stage	Number of Cases	%
Stage 1: Mortality Screening	606 found	11.5%
Stage 2: Auto Trace	1,166 found	22.0%
Stage 3: Manual Basic Search	1,706 found	32.5%
Total cases found	3,478	66.0%
Total cases not found	1,758	34.0%

Of the 3,478 cases found trace letters were issued to members on 11 June and 23 July.
As at 30 September 2018

New addresses updated	854	25.0%
Letters returned - not at new address	43	1.0%
Member confirmed as deceased	122	3.5%
Letter issued awaiting response	1,427	41.0%
Letter still to be issued	1,032	29.5%

Unfortunately no further letters have been issued due to lack of resource. A temporary resource has now been recruited to work on the project and will start on 1 November.

8 LATE PAYERS

- 8.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.
- 8.2 The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.
- 8.3 *Appendix 5* reports late payers in the period to 30th September 2018. There were a small number of late payments in the reporting period, none of which were of material significance and therefore recorded internally but not reported to TPR. The Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

9 CUSTOMER FEEDBACK

- 9.1 *Appendix 6* highlights the 52 responses to the online survey for retirees. In summary, 79% of respondents indicated that they were very satisfied (71%) or fairly satisfied (8%) with service they received from the Avon Pension Fund.
- 9.2 There were 52 results from the online survey, rating each page on the website (a 1 to 5 star rating) during the period. 89.5% of respondents gave the website a 4 or 5 star rating (86% giving it 5 stars).

10 YEAR END

- 10.1 The 2017/18 year-end exercise has now been completed.
- 10.2 A total of 22 employers have incurred penalty charges. Seven charges are for late returns and the remainder in respect of queries in excess of 10% of membership. Any employer who is not a repeat offender will be offered the opportunity to attend training in lieu of the fine.
- 10.3 The primary repeat offender was EACT Multi Academy Trust who will be fined for a late return for one academy and disproportionate work for outstanding queries across all their academies. Part of the charge is also for the additional work in re-issuing annual benefit statements due to incorrect year end data for one of the academies. EACT are now fully engaged and have cleared almost all outstanding queries, including historical cases.
- 10.4 North Somerset Council have also being fined for a late year end return and causing disproportionate work for queries at year end.

11 ANNUAL BENEFIT STATEMENTS

- 11.1. The Public Service Pensions Act 2013 requires Funds to produce Annual Benefit Statements by 31st August annually.
- 11.2 For the 2018 exercise the Fund contacted all employers in January, providing each with a current extract of their active membership held on the pension database. This early communication provides an opportunity for payroll data matching in advance of submission of year end returns in April.

11.3 Statements are produced in-house (and to the LGA-approved template guidelines) and sent externally for printing and postage. All statements for deferred members were issued on 25 June, with those for active members being dispatched in three tranches on 13, 20 and 27 August, ahead of the statutory deadline.

11.4 The table below details the ABS numbers sent and errors identified

Description	Active Nos.		Deferred Nos.
ABS issued	32,735		38,676
Total statements due	33,147		43,061
% Actioned	98.76%		89.9%
% Error	1.24%		10.1%
Amended & replacement issued post-31 Aug	142		155

11.4 Notwithstanding the time and effort undertaken by the Fund administration to cleanse all the year-end data, there remain some statements which cannot be sent due to incomplete/inconsistent data. The % errors for actives are due to a combination of missing CARE and missing addresses.

11.5 For deferred members the error % is due to 'gone away' addresses. Errors identified are flagged under the Fund's TPR improvement plan for action.

11.6 The Fund has a project in place to trace missing address details for deferred members.

11.7 The Fund carried out ABS re-runs following updated data from employers (usually following member queries around pay on their original statements). These took place on 1 and 22 October – resulting in 142 replacement active statements and 155 deferred statements (from the pensions tracing project).

11.8 As in previous years a post project review will be undertaken by officers to examine learning points and build in developments to ensure the 2019 ABS are also delivered within the statutory timeframes.

12 IDRP

12.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved. This is

done under an IDRP. The table at Appendix 7 shows the cases going through at the present time.

13 RISK REGISTER

13.1 The Risk Register follows the Council's format for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk. Risks identified cannot be eliminated but can be treated via monitoring.

13.2 The risks identified fall into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
- (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance
- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence
- (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

13.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews

13.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in October 2018.

13.5 As notified in the previous report, the risk from the transfer of skills/knowledge from the Fund to the Brunel Pensions Partnership (risk #28) remains high. Actions to mitigate this are being put in place by officers.

13.6 One risk (R57) which refers to compliance with the transparency code has increased from low to medium. This is due to a delay in the issuing of the FCA reporting template. The main risk is reputational if the Fund is cited as non-compliant with the Code.

13.7 The Brunel Client Group and Brunel are working together to ensure funds in the pool understand the requirements and disclose in a consistent manner.

13.8 The top 10 risks, including their likelihood, impact and mitigating actions are set out in **Appendix 8**.

14 RISK MANAGEMENT

- 14.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

15 EQUALITIES

- 15.1 No items in this report give rise to the need to have an equalities impact assessment

16 CONSULTATION

- 16.1 None appropriate

17 ISSUES TO CONSIDER IN REACHING THE DECISION(S)

- 17.1 There are no issues to consider not mentioned in this report.

18 ADVICE SOUGHT

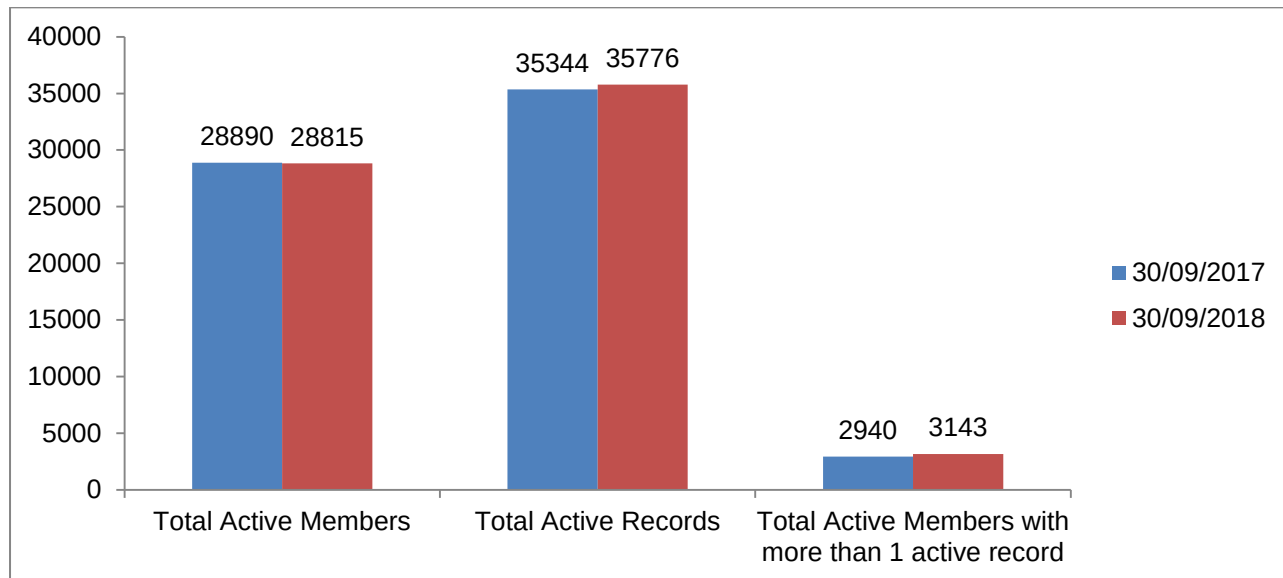
- 18.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

Contact person	<i>Geoff Cleak, Pensions Manager; Tel 01225 395277</i>
Background papers	<i>Various statistical documents.</i>
Please contact the report author if you need to access this report in an alternative format	

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Annex 1

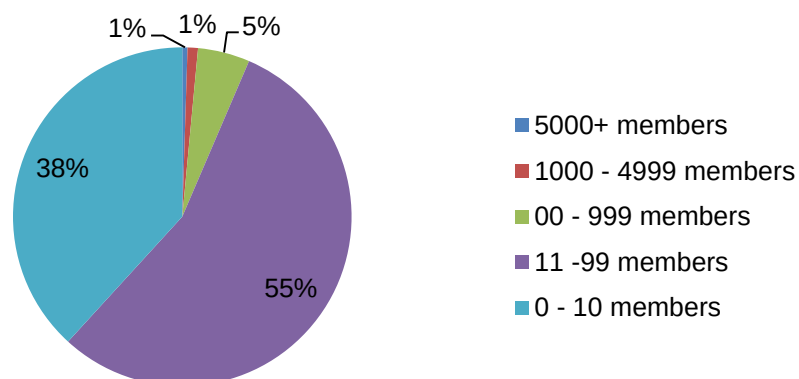
Active membership	30/09/2017	30/09/2018	+/-
Total Active Members	28890	28815	-75
Total Active Records	35344	35776	+432
Total Active Members with more than 1 active record	2940	3143	+203



Annex 2

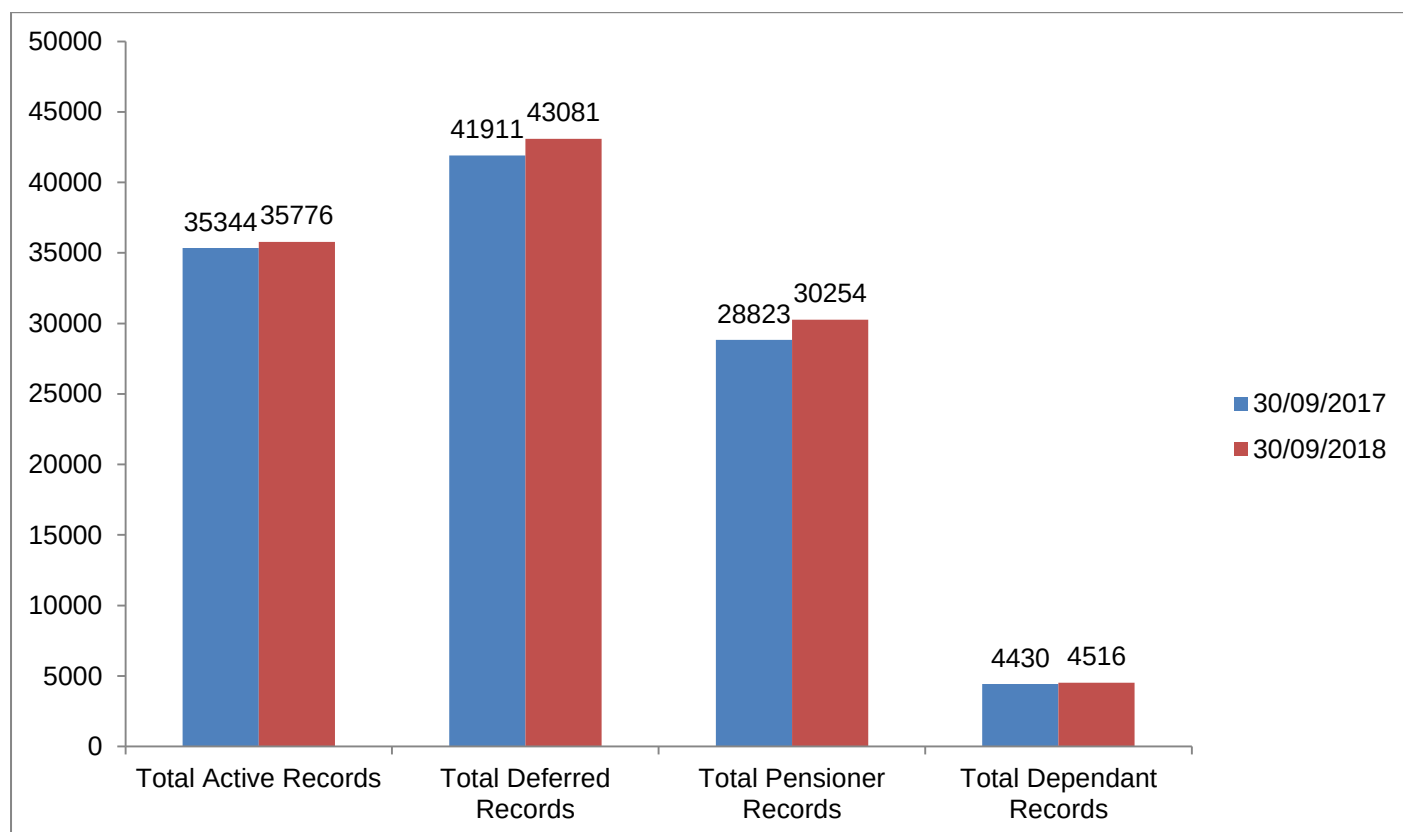
Employers/Active Members Ratio	30/09/2017	30/09/2018	+/-
Number of employers with 5000+ members	2	2	+0
Number of employers with between 1000 and 4999 members	5	4	-1
Number of employers with between 100 and 999 members	16	20	+4
Number of employers with between 11 and 99 members	147	223	+76
Number of employers with between 0 and 10 members	116	154	+38
Total	286	403	+117

Employers/Active Members Ratio as at 30/09/2018



Annex 3 – Total number of member records by type

	30/09/2017	30/09/2018	+/-
Total Active Records	35344	35776	+432
Total Deferred Records	41911	43081	+1170
Total Pensioner Records	28823	30254	+1431
Total Dependant Records	4430	4516	+86



Annex 1

		Cases Last Quarter				
		Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	Quote - 5 days	289	214	74.05%	37	86.85%
	Payment - 5 days	251	198	78.88%	26	89.24%
Retirement (from Deferred)	Quote - 30 days	151	65	43.05%	14	52.32%
	Payment - 5 days	308	242	78.57%	30	88.31%
Deaths	Notification - 5 days	96	85	88.54%	10	98.96%
	Payment - 5 days	63	37	58.73%	9	73.02%
Refund of contributions	Quote - 10 days	284	169	59.51%	16	65.14%
	Payment - 10 days	263	202	76.81%	12	81.37%
Deferreds (early leavers)	20 days	207	57	27.54%	2	28.50%
Transfers In	Quote - 10 days	45	28	62.22%	4	71.11%
	Payment - 10 days	42	15	35.71%	7	52.38%
Transfers Out	Quote - 10 days	192	74	38.54%	23	50.52%
	Payment - 10 days	20	12	60.00%	1	65.00%
Estimates	10 days	232	83	35.78%	10	40.09%
		2443	1481	60.62%	201	68.85%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

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		Tasks Last Quarter							
		Average Days to Process	Actual Days to Process						
			0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	Quote - 5 days	6	214	37	15	8	3	4	6
	Payment - 5 days	3	198	26	12	11	3	1	0
Retirement (from Deferred)	Quote - 30 days	12	79	16	8	12	18	2	16
	Payment - 5 days	-9	242	30	14	9	6	1	6
Deaths	Notification - 5 days	3	85	10	1	0	0	0	0
	Payment - 5 days	10	37	9	6	3	0	3	5
Refund of contributions	Quote - 10 days	12	154	15	16	20	14	25	40
	Payment - 10 days	8	162	40	12	18	12	12	7
Deferreds (early leavers)	20 days	30	36	12	5	4	2	0	148
Transfers In	Quote - 10 days	15	20	8	4	2	3	0	8
	Payment - 10 days	28	10	5	7	2	2	2	14
Transfers Out	Quote - 10 days	26	52	22	23	14	17	9	55
	Payment - 10 days	24	11	1	1	2	0	0	5
Estimates	10 days	21	60	23	10	27	22	19	71

RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA	Q4 Oct 17 - Dec 17	Q1 Jan 18 - Mar 18	Q2 Apr 18 - Jun 18	Q3 Jul 18 - Sept 18	Trend
Retirement (from Active)	Quote - 5 days	61.54%	91.42%	77.11%	74.05%	
	Payment - 5 days	63.28%	90.21%	80.10%	78.88%	
Retirement (from Deferred)	Quote - 30 days	50.00%	47.92%	55.77%	43.05%	
	Payment - 5 days	68.22%	91.26%	79.56%	78.57%	
Deaths	Notification - 5 days	94.25%	96.81%	89.47%	88.54%	
	Payment - 5 days	42.25%	82.22%	55.93%	58.73%	
Refund of contributions	Quote - 10 days	81.32%	14.77%	44.51%	59.51%	
	Payment - 10 days	83.18%	96.56%	89.02%	76.81%	
Deferreds (early leavers)	Notification - 20 days	32.32%	55.67%	88.80%	27.54%	
Transfers In	Quote - 10 days	56.00%	66.67%	62.75%	62.22%	
	Payment - 10 days	33.33%	34.29%	34.29%	35.71%	
Transfers Out	Quote - 10 days	27.54%	24.24%	30.92%	38.54%	
	Payment - 10 days	45.00%	56.52%	43.75%	60.00%	
Estimates	Quote - 10 days	64.50%	44.24%	75.00%	35.78%	
Total Cases Processed		2447	3435	3001	2443	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

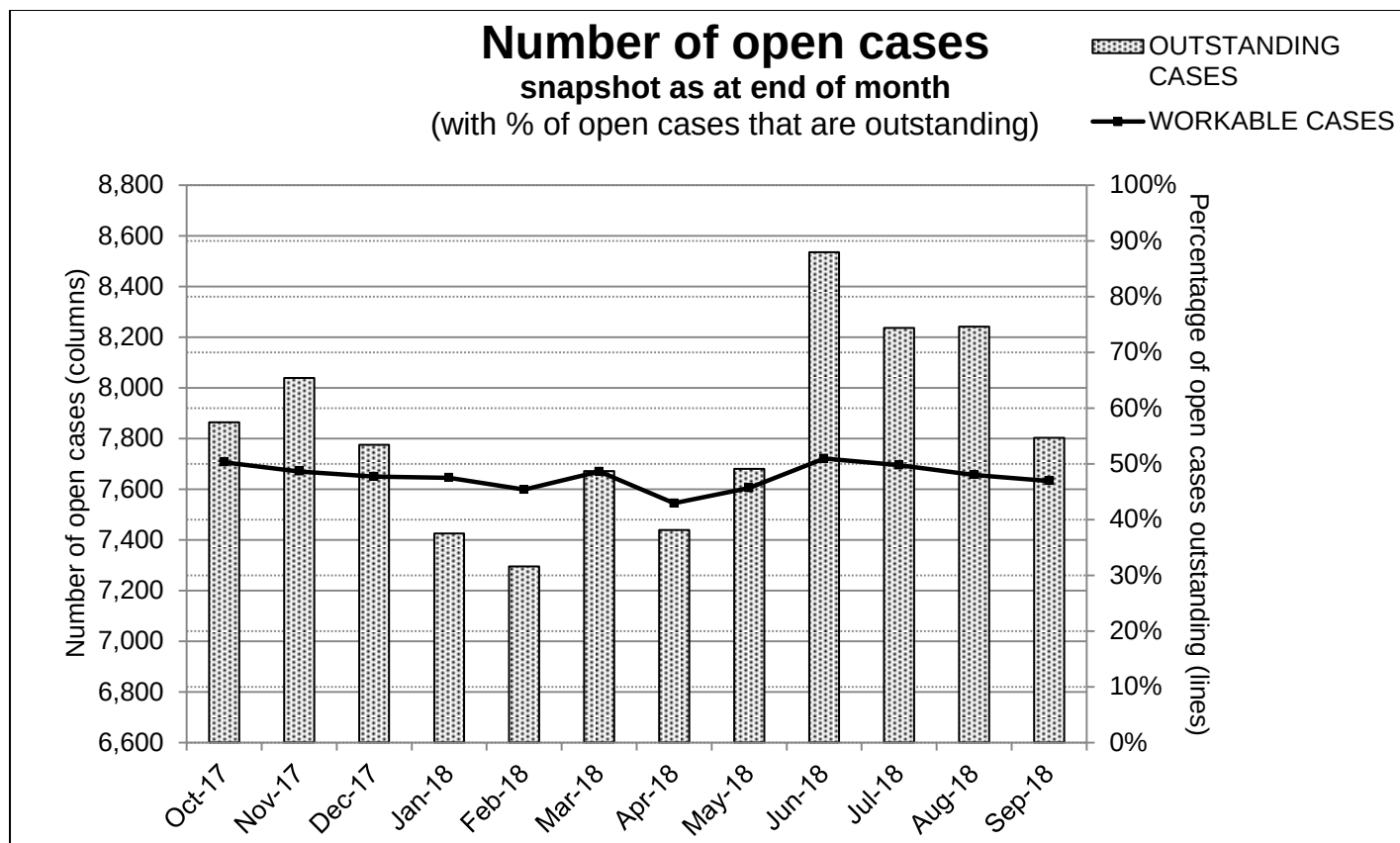
Annex 3

Statutory requirements	Timescale/deadline	3 months to 30/09/18	Notes
Year End data from employer	by 30 June	0	N/A this period
Issue ABS	by 31 August		98.76% Active ABS Issued 89.1 % Deferred ABS Issued
Notify scheme changes	within 3 months	1	Amendment Regulations notification – Aug 2018
Issue Active member newsletter	2 issues per year	1	Issue sent with ABS
Issue Deferred member newsletter	1 issue per year	1	Issue sent with ABS
Issue Pensioner member newsletter	1 issue per year	0	N/A this period

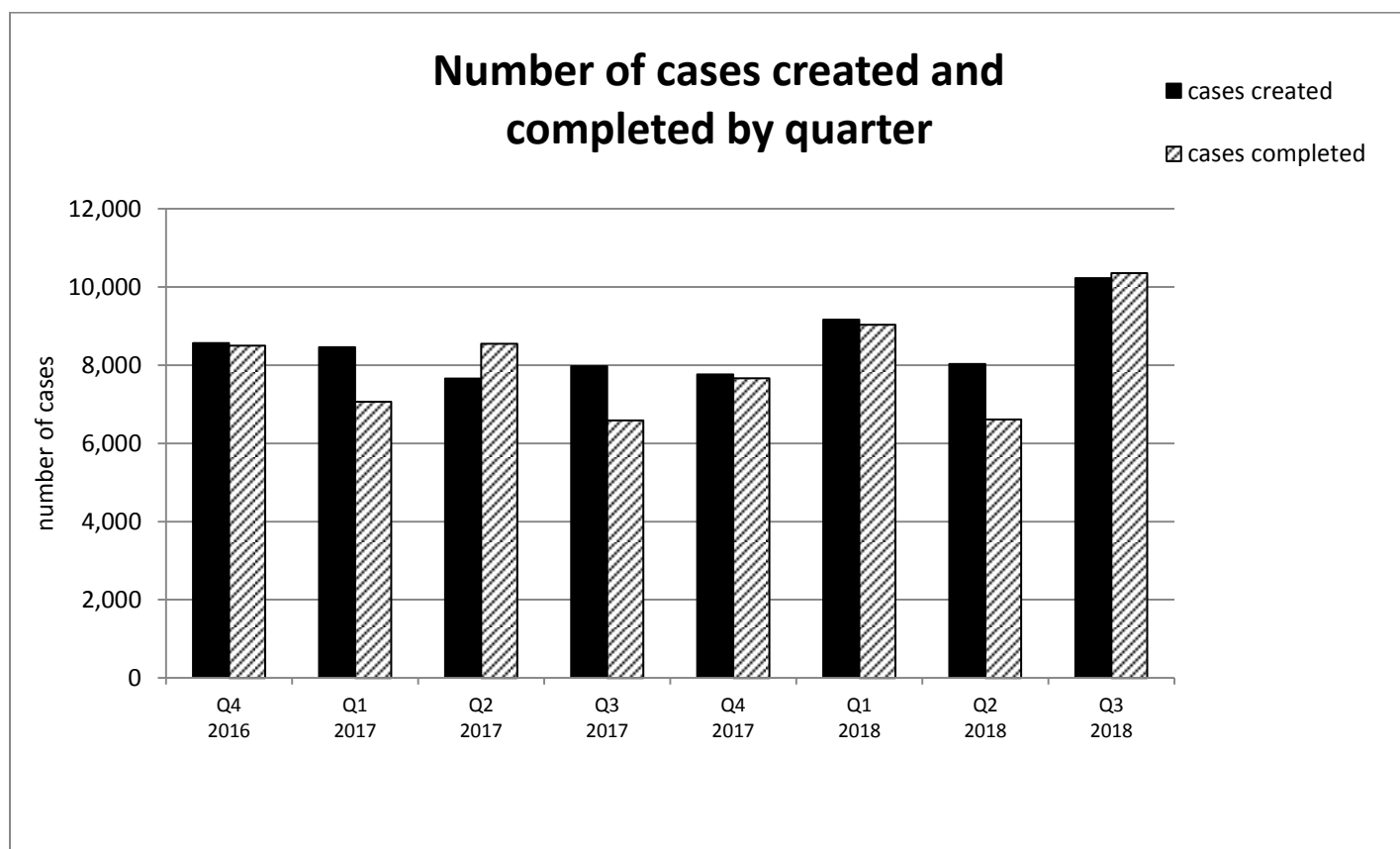
Annex 4

Other performance standards	3 months to 30/09/18	2017/18 target	Notes
Retirements survey - satisfaction %	79%	65%	
% of employers signed up to submit data electronically (ESS/iConnect)	65.3%	70%	
% of active membership covered by ESS/iConnect	96.9%	90%	
% of all members with electronic access (MSS)	20.5%	No target set	
% of active members with electronic access (MSS)	26%	No target set	

Annex 5



Annex 6



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	Requirement	Reporting Start Date	Reporting End Date	Other Information
Retirement (from Active)	5 working days from receipt of the leaver notification to write to the member with their options	Date Leaver Notification Received	Date Retirement Options are Printed & Sent	SLA reporting remains the same regardless of whether the member if retiring before, on or after their NPA
Retirement (from Deferred)	Write to the member with their options 1 month before their intended retirement date	1 Month Prior to Retirement Date	Retirement Date	SLA reporting remains the same regardless of whether the member if retiring before, on or after their NPA
Deaths	5 working days from receipt of all necessary information to make payment.	Receipt of Death Certificate	Date Confirmation of Death Benefits Payable are Printed & Sent	We report on the first payment made in respect of a death case only, for example, we may have all necessary information to pay the surviving spouse a pension but may be waiting for further information, such as probate, to enable us to pay the death grant or vice versa.
Refund of Contributions	10 working days in which to send members a quotation of the refund payable where they have not responded, within 30 days, to our initial communication sent to notify them of their rights on leaving.	30 days following initial communication to notify member of rights	Date Refund Options are Printed & Sent	
Deferreds	20 working days to notify member of their deferred benefits from either the date the member elects for deferred benefits or the 30 day deadline where they have not responded to our initial communication sent to notify them of their rights on leaving	30 days following initial communication to notify member of rights or date of receipt of election to defer benefits	Date Deferred Benefit Notification is Printed & Sent	

Transfers In	10 working days to provide a quotation of the benefits the transfer would provide from the point at which we have received the transfer value from the sending scheme	Date of Transfer Value Received from Sending Scheme	Date Transfer In Options are Printed & Sent	
Transfers Out - Notification	10 working days to provide a transfer value quotation to a member from the date of their request.	Date of Request from Member	Date Transfer Quotation is Printed & Sent	
Transfers Out - Payment	10 working days to make payment of the transfer value from the point at which we receive the members election to proceed with the transfer	Date of Election from Member	Date Confirmation of Transfer Payment if Printed & Sent	SLA reporting excludes any days where we are waiting for a response from an external source, such as HMRC to confirm the registration status of the scheme etc.
Estimates	10 working days to provide both members and employers with estimates from the date of their request.	Date of Request from Member or Employer	Date Estimate is Printed & Sent	APF policy on this is to provide one free estimate per year where the request is within 1 year of the intended retirement date. All other requests are chargeable in line with our policy

Appendix 2b

APF Completed Cases - Performance against Statutory Legal Deadline

		Cases Last Quarter			
		Measured Against Statutory Legal Requirement			
		Target	Total Processed	Total Processed in Target	Percentage Processed within Target
Retirement (from Active)	Notification of Benefits	46 days	144	117	81.25%
Retirement (from Deferred)	Notification of Benefits	23/46 days	178	163	91.57%
Deaths	Notification of Benefits	46 days	66	63	95.45%
Refund of contributions	Notification of Entitlement	46 days	284	284	100.00%
Deferreds (early leavers)	Notification of Entitlement	46 days	207	207	100.00%
Transfers In	Provision of Quotation	46 days	37	28	75.68%
Transfers Out	Notification of Trf Value	69 days	192	176	91.67%
	Payment of Trf Value	138 days	20	18	90.00%
Estimates	Provision of Quotation	46 days	202	149	73.76%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Comments where performance has fallen below expected target:-

Retirement (from Active) – 90% of the cases where retirement from active notifications have not been processed in target is due to the late submission of a leaver notification from the Employer.

Estimates – Other than managing with limited resource to cover all areas of work, APF received a higher volume of estimate requests than usual this quarter, possibly due to the annual benefit statements being sent out to members prompting them to look at their pension.

Transfers In – The majority of these cases were late due to high volumes of work at Senior Pensions Officer level meaning that these cases were taking longer than expected to be checked. A couple were due to APF waiting for an employer to consent to a transfer in once it had received the request as the member had joined more than 12 months prior to the request.

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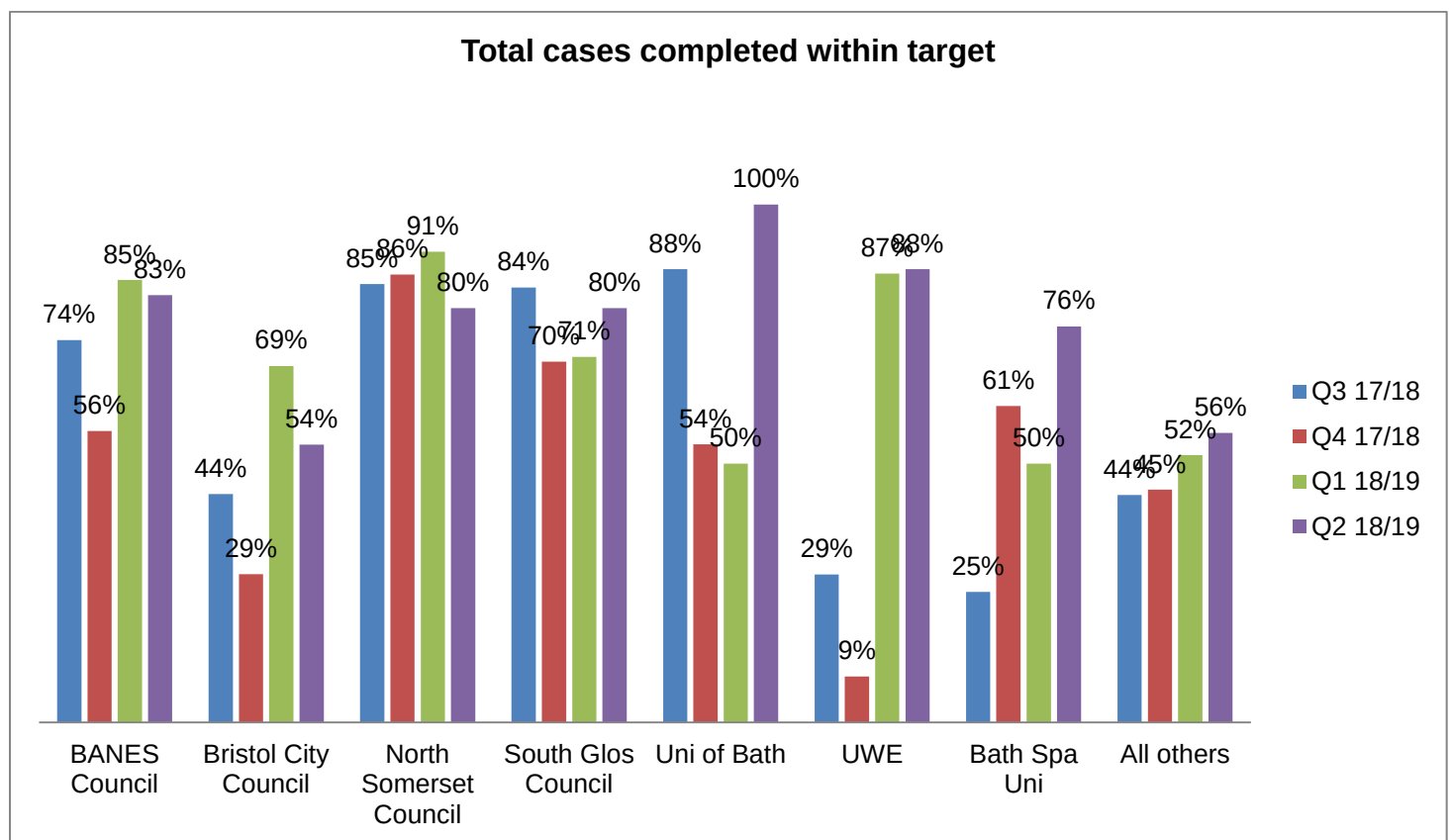
	Requirement	Reporting Start Date	Reporting End Date	Other Information
Retirement (from Active)	Notification of retirement benefits 1 month from the date of retirement if on or after Normal Pension Age or 2 months from the date of retirement if before Normal Pension Age	Retirement Date	Date Retirement Options are Printed & Sent	
Retirement (from Deferred)	Notification of retirement benefits 1 month from the date of retirement if on or after Normal Pension Age or 2 months from the date of retirement if before Normal Pension Age	Retirement Date	Date Retirement Options are Printed & Sent	
Deaths	Calculate and notify dependant(s) of amount of death benefit as soon as practicable but no more than 2 months from becoming aware of death, or from date of request by third party (eg. personal representative).	Receipt of Death Certificate	Date Confirmation of Death Benefits Payable are Printed & Sent	We report on the first payment made in respect of a death case only, for example, we may have all necessary information to pay the surviving spouse a pension but may be waiting for further information, such as probate, to enable us to pay the death grant or vice versa.
Refund of Contributions	To inform members who leave the scheme of their leaver rights and options as soon as practicable and no more than 2 months from the date of initial notification of leaving.	n/a	n/a	APF should always be 100% compliant with this as on receiving a leaver notification we immediately write to a member to notify them of their right to a refund/deferred benefit or to give them the opportunity to advise us where they have re-joined the LGPS with another Employer/Authority.
Deferreds	To inform members who leave the scheme of their leaver rights and options as soon as practicable and no more than 2 months from the date of initial notification of leaving.	n/a	n/a	APF should always be 100% compliant with this as on receiving a leaver notification we immediately write to a member to notify them of their right to a refund/deferred benefit or to give them the opportunity to advise us where they have re-joined the LGPS with another Employer/Authority.

Transfers In	Obtain transfer details for transfer in, and calculate and provide quote to member within 2 months from the date of request.	Date of Request from Member	Date Transfer In Options are Printed & Sent	The clock is stopped on the Legal Requirement Reporting for the period that we are waiting for the transfer value from the sending scheme
Transfers Out - Notification	Provide details of transfer value for transfer out on request within 3 months from the date of request.	Date of Request from Member	Date Transfer Quotation is Printed & Sent	
Transfers Out - Payment	Make Payment of Transfer Value within 6 months of the relevant date. The relevant date is the date of the transfer value quote that was previously provided where they have elected to proceed with the transfer within the 3 month guarantee period, or is the date of processing the payment where they have elected to proceed with the transfer outside of the 3 month guarantee period.	Relevant Date of Transfer	Date Confirmation of Transfer Payment if Printed & Sent	
Estimates	Provide benefit quotations on request for retirements as soon as practicable, but no more than 2 months from date of request (unless there has already been a request in last 12 months).	Date of Request from Member	Date Estimate is Printed & Sent	APF policy on this is to provide one free estimate per year where the request is within 1 year of the intended retirement date. All other requests are chargeable in line with our policy

Completed leaver forms by employers for retirements within SLA targets.

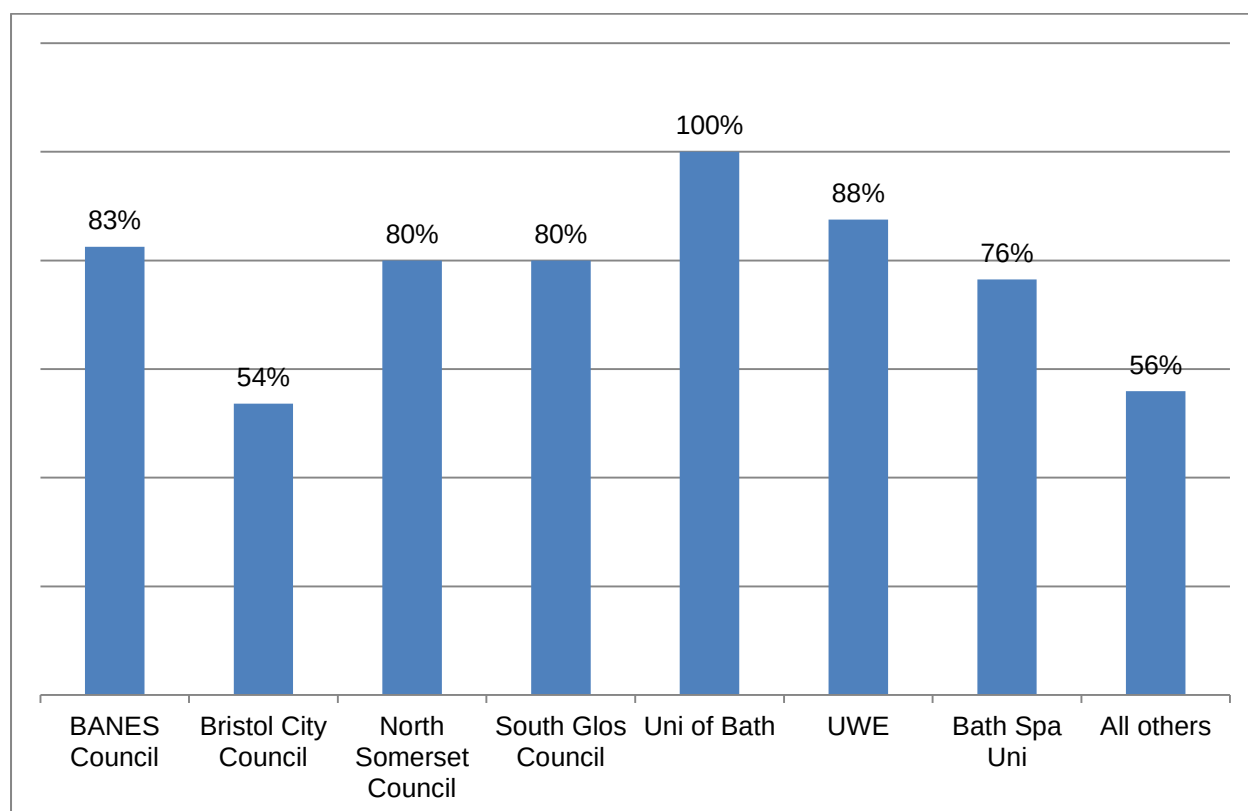
Annex 1 – Total cases - Percentage and number of cases completed within target

	Q3 17/18	Q4 17/18	Q1 18/19	Q2 18/19
BANES Council	74%	56%	85%	83%
Bristol City Council	44%	29%	69%	54%
North Somerset Council	85%	86%	91%	80%
South Glos Council	84%	70%	71%	80%
Uni of Bath	88%	54%	50%	100%
UWE	29%	9%	87%	88%
Bath Spa Uni	25%	61%	50%	76%
All others	44%	45%	52%	56%



Annex 2 – Breakdown by case type within target

Within target	Retirements		
	Cases	Within	%
BANES Council	40	33	83
Bristol City Council	69	37	54
North Somerset Council	20	16	80
South Glos Council	45	36	80
Uni of Bath	7	7	100
UWE	16	14	88
Bath Spa Uni	17	13	76
All others	245	137	56



Annex 1 – TPR Errors by Member Numbers

	June 2018				September 2018				
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	Trend
ACTIVE	36882	543	1.76	98.24%	35785	502	1.40	98.60%	▼
DEFERRED	43179	4416	10.34	89.66%	43083	4196	9.74	90.26%	▼
DEPENDANTS	4615	60	1.37	98.63%	4654	76	1.63	98.37%	▲
FROZEN	3463	1168	48.63	51.37%	3674	1230	33.48	66.52%	▼
PENSIONERS	29776	74	0.25	99.75%	30258	118	0.39	99.61%	▲
UNDECIDED	3983	508	14.34	85.66%	4542	646	14.22	85.78%	▼
TOTALS	121898	6769	5.55%	94.45%	121996	6768	5.55%	94.45%	▼

Annex 2 – Outstanding Queries by Type

	June 2018		September 2018		
	TPR Errors	%	TPR Errors	%	Trend
Age 75 exceeded LGPS eligibility issue	47	0.64%	51	0.72%	▲
CARE pay for 2014-2015 required	45	0.60%	10	0.14%	▼
CARE pay for 2015-2016 required	67	0.90%	26	0.35%	▼
CARE pay for 2016-2017 required	94	1.26%	80	1.09%	▼
CARE pay for 2017-2018 required	121	1.61%	169	2.3%	▲
Casual hours data required	62	0.85%	36	0.49%	▼
Correct FTE Pensionable Salary 16-17 req	12	0.17%	0	0.00%	▼
Correct hours format required	18	0.25%	0	0.00%	▼
Correct scheme name required	0	0.00%	0	0.00%	▼
Historic refund case	837	11.14%	834	11.35%	▼
Leaver form required	526	7.06%	510	6.94%	▼
Missing data on leaver form - escalation	7	0.09%	8	0.11%	▲
Correct Forenames required	11	0.15%	10	0.14%	▼
Correct date of birth required	3	0.04%	0	0.00%	▼
Correct NINO required	140	1.86%	154	2.09%	▲
Correct address required	5482	72.97%	5415	73.91%	▼
Correct gender required	0	0.00%	0	0.00%	▼
Correct title required ie Miss or Mr	13	0.17%	8	0.11%	▼
Pay Ref required	11	0.15%	9	0.12%	▼
Date joined fund	4	0.07%	4	0.05%	▼
Data required from a previous employer	1	0.01%	6	0.08%	▲
Grand total	7501	100.00	7330	100.00	▼

Common Data

Scheme Specific Data

Annex 3 – Outstanding TPR by status

	TPR Errors June 2018	%	TPR Errors Sept 2018	%
1 ACTIVE	648	100.00%	539	100.00%
Age 75 exceeded LGPS eligibility issue	1	0.15%	0	0.00%
CARE pay for 2014-2015 required	39	6.02%	10	1.86%
CARE pay for 2015-2016 required	51	7.87%	24	4.45%
CARE pay for 2016-2017 required	84	12.96%	74	13.73%
CARE pay for 2017-2018 required	118	18.21%	159	29.5%
Casual hours data required	55	8.49%	27	5.01%
Correct address required	206	31.79%	218	40.45%
Correct NINO required	3	0.46%	5	0.93%
Correct title required ie Miss or Mr	8	1.23%	0	0.00%
Leaver form required	37	5.71%	5	0.93%
Pay Ref required	7	1.08%	7	1.0%
Correct hours format required	18	2.78%	0	0.00%
Correct FTE Pensionable Salary 16-17	12	1.85%	0	0.00%
Correct date of birth required	3	0.46%	0	0.00%
Correct Forenames required	1	0.15%	0	0.00%
Date joined fund required	4	0.62%	4	0.74%
Data Required from a previous employer	1	0.15%	6	1.11%
2 UNDECIDED	569	100.00%	650	100.00%
Age 75 exceeded LGPS eligibility issue	3	0.53%	2	0.31%
CARE pay for 2014-2015 required	6	1.05%	0	0.00%
CARE pay for 2015-2016 required	16	2.81%	2	0.31%
CARE pay for 2016-2017 required	10	1.76%	2	0.31%
CARE pay for 2017-2018 required	3	0.53%	10	1.54%
Casual hours data required	7	1.23%	9	1.38%
Correct address required	24	4.22%	106	16.28%
Leaver form required	489	85.94%	505	77.57%
Pay Ref required	4	0.70%	2	0.31%
Missing data on leaver form - escalation	7	1.23%	8	1.23%
Correct FTE Pensionable Salary 16-17	0	0.00%	0	0.00%
4 DEFERRED	4464	100.00%	4224	100.00%
Age 75 exceeded LGPS eligibility issue	6	0.13%	7	0.17%
Correct address required	4410	98.79%	4170	98.72%
Correct NINO required	48	1.08%	47	1.11%
5 PENSIONERS	74	100.00%	119	100.00%
Correct address required	73	98.65%	118	99.16%
Correct NINO required	1	1.35%	1	0.84%
6 DEPENDANTS	63	100.00%	79	100.00%
Correct address required	24	38.10%	23	29.11%
Correct title required ie Miss or Mr	2	3.17%	7	8.86%
Correct NINO required	37	58.73%	49	62.03%
9 FROZEN	1683	100.00%	1719	100.00%
Age 75 exceeded LGPS eligibility issue	37	2.20%	42	2.44%
Correct Forenames required	10	0.59%	10	0.58%
Correct title required ie Miss or Mr	1	0.18%	1	0.06%

Correct address required	745	44.27%	780	45.38%
Correct NINO required	51	3.03%	52	3.03%
Historic refund case	837	49.73%	834	48.52%
Grand Total	7501		7330	

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APPENDIX 5

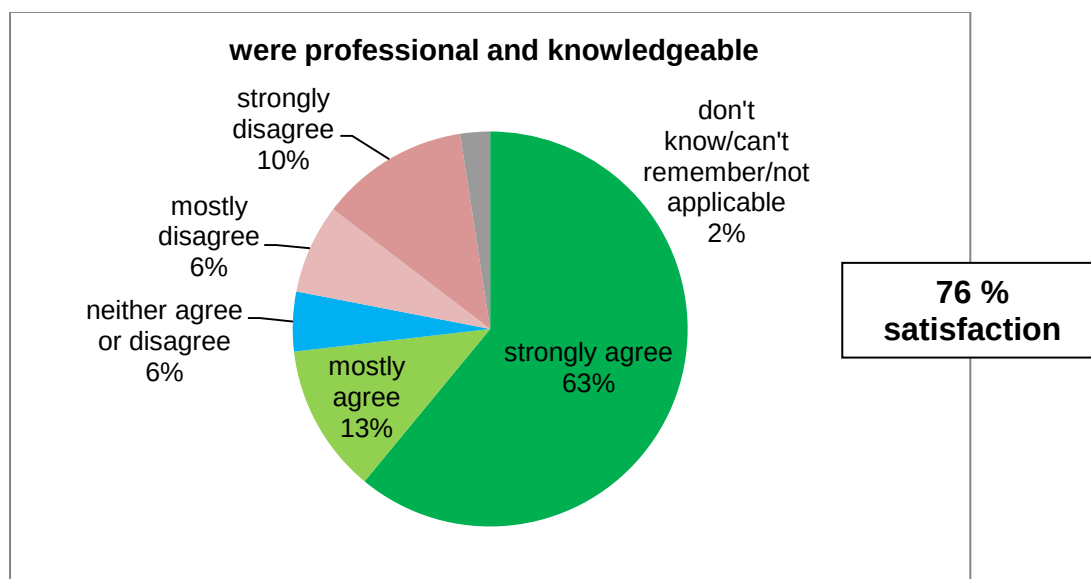
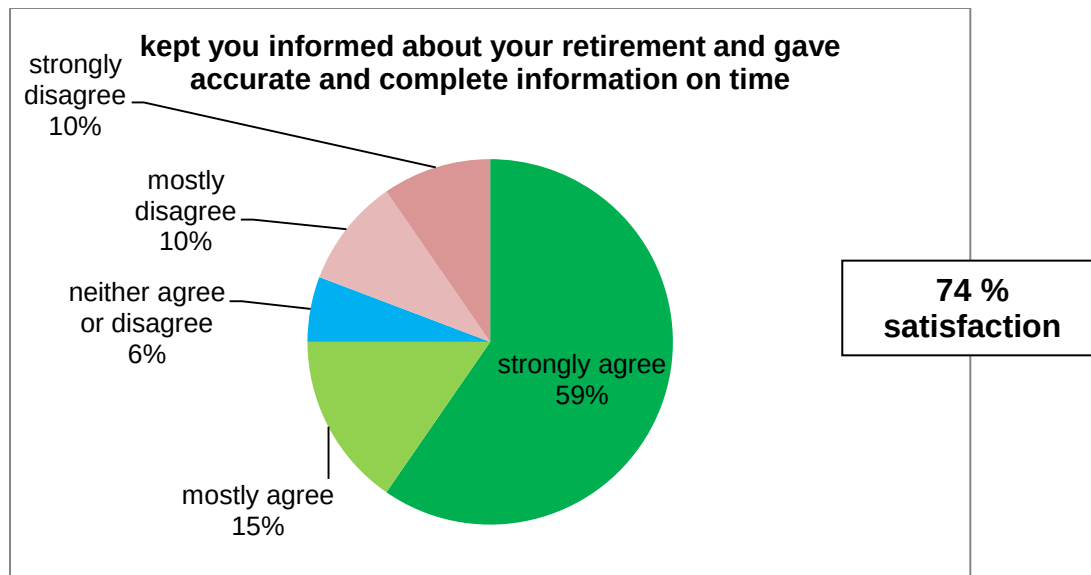
Late Payers to 30th October 2018

Employer	Payroll Month	Days late	Cumulative occasions	Amount £	Significance	Reason / Action
Learning Partnership West	July	10	2	230	Significant days late.	Change in staff
Saltford Parish Council	July	14	1	153	Significant days late.	Change in staff
Aspens	August	17	3	16,247	Significant value and days late.	Volume of work, deadline for authorisation missed
Aspens	September	18	3*	16,853	Significant value and days late.	No reason provided. Aspens senior managers have been warned that they are in breach of regulations.
Learning Partnership West	September	24	3	659	Significant days late.	Not paid as at 15/11/2018 - staff changes and misunderstanding as to applicable contribution rate.
				34,142	Over The 3 Months	
Total Contributions in Period (excluding deficit payments)				35,472,397	Late payments as a % of total = 0.1%. Late Payments from 4 out of a total of 392 employers.	
All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment. Where material, interest will be charged on late payments at base rate plus 1% in accordance with the regulations.						
* Calculation of cumulative occasions is based on a rolling 12 month period, consequently August and September are 3 cumulative occasions as the previous September dropped out of the calculation.						

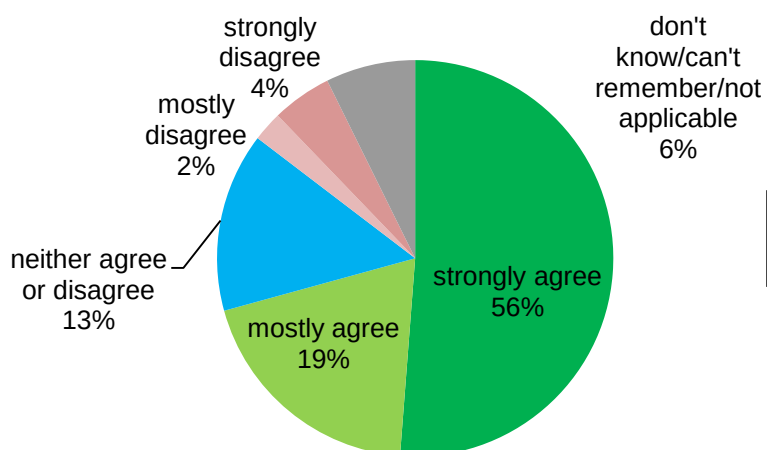
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Annex 1**Retirement customer service questionnaire results to 30 September 2018**

52 responses

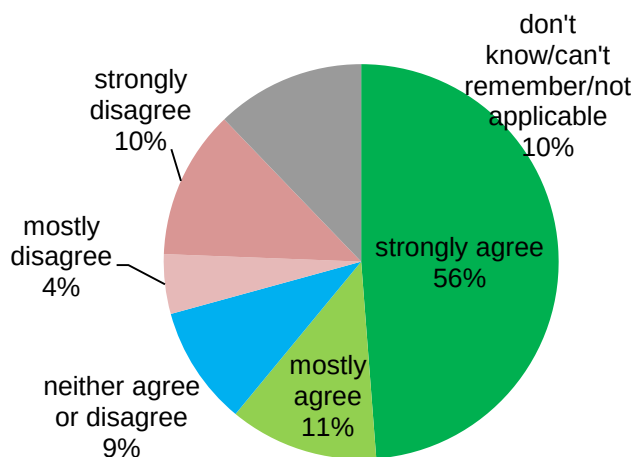
Q1 To what extent do you agree or disagree that the Avon Pension Fund ...

had a polite, friendly attitude, treating you with respect



**75 %
satisfaction**

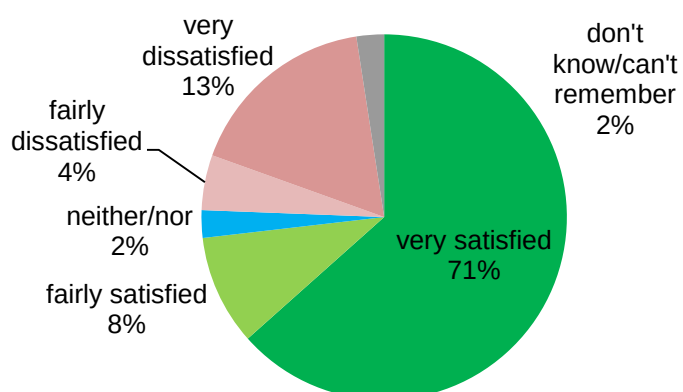
answered any questions or issues that you had



**67 %
satisfaction**

Q2 Overall, how satisfied are you with service you received from the Avon Pension Fund?

Overall, how satisfied are you with service you received from the Avon Pension Fund?



**79 %
satisfaction**

Annex 2

Member feedback

Member website survey - Please rate your experience on our website

Results of the star rating survey for period to 30 September 2018

Number of submissions in period	52	%
5 stars	45	86%
4 stars	2	3.5%
3 stars	0	
2 stars	2	3.5%
1 star	4	7%
Comments:		
• Brilliant website, all the info I need is always there. Well done Avon Pension • Fabulous! Does exactly what I want it to do. Very easy to navigate to what I wanted. • Pretty easy to navigate. Would have been 5 star if you could complete forms online and submit • Hard work no information on how to draw pension		

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AVON PENSION FUND/B&NES: IDRP Stages 1 and 2

Stage	Reason	IDRP Form Received	Stage 1 By	Date For Review Completion	Delay Letter Sent	Review Complete	Not Upheld[NU] Upheld[UP] or Upheld & referred back [URB]	By	Last date for next stage Appeal	Note
1	Pension paid to Wife not partner	31/10/2017	APF	31/12/2017	N/A	18/12/2017	NU	Pension Technical Advisor	18/06/2018	
2		30/01/2018	APF	30/03/2018	Validity of Stage 2 Appeal	N/A	Queried Application	Council's Principal Solicitor and Monitoring Officer	N/A	Solicitor withdrew with TPO
1	Transfer Procedures Pension Scam	15/06/2018	APF	15/08/2018	More details requested from member	Could be timed out awaiting response from member				
2	Transfer Procedures Pension Scam	19/05/2017	APF	18/07/2017	N/A	01/08/2017	NU	Council's Principal Solicitor and Monitoring Officer	01/02/2018	TPO provisional being reviewed

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AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 30/10/2018

RISK STATUS KEY	
LOW	1 to 6
MEDIUM	7 to 14
HIGH	14 to 25

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE										TOTAL	CURRENT OVERALL STATUS	PERIODS AGO			CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK
						Likelihood					Impact											
						1	2	3	4	5	1	2	3	4	5			1	2	3		
1	R28	The Fund is unable to recruit appropriately skilled administrative, technical or investment staff given the short supply of such staff regionally in the market. This could restrict the Fund's ability to develop and implement the service plan and administer the Fund. On the investment side this has been exacerbated by the creation of BPP Ltd. (Brunel) based in Bristol which will manage the fund's assets.	01-Jul-08	All Team Managers	Governance					5				4		20	HIGH	H	H	H	On target	Complete PDR process with all staff to identify training and professional qualification needs based on Service requirements. Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff. Re Brunel - significant impact with loss of 3 FTE staff. Interim plan to rebuild team reflecting transition of assets to BPP is being put in place. Will include buying in resource from advisors or BPP as appropriate. Investment work programme is continuously risk reviewed to ensure only priority work will be undertaken in the short term. Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme from September 2018. The 2018/21 Service Plan provides for extra resources to ensure sufficient capacity within the service.
2	R42	Increase political pressure to reform the scheme & governance, reduce costs and direct investment decisions. If the fund does not have a robust plan for change, risk that government will direct funds. Implications: committee is unable or does not make decisions in best interest of the fund.	12-Sep-13	Head of Business, Finance and Pensions	Investment Strategy				4				4		16	HIGH	H	H	H	On target	The Investment Strategy Statement clearly defines the investment principles and objectives and the strategy in place to deliver. The Fund is a participant in the Brunel Pension Partnership to meet the government broad agenda to reduce investment fees and increase efficiency. Brunel and the LGPS Cross Pool Collaboration Group actively engages with government on a wide range of issues related to the government's agenda.	
3	R25	Lack of knowledge and continuity within the Committee (risk arises as some members face re-election simultaneously. Until members are fully trained maybe a delay in decision making).	01-Jul-08	Pensions Investments Manager	Governance				4				3		12	MEDIUM	M	M	M	On target	There is a training plan in place linked to the 3 year Service Plan, which is periodically reviewed. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically a self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan. This is now more important in order for the Fund to comply with MIFID2.	

4	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.	01-Jul-08	Pensions Investments Manager	Investment Strategy			3						4		12	MEDIUM	M	M	M	On target	A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation and takes into account the market outlook. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is monitored quarterly and annually by Committee (between strategic reviews) when the investment performance is measured against the liabilities, the strategic benchmark and mandate performance targets. The Fund implements risk management strategies as appropriate to increase probability that funding plan will be achieved (currently LDI and Equity protection strategies). The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process. As the assets transition to Brunel, the responsibility for monitoring and selecting investment managers will transfer to Brunel. The Fund's responsibility will be to monitor Brunel's portfolios.
5	R51	Risk of Fund retaining incorrect pensions liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	10-Aug-15	Technical & Compliance Advisor	Admin Strategy			3						4		12	MEDIUM	M	M	M	On target	There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified as 1.5 FTE to carry out reconciliation under management of Technical & Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee & LPB. Report on GMP project submitted to PC September 2018. Letter to be sent to SAB & LGA seeking guidance on rectification of overpayment cases.
6	R56	Significant increase in employers especially if all schools convert to academy status.		Pensions Manager	Admin Strategy				4				3			12	MEDIUM	M	M	M	On target	Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies. The administration of Academies within the LGPS is being reviewed by SAB

7	R05	General Data Protection Regulation – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities. Implications and impact of EU General Data Protection Regulations (GDPR) - ensure systems and processes in place and are complied with.	01-Jul-08	Pensions Manager	Admin Strategy			3						4		12	MEDIUM	M	M	M	On target	All staff undertake to share personal data with 3rd parties through controlled framework; compliant with B&NES DP policies. Awareness of potential risk in not doing so. GDPR privacy notices provided to all members. All staff undertaking GDPR online training programme, which is monitored and recorded. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going) Project set up to ensure GDPR compliance to identify processes that need to be put in place - working with corporate Information Governance team.
8	R54	The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The FCA- authorised company is now operational. The key risk is the transition of local fund assets to the Brunel portfolios. A significant delay in this could seriously impact the Fund's and pool's ability to deliver savings according to financial case. Focus in next 12-24 months is transition of assets, operational aspects relating to this and client monitoring and reporting.	01-Jul-16	Pensions Investments Manager	Governance			2						4		8	MEDIUM	M	M	M	On target	The Brunel governance structure is in place. Governance structure ensures Committee, Board and officers effectively manage the new relationship. Expert advice will be commissioned as required to assist the transition. Interim resources in place to support client side of the pool during 2018. Brunel developed a transition plan for 2018-20. Portfolios for quoted assets agreed in Jan 18; non quoted asset portfolios agreed in April 18. Avon developed its own plan consistent with Brunel timetable to ensure any decisions/governance by Avon is identified and dealt with accordingly. Client Group will monitor plan with Brunel to ensure meets objectives, any changes are understood and agreed by the Shareholders and where necessary, issues are escalated to Brunel Oversight Board. Quarterly Committee agenda includes Brunel update report. Client side sub groups established to work closely with Brunel on portfolios & transition, financial aspects, RI and services delivered by Brunel.
9	R57	Pension Fund does not comply with the Transparency Code for full disclosure of Investment cost in the Annual Report of Accounts from 2018/19. The FCA template is issuing a template to managers to provide the info to the Fund. Managers then have 12 months to comply therefore there is a risk that the Fund doesn't have full disclosure for 2018/19. Main risk is reputational if cited as non-compliant.	18-Jul-18	Investments Manager	Investment Strategy				4			2				8	MEDIUM	L			On target	The Fund has a project plan in place to collate as much info as possible in line with the Code. The Brunel client group and Brunel are working together to ensure funds in the pool understand the requirements and disclose in a consistent manner. The FCA reporting template has yet to be issued.
10	R01	System Failure – Failure of the Fund to ensure it has adequate and robust systems to ensure pensions are administered and paid in accordance with statutory obligations.	12-Sep-13	Pensions Manager	Admin Strategy			2					3			6	LOW	L	L	M	On target	The Fund has policies in place which are periodically reviewed to ensure statutory obligations are met. Financial Systems team provides expert technical support to the Pensions service. Operational agreements in place with/for (i) Financial Systems (ii) SLA with Heywood (software provider) (iii) B&NES IT for corporate systems (iv) APF DR policy (v) B&NES BCP (vi) Daily system back-up.

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	7 DECEMBER 2018
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2018 (2) CASHFLOW FORECAST
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 October 2018 Appendix 1A Summary Budget Variances: Year to 31 October 2018 Appendix 2 Cash Flow Forecast	

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 7 months to 31 October 2018. This information is set out in Appendices 1 and 1A.
- 1.2 This report also contains the Cash Flow forecast for the year to 31 March 2019. This information is set out in Appendix 2

2 RECOMMENDATION

That the Committee notes:

- 2.1 The administration and management expenditure incurred for 7 months to 31 October 2018.
- 2.3 The Cash Flow Forecast at 31 October 2018.

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

- 4.1 The summary Financial Accounts for the 7 months to 31 October 2018 are contained in **Appendix 1**.

The forecast for the year to 31 March 2018 is for expenditure to be £142,202 below budget. Within the directly controlled Administration budget expenditure is forecast to be £192,202 under budget. The forecast reduction in directly controlled expenditure is mainly due to the continued holding over of expenditure on the IT strategy that previously resulted in the carrying forward of the unspent balance. The under spend was due to the product offer from the supplier regarding Employer Self Service being revised. Reduced expenditure on salaries is also forecast as a result of delays in filling vacant posts.

- 4.2 In that part of the budget that is not directly controlled, there is a forecast overspend of £50,000 for custody fees. This relates to invoices paid in current year for services provided in 17/18 (in 17/18 there was an under spend of £28,000). Invoicing was delayed due to change in custodian in December 2017. The current custody fees are in line with the budget.
- 4.3 Explanations of the most significant variances are contained in Appendix 1A to this Report.

5 CASH FLOW FORECAST

- 5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows are managed by divestments and taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2**.

- 5.2 The 2018 - 2021 Service Plan included a cash flow forecast for 2018/19 showing a gross in-flow of c£178.3m and a gross out-flow of c£177.9m giving a net inflow of just under £0.4m. The forecast gross inflow included £26m divestments and investment income.

The actual cash flow to 31 October was an inflow of c£20.0m against a budgeted inflow of c£0.2m for the same period. The difference was mainly due to the drawing down of £35m divestments and investment income cash in a single transfer.

The forecast outturn for the year to 31 March 2019 is currently a cash inflow of c£3.1m more than predicted in the Service Plan. This is due to higher than predicted payment of benefits, partly offset by higher receipts of future service contributions. The cash inflow is also due to the drawdown of divestment and investment income cash which is expected to be greater than the requirement for the current year.

6 EQUALITIES

6.1 No items in this Report give rise to the need to have an equalities impact assessment.

7 CONSULTATION

7.1 None appropriate.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 There are no other issues to consider not mentioned in this Report

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395259.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2019

	7 MONTHS TO 31st OCTOBER 2018			FULL YEAR 2018/19		
	BUDGET	ACTUAL	VARIANCE	BUDGET	FORECAST	VARIANCE
	£	£	£	£	£	£
Administration						
Investment Expenses	12,469	9,035	(3,434)	21,375	21,375	0
Administration Costs	43,395	31,760	(11,635)	74,392	74,392	0
Communication Costs	42,361	54,588	12,226	72,619	72,619	0
Payroll Communication Costs	49,683	76,547	26,864	85,171	85,171	0
Information Systems	144,320	143,416	(903)	247,405	247,405	0
Salaries	1,195,715	1,090,746	(104,969)	2,049,797	1,929,797	(120,000)
Central Allocated Costs	313,289	105,354	(207,935)	537,067	537,067	0
IT Strategy	42,118	0	(42,118)	72,202	0	(72,202)
Miscellaneous Recoveries/Income	(128,825)	(84,117)	44,708	(220,842)	(220,842)	0
Total Administration	1,714,525	1,427,329	(287,196)	2,939,186	2,746,984	(192,202)
Governance & Compliance						
Governance Costs	223,638	200,340	(23,298)	383,380	383,380	0
- Members' Allowances	22,318	(10,491)	(32,810)	38,260	38,260	0
- Independent Members' Costs	16,333	11,791	(4,543)	28,000	28,000	0
Compliance Costs	331,511	346,341	14,829	568,305	568,305	0
Brunel Expenses	14,583	11,462	(3,121)	25,000	25,000	0
Compliance Costs recharged	(190,167)	(80,755)	109,411	(326,000)	(326,000)	0
Governance & Compliance	418,218	478,687	60,469	716,945	716,945	0
Pensions Board	11,667	9,133	(2,534)	20,000	20,000	0
Global Custodian Fees	96,250	44,659	(51,591)	165,000	215,000	50,000
Brunel Management Fees	460,833	0	(460,833)	790,000	790,000	0
Investment Manager Fees	14,121,961	6,862,210	(7,259,751)	24,209,076	24,690,000	
Total Investment Fees	14,679,044	6,906,868	(7,772,176)	25,164,076	25,695,000	50,000
NET TOTAL COSTS	16,823,454	8,822,017	(8,001,437)	28,840,207	29,178,929	(142,202)

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APPENDIX 1A

Summary of main budget variances: Year to 7 December 2018

Variances Analysis of the full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(120,000)	Reduced salaries expenditure due to:- - Delays in filling vacant posts against budget in both Investments and Benefits teams
IT Strategy	(72,202)	The budget includes underspends brought forward from previous years as the product offer from the supplier for Employer Self Service is being revised.
Global Custodian Fees	50,000	Relates to invoices paid in current year for services provided in 17/18 (in 17/18 there was an under spend of £28,000)

Administration (142,202)

Total (142,202)

*() variance represents an under-spend, or recovery of income over budget
+ve variance represents an over-spend, or recovery of income below budget

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AVON PENSION FUND

Cash Flow Forecast

		SEVEN MONTHS TO 31 OCTOBER 2018			FULL YEAR 2018/19		
		Forecast Per			Forecast Per		
		Service Plan	Actual	Variance	Service Plan	Out-turn Forecast	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Outflows							
Benefits	Pensions	(82,284)	(84,418)	(2,134)	(141,059)	(144,717)	(3,658)
	Lump sums	(15,485)	(16,912)	(1,427)	(26,546)	(28,992)	(2,446)
Total Benefits Outflows		(97,770)	(101,330)	(3,560)	(167,605)	(173,709)	(6,103)
Inflows							
Deficit recovery		9,821	12,573	2,752	16,836	15,957	(879)
Future service Contributions		79,032	81,001	1,969	135,484	138,859	3,375
Total Contributions		88,854	93,574	4,720	152,320	154,816	2,496
Net Cash Flow (Benefits and Contributions)		(8,916)	(7,756)	1,160	(15,285)	(18,892)	(3,607)
Divestments & Investment income received as cash		15,167	35,236	20,069	26,000	35,236	9,236
Net Transfers In & Out (budgetted as zero)		0	(376)	(376)	0	(645)	(645)
Administration costs		(6,024)	(7,119)	(1,095)	(10,326)	(12,204)	(1,878)
Net Cash In-Flow (Out-Flow)		227	19,985	19,758	389	3,495	3,106

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	7 December 2018	AGENDA ITEM NUMBER
TITLE:	LGPS: Regulatory update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – List of current developments affecting or expected to affect Scheme Administration Appendix 2 – Copy of Response Letter to Policy Consultation		

1 THE ISSUES

The purpose of this report is to update the Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. A policy consultation was released by MHCLG and a response has been sent from APF.

An updated list is included in Appendix 1

2 RECOMMENDATIONS

That the Committee:

2.1 Notes the current position regarding the developments that could affect the administration of the Fund.

2.2 Notes the response sent to MHCLG regarding the policy consultation issued in October

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates
- 3.2 Some of the issues being proposed are intended to reduce costs on certain payments employers make on early retirements
- 3.3 Any other specific areas will be reported as required

4 LGPS and Unfunded Public Sector Cost Cap:

- 4.1 The Public Service Pensions Act 2013 set out that public sector schemes were to be monitored to ensure that they are affordable and sustainable. Unlike the unfunded schemes LGPS also has a built in check driven by the Scheme Advisory Board
- 4.2 In September 2018 HM Treasury announced that as a result of scheme valuations all public service pension schemes, including the LGPS had breached the 2% cost cap floor which would lead to member benefits improvements.
- 4.3 SAB has its own cost management which will allow any changes to benefits to be taken into account before the HM Treasury process begins
- 4.4 A small technical group has been set up by SAB to look at changes to benefits
- 4.5 The other unfunded public sector schemes have a further complication in that it was confirmed in the Budget that the SCAPE discount rate used for assessing their employer contribution rate had reduced from 2.8% to 2.4% which means not only will the benefits be improved but the employers will also be paying more into the scheme.
- 4.6 LGPS does not have the same problem but there will be some changes to member benefits.
- 4.7 All scheme changes will be effective from 1 April 2019 and will apply until at least March 2023.
- 4.8 As a result of these four year reviews it is expected that local fund valuations will also be made on a quadrennial timeframe.

5 LGPS 2014: 2018 Policy Consultation and Draft Regulations

- 5.1 The MHCLG have issued both a policy consultation [LGPS: Technical amendments to benefits] and draft regulations have been issued to a select group
- 5.2 These cover the following
 - Amend the unintentional consequence of the May 2018 amendment regulations
 - Amend the regulations to comply with the Supreme Court judgment in respect of benefits payable to same-sex married or civil partners that they should be entitled to the same as widows.
 - To allow the Secretary of State the power to issue statutory guidance. The proposed changes to the scheme, is to accommodate judgments made and to give some flexibility to respond to future developments.

- 5.3 A response was sent on behalf of Avon Pension Fund and is included as Appendix 2

6 Equalisation of GMP: Case against Lloyds Bank

- 6.1 This has recently been reported in the media leading to enquiries of the effect on the LGPS. HM Treasury have confirmed that it does not concern public sector schemes as their consultation issued in January 2017 and responded to in January 2018 outlined the current position for such schemes and a working group is to be set up in 2019 to progress this further.

7 Treasury Consultations on Exit Payments in the Public Sector

- 7.1 No movement yet but seems that some work being done behind the scenes but dependent on parliamentary time.
- 7.2 At the same time there is also a Private Members Bill called the Public Sector Exit Payments (Limitations) Bill 2017. This was introduced into Parliament on 5 September 2017 and has had five dates scheduled for the second reading but has been rescheduled for 23 November 2018. The contents of the Bill indicate that it is to enact legislation set out in the Small Business, Enterprise and Employment Act 2015.

8 Supreme Court decision Walker v Innospec

- 8.1 As reported earlier there has been a judgment made by the Supreme Court on how benefits payable to partners within same-sex marriages or civil partnerships are calculated. Instead of being calculated on a similar basis to widowers it was confirmed that such benefits should be the same as for widows.
- 8.2 At present there is no intention of amending this to include partners of opposite sex marriages and civil partnerships. The initial estimate for this across the public sector pension schemes is £2.8bn. However it is expected that a legal challenge will be made sometime in the future and if successful would require retrospective action to rectify.

9 RISK MANAGEMENT

- 9.1 No specific issues to consider.

10 EQUALITIES

- 10.1 None as this report is primarily for information only.

11 CONSULTATION

- 11.1 This report is primarily for information and therefore consultation is not necessary.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

- 12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Strategic Director or Resources) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Alan South Technical Manager (Tel: 01225 395283) <i>[Geoff Cleak Pension Manager 01225 395277]</i> <i>Liz Woodyard Investment Manager 01225 5306</i>
Background papers	<i>Regulations and accompanying notes;</i> <i>Exit Payment Consultations and Government Response</i> <i>LGA Bulletins</i> <i>Policy Consultation draft regulation documents Oct 2018</i>
Please contact the report author if you need to access this report in an alternative format	

List of current developments affecting or expected to affect Scheme Administration

NOV 2018

SCHEME ADVISORY BOARD [SAB]

Cost Cap Controls	Board members were provided with a summary of the statement made by the Chief Secretary to the Treasury on the 6th September regarding the scheme valuations for the public service pension schemes, including the LGPS. Unfunded schemes, A reduction in the discount rate that will significant increases employer contributions The 2% cost cap floor breached leading to member benefits improvements. Funded Scheme LGPS The 2% cost cap floor breached but discount rate does not directly impact employer rates LGPS, employer rates are set by local fund valuations (next in 2019) but the cost cap mechanism does potentially impact. SAB has its own cost management which will allow any changes to benefits to be taken into account before the HM Treasury process begins As advised by the Board's actuarial adviser, the total cost of the scheme (employer and employee) under the Board's process is 19% against a target total scheme cost of 19.5%. SAB agreed to delegate to the Chair and a representative from both the employers and employees' sides, assisted by a small technical group, responsibility for agreeing a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. The resultant package will be put to the full Board for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019.	Note released on outcome of SAB meeting 10 October 2018 http://www.lgpsboard.org/index.php/board-publications Future Scheme Valuations

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	The Board was also advised that discussions are underway to move local fund valuations to a quadrennial timeframe to ensure consistency with future scheme valuations. This will not, however, have any bearing on the 2019 valuation which will proceed as normal.	Link to Written Ministerial Statement of the Chief Secretary to the Treasury, Elizabeth Truss see under HM Treasury
Projects in Service Plan for 2018/19		
Improving member data to meet the Pensions Regulator requirements	Project will aim to assist administering authorities in meeting the Pension Regulators requirements for monitoring and improving data. This project would include the identification of scheme specific conditional data and the production of guidance for authorities and employers. SAB are to release guidance as to what constitutes “conditional information” in time for authorities to complete TPR return. Authorities have been advised to complete information as last year and any guidance will now be operative from 2019	
Identifying regulations requiring statutory guidance and the drafting of such guidance	It is anticipated that MHCLG will propose a project to identify regulations which may be better sited within statutory guidance and to both propose the necessary amendments and assist with the drafting of guidance. [See MHCLG section draft amendment]	
Identifying the potential benefits of further increasing the level of separation between the host authority and scheme manager role.	The separation project was put on hold while pooling was in its initial stages however a request has been made to reinstate the project. The objective would be identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role. <u>Discussed and agreed at SAB meeting 10 Oct 2018</u> • Three bids received to undertake the project • Board members invited to comment on the bids • SAB Chair and Vice-Chair given delegated authority to make final decision	

Existing Projects to Continue into 2018-19		
Academies	Ministers agreed that DFE, MHCLG, GAD and the Board should continue to work closely together to pursue solutions, engaging key stakeholders including pension funds, actuarial firms and academy trusts as appropriate. Two working groups have been set up Administration and Funding Administration This group has focussed on 4 key areas :- ☐ More consistency in pensions administration ☐ More effective communication ☐ Improved training at local, regional and national level, and ☐ Clarifying the duties and responsibilities of stakeholders Funding The funding working group is exploring proposals to standardise conversion methodologies, move to single future service rates within each LGPS fund and to better enable MATS to consolidate their schools in one LGPS fund. An option to achieve these objectives from the group was to be discussed at the meeting of the DFE academy working group on 20th June.	http://www.lgpsboard.org/index.php/structure-reform/review-of-academies
GAD Report on Academies	GAD issued its report for Academies LGPS pension arrangements on 14 Sept 2018 On average academies currently pay 2% of payroll less in contributions than local authorities (LAs) - 21% versus 23%, respectively - despite being 11% worse funded on average (73% versus 84%, respectively). No recommendations but suggest that DfE and MHCLG consider what changes to academy pension arrangements within the LGPS might be appropriate in order to meet policy objectives. It should be noted that, if changes to the current arrangements are not made, we would expect material volatility in academy contribution rates (against local authority rates and other academies) to persist.	Full GAD report https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740947/Academies_analysis_report_final.pdf

	Discussed/agreed at SAB meeting 10 Oct 2018 • The Board agreed that the administration working groups work on agreeing a standard monthly data extract should continue to completion • Further work will also be undertaken on training and improving communication within the academy sector • The future programme of the funding working group is to be the subject of discussion with DfE and MHCLG	
Tier 3 employers	Covers those Fund employers with no tax raising powers or guarantee. SAB is keen to identify the risk to LGPS Funds of default by such employers. There are currently two concurrent phases of work involved – Collating data and identification of issues. SAB tier 3 employer project carried out by Aon Hewitt– extension of surveys deadline to 31 January 2018 APF have completed survey SAB will then assess the risks to Funds and consider next steps. Discussed / agreed at SAB meeting 10 Oct 2018 • Aon's report was published on the 24th September • A working group from the Board will evaluation the various options included in the report and report back to the Board	
Cost of Transparency compliance system procurement	The Board has committed to securing a third party checking service Discussed at SAB meeting 10 Oct 2018 • 91 Signatories have signed up to the code covering £180bn of scheme assets • OJEU contract notice has been published for the procurement of a code compliance utility	

SAB obtain QC's opinion on the pensions responsibilities of local authority owned companies [EOC] QC opinion [EOC]	The Scheme Advisory Board for the LGPS in England and Wales have obtained a Counsel opinion on scheme employer wholly owned companies (EOCs). Link to Opinion included here • Whether the Best Value Authorities Staff Transfers (Pensions) Direction 2007 applies to the transfer of employees from a local authority to a local authority EOC. • Whether the non-statutory Fair Deal guidance issued by HM Treasury in October 2013 applies to the transfer of employees from an academy to an academy EOC. • Whether EOCs meet the requirements of paragraphs 5 or 6 of part 2 of schedule 2 of the LGPS Regulations 2013. • The protections available to employees transferring under TUPE in relation to pensions, and the obligations placed on employers with regard to the provision of pensions. • The situation if an employer to offer different schemes to different employee groups. • In addressing the final bullet point, Counsel states: This would be highly likely to contravene equal pay legislation. EOC employees would be comparators with each other and with the authority's retained employees." LGA understand that this does not mean that an employer would automatically be contravening equal pay legislation if it offered the staff it employed directly a different pension scheme to the staff it employed via an EOC. The usual potential defences could still apply, such as the material factor defence and whether a comparator is still a valid one in the particular circumstances of the case.	http://www.lgpsboard.org/images/Guidance/QC_Opinion_April_2018_Employer_Owned_Companies.pdf

Cross Pooling	In February 2018 SAB approved an elected member led Cross Pool Forum comprising three representatives from each of the eight pools and three trade union representatives to share and disseminate information on the pooling of LGPS assets and steps are being taken to establish this As a result of the responses to the consultation on 27th March 2018 the Chairs of LGPS pension committees and local pension boards attended an open session where representatives from the eight asset pools reported on their progress in establishing their organisational structures and governance arrangements.	http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf
Responsible Investment	Agreed at SAB 10 Oct 2018 - SAB agreed that the guidance on Responsible Investment should include reference to the government's latest position on Environmental, Social and Governance (ESG) and, in particular, climate risk. - SAB was advised that Share Action may be approaching LGPS funds to discuss their approach to ESG policies.	
The Pension Regulator	Agreed at SAB 10 Oct 2018 - Further to concerns raised by a number of funds, SAB agreed that the Chair should write to the Pensions Regulator about their activities and approaches in dealing with the scheme. - The Pensions Regulator has advised the SAB's Chair that the annual Governance and Administration survey will be issued to fund authorities on the 5 November with completion requested by the end of the month. A preliminary note from the Pensions Regulator will be sent to funds beforehand.	
MINISTRY FOR HOUSING COMMUNITIES and LOCAL GOVERNMENT [MHCLG]		
Local Government Pension (Amendment) Regulations 2018	The original consultation on the draft regulations in May 2016 covered operational amendments to clarify areas of uncertainty within the original 2013 regulations	http://www.legislation.gov.uk/uksi/2018/493/contents/made Government response to consultation https://www.gov.uk/government/consultations/local-government-pension-

LGPS Regulations: Amendment Regulations with Best Value & Fair Deal consultation October 2018 Policy Consultation and Draft Regulations	Main changes Exit Payment where Employer leaves Fund with a surplus Change to allow all deferred members to elect for immediate benefits without employer consent if aged between 55 and 60 (subject to any other restrictions) All AVC contracts are harmonised pre and post 1 April 2018 Best Value and Fair Deal for the transfer of staff is to be brought forward at later date.. Provisionally by end of 2018 but subject to parliamentary time. The MHCLG have issued both a policy consultation [LGPS: Technical amendments to benefits] and draft regulations have been issued to a select group These cover the following • Amend the unintentional consequence of the amendment regulations in May 2018 regarding deferred members before 1 April 1998 voluntarily drawing their pension from age 55. This is expected to be backdated to the previous amendment date. • To amend the regulations in respect of benefits payable to same-sex married or civil partners as a result of the Supreme Court judgment in the case of Walker v Innospec Instead of being entitled to the same benefits as widowers it legislates that they should be entitled to the same as widows. • To allow the Secretary of State the power to issue statutory guidance. The proposed changes to the scheme, is to accommodate judgments made and to give some flexibility to respond to future developments. The Department's view had no legal force as the Secretary of State has currently no power to issue statutory guidance A response will be sent from APF by the closing date of 29 November 2018 Comments on the draft regulations are required earlier by 16 November 2018	scheme-regulations http://lgpslibrary.org/assets/cons/lgpsew/20181004.pdf http://lgpslibrary.org/assets/cons/lgpsew/20181004.pdf

Insolvency regime for further education and sixth form colleges technical consultation	In July 2016 the Department for Business, Innovation and Skills (BIS) published a consultation to develop an Insolvency Regime for the Further Education and Sixth Form College Sector, this was later taken over by the Department of Education [DFE]. LGA responded to the consultation raising concerns that all steps are taken to prevent any risk arising that the pension liability of a college falls on to other employers in an LGPS fund, and ultimately the taxpayer. Technical and Further Education Act 2017 set out the framework for an insolvency regime, which applies aspects of existing insolvency law to further education and sixth form colleges in England and Wales. A further consultation (which opened on 18 December 2017 and closed on 12 February 2018) from the DFE, seeks views on the technical detail of the insolvency regime and sets out proposals as to how colleges at risk of (or in) insolvency will be dealt with in practice. It also outlines plans to further improve monitoring and support available to colleges in financial difficulty.	Technical and Further Education Act 2017 http://www.legislation.gov.uk/ukpga/2017/19/contents Consultation https://consult.education.gov.uk/fe-college-quality-and-resilience-team/fe-insolvency-regime/
Co habiting Partners Update Elmes v Essex CC (Brewster)	The Brewster court case in Northern Ireland declared that <i>"The requirement to nominate a person under regulations 24 and 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 is incompatible with Article 1 of the first Protocol to, and Art 14 of, the European Convention on Human Rights and must therefore be disapplied"</i>. This effectively removed the requirement for a member to have provided a nomination form before their death, for their a partner who meets the definition of co-habiting partner set out in the LGPS Regulations to be entitled to a partner's pension.	Elmes v Essex CC confirmed that the decision made in Brewster had similar effect in England and Wales
LGPS S13 review: 2013 to 2016	The Government Actuary has reported that in aggregate the Local Government Pension Scheme is in a strong financial position and funds have made significant progress since the 2013 valuation based on the criteria. The report highlights: - total assets for the Local Government Pension Scheme have grown from £180 billion to £217 billion - aggregate funding level has improved from 79% to 85%, due in part to better than expected returns on assets and strong returns have continued - total employer contributions received were £6.9 billion per annum on average of which circa £2 billion per annum were deficit recovery payments	Full report https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

GAD; LGPS Factor Tables	MHCLG and GAD are reviewing all tables and due to another change in the scape rate, announced there may be a delay in issuing these. It is understood that GAD intend to make some tables unisex.	The expected introduction of new factors will be the same as the budget and GAD have advise that they may be at least 6 weeks late so stockpiling will be necessary for Transfers
SF3 Return	The 2017/18 SF3 return data was published by MHCLG on the 17th October	
HM TREASURY		
Pensions scams: consultation	Government Response issued August 2017 outlines key areas a ban on cold calling in relation to pensions, to help stop fraudsters contacting individuals limiting the statutory right to transfer to some occupational pension schemes making it harder for fraudsters to open pension schemes	https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf
Indexation and equalisation of GMP in public service pension schemes	APF responded to consultation in Feb 2017 On 22 January 2018, HMT published its response to the consultation. The government has been implementing an “interim solution” between 6 April 2016 and 5 December 2018. The consultation directs that this solution will be extended for a further two years and four months. This will cover those members of public service schemes with a GMP who reach state Pension Age on or after 6 December 2018 and before 6 April 2021. During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”. Government Actuary has issued an addendum to the guidance for Transfer and Divorce calculations	HMRC to set up working group in 2019 There has been a decision made in a court case against Lloyds Bank which has attracted media interest. HM Treasury have confirmed that for Public Sector Schemes this matter is being dealt by the method outlined in the consultation response in Jan 2018 as stated here
Reforms to public sector exit payments: response to the consultation	Further clarification on the claw back for re-employment in first year and setting the exit cap at £95k are still awaited Work is going on behind the scenes and subject to Parliamentary time these could be issued by the end of the year but most likely in the new year	https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments http://www.legislation.gov.uk/uksi/2017/70/pdfs/uksi_20170070_en.pdf

	The third more broader proposals in the third consultation no immediate development on these has been reported A Private Member's Bill the Public Sector Exit Payments (Limitations) Bill 2017 was introduced in Sept 2017 and its further rescheduled second reading is set for 26 OCT 2018; to date no details have been made available	Bill stages — Public Sector Exit Payments (Limitation) Bill 2017-19 — UK Parliament
Scheme Valuations	On 6 September 2018, in a Written Ministerial Statement the Chief Secretary to the Treasury, Elizabeth Truss, announced details of the quadrennial national scheme valuation of public service pension schemes.	https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/
THE PENSION REGULATOR (TPR)		
Proactive engagement with LGPS funds planned for 2018 and 2019	The Pensions Regulator's (TPR) Corporate Plan for 2018-2021 at page 18 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes. Following the publication of these new KPIs TPR has chosen the Local Government Pension Scheme as a cohort for proactive engagement throughout 2018 and 2019. TPR has chosen Local Government schemes because, in their view, the results of the 2017 Governance & Administration Survey show that improvements in governance & administration standards have slowed when compared to other public service pension schemes. Over the coming months, all LGPS scheme managers will receive written communications from TPR (and others involved with LGPS may also hear from TPR). These will cover governance & administration matters including: ☐ the main risk areas scheme managers should already be focusing on ☐ what TPR's expectations are ☐ how those responsible for managing and running schemes can identify and	For Page 18 of Corporate Plan see http://www.thepensionsregulator.gov.uk/docs/corporate-plan-2018-2021.pdf It is anticipated that up to ten administering authorities will be visited during the period Local authorities have been approached but none to date in the South West Region

	mitigate such risks	
TPR provides guidance for trustees setting and monitoring investment strategies PN17-12 [30/03/2017]	As part of its strategy to produce simpler guidance for occupational pension schemes, The Pensions Regulator (TPR) has recently published new investment guidance for trustees. The guidance was developed for trust-based DB schemes and is not explicitly for LGPS funds, but some of the principles will apply to LGPS funds so they may wish to consider it as appropriate.	http://www.thepensionsregulator.gov.uk/pres/pn17-12.aspx
FINANCIAL CONDUCT AUTHORITY (FCA)		
CP16/29: Markets in Financial Instruments Directive II	The FCA has set the opt up criteria to take the LGPS decision making characteristics into account. The opt up template for LGPS funds has been issued. APF have opted up New MiFIDII Q &A - A Questions and Answer document has been developed to assist LGPS funds and managers to effectively deal with new relationships post January 2018 when local authorities are default retail clients including conversations at conferences. The document can be found on the MiFIDII home page .	
CIPFA		
KPIs	Nothing received so far	
ITEMS FROM OTHER SOURCES		
DWP commence consultations	On 18th June 2018, DWP commenced a consultation entitled <i>Pension trustees: clarifying and strengthening investment duties</i>. The consultation seeks views on the draft Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and does not contain proposals which would directly impact the LGPS, as it covers trust-based pension schemes alone. However, the draft regulations have been consulted upon to tackle issues that also affect the LGPS and we understand the Scheme Advisory Board for England and Wales intend to respond to the consultation.	

European Court	European Court of Justice ruling on transgender rights The European Court of Justice has ruled in favour of a transgender woman who was refused payment of her UK state pension in 2008 at age 60 (on the grounds that she did not have a Gender Recognition Certificate (GRC)). The LGPC Secretariat will provide further information regarding the impact of this case for the LGPS in a future bulletin. No further information received	This matter was discussed at the South West regional meeting and because of the complex and sensitive nature required the consensus was that once full details were received that a collective approach may be beneficial
DWP: Pension's Dashboard	Pensions dashboard – results of feasibility study delayed In bulletin 167, it was reported that DWP were conducting a feasibility study to explore the options for delivering the dashboard and that this was due to be published at the end of March 2018. The findings of this feasibility study have still to be published. Given it is now less than a year until the dashboard was originally due to launch (in April 2019), this would appear to make these timescales increasingly difficult to achieve. There have been some mixed opinions raised as to whether this is still achievable but the Department has recently confirm that it remains a key objective	

Those highlighted in Grey are those previously reported but no further developments or updates have occurred

Avon Pension Fund

Local Government Pension Scheme

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Date 29 November 2018

Dear Sir/Madam

Local Government Pension Scheme LGPS Consultation: Technical Amendments to Benefits

I refer to the Policy Consultation issued in October 2018 which asked for comments on proposed changes to the LGPS regulations.

I respond on behalf of Bath and North East Somerset Council administrators of the Avon Pension Fund (APF). The Fund has membership of 36,500 actives, 43,000 deferred beneficiaries and 30,750 pensioners [incl. dependants].

The consultation covers two main areas; the first is issuing further amendment regulations, and the other sets out a solution to resolve matters that occur from time to time without having to wait until regulations can be changed.

The Regulation Amendments

These are both required to ensure that the LGPS regulations are consistent with the recent court decisions on survivor benefits and also a technical amendment to rectify an unexpected consequence that arose when amendments were made to the regulations in May 2018.

Survivor Benefits

As a result of the decision in Walker v Innospec, the Government has decided that all public service pension schemes should implement changes to provide that survivors of registered civil partnerships or same-sex marriage will be provided with benefits that replicate those provided to widows instead of widowers.

It also acknowledges that the only category of member who does not come under this condition is all males who survive their female spouse. It does not, at present, intend to change this, quoting a potential cost of £2.8bn.



Therefore, there, remains an equality that will probably be challenged by someone in the future and if successful would mean that rectifying survivor benefits would need to be done twice and involve a greater number of people. Some individuals who may enjoy the benefits of a more comfortable living standard may not live to get the additional benefit.

Question One - Do you agree with this approach?

Avon Pension Fund – Partially supports, the LGPS needs to be brought in line with the court decision but consideration should be given to equalising survivors benefits in all cases.

Technical Amendment:

Early access to benefits for deferred members of 1995 Scheme

The amendments made earlier this year have created a situation whereby members who left active membership of the LGPS prior to 1 April 1998 and who were aged between 55 and 60 are likely to have lost the option to elect for early payment of benefits. It therefore intended to amend the regulations again to fully achieve the initial policy aim, which is to allow all deferred members over the age of 55 to draw down their pensions early, with the appropriate actuarial reduction.

However the draft regulations do not achieve the same position for early draw down as the other later regulations, as there is still the requirement that the member must not be in local government employment when the option to draw down is made.

Question Three - Do you agree with this approach?

Avon Pension Fund - Supports this amendment but to fully obtain a similar condition to the other later leavers the reference to 'Local Government Employment' should be removed

N.B A key point here is that when legislation is being drafted, stakeholders are consulted before actual regulations are made to reduce the likelihood of such unintentional consequences occurring.

Power to issue statutory guidance

As result of the Brewster and Elmes cases it became apparent that the MHCLG could not issue statutory guidance on the matter as any such view had no legal force as the Secretary of State had no power to issue statutory guidance in this area.

Accordingly it is possible for funds to reach different and inconsistent conclusions about to the entitlements of beneficiaries in identical positions.

This is contrary to the Government's view that the LGPS is a single scheme administered locally. It was always our intention that equivalent members' benefits should be the same everywhere. These issues are sensitive and to avoid funds taking different approaches, the government proposes to create a power to issue statutory guidance on the operation of the scheme's rules.

This situation was also highlighted when statutory guidance could not be given for the unintended consequences of the recent amendment regulations where funds had to decide whether or not to adopt the Department's intention statement pending further regulation changes.

Another area where it would have been useful in issuing guidance is in respect of the outcomes arising from the GMP reconciliation exercise where funds have been left to make certain decisions that will not be uniform across the scheme.

Question Two - Do you agree with this approach?

The options are

- a) Give power to issue statutory guidance on the operation of the scheme's rules to deliver greater standardisation of approach, in particular on how the interpretative duties under the Human Rights Act are met.

Pro - reduces uncertainty which is better for stakeholders

Con - potentially could give Department power to change policy without full legal changes through regulations

- b) to amend the rules of the scheme in relation to each judgment as it is made.

Pro - would safeguard against Department having potentially unlimited power without regulations

Con - less flexible to inevitable changes in position as case law and LGPS regulations develop.

requires a greater call on Parliamentary time.

Avon Pension Fund – Partially supports, there should be the power to issue statutory guidance but this should be restricted to avoid policy changes to the LGPS which should be actioned through the scheme regulations. All guidance should be in consultation with Scheme Advisory Board.

I hope that these comments are useful but please let me know if any further clarification is required

Yours sincerely

**Alan South
Technical Manager
Avon Pension Fund**

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	7 December 2018
TITLE:	WORKPLANS
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Investments Workplan to March 2020 Appendix 2 – Administration Workplan to March 2020 Appendix 3 – Committee Work plan to March 2020 Appendix 4 – Investments Panel Work plan to March 2020 Appendix 5 – Training Programme 2018-20	

1 THE ISSUE

- 1.1 Attached to this report are updated workplans for the Investments and Pensions Administration teams which set out the various issues on which work will be undertaken in the period and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.
- 1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate. The May 2019 Panel meeting is cancelled due to elections. The February and September 2019 Panel meetings will be extended to accommodate the extra papers.
- 1.3 The provisional training programme for 2018- 20 is included as Appendix 5. It has been updated following the self-assessment exercise.
- 1.4 The workplans are consistent with the 2018-21 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.
- 1.5 The workplans are updated quarterly.
- 1.6 Member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

2 RECOMMENDATION

- 2.1 That the workplans and training programme for the relevant periods be noted.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.2 In 2019 the Triennial Valuation and a Strategic Investment Review will be undertaken and require a number of workshops to support the decision making.

4.3 The workplans and training plan will be updated with projects arising when these are agreed.

4.4 The provisional training programme for 2018-20 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit. It also includes workshops to cover aspects of training requested in the self-assessment exercise.

4.5 Please note that member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

5 RISK MANAGEMENT

5.1 Forward planning and training plans form part of the risk management framework.

6 EQUALITIES

6.1 An Equalities Impact Assessment has not been completed as the report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

INVESTMENTS TEAM WORKPLAN

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to Ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars Training programme for new members in place Self-Assessment of knowledge and training needs	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Investment strategy & projects	Projects for implementation or further investigation. • Investment strategy for CB funded bodies • Strategic Investment review after 2019 Valuation ○ Review options for de-risking ahead of 2019 Valuation ○ Review asset allocations	In progress Start 1Q19
Pooling of investments	Participate in Brunel Pension Partnership as Client Group Representative Manage transition of assets – planning & implementation Review team resource and structure as a result of pooling	On-going From 2Q18 From 3Q18
Interim Valuation 2018	Interim valuation as at 31 March 2018 to prepare FSS and budgeting ahead of 2019 valuation	3Q18
2019 Valuation	Prepare following interim valuation Consider options for further de-risking of investment and funding strategies ahead of valuation	From 3Q18 Start 3Q18
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	2Q19
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually
Investment Forum	To discuss funding and investment strategies and issues	4Q18

Pensions Board	Training plan	Ongoing
Investment Strategy Statement	Revise periodically after strategy changes	Ongoing
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually by 31 May; annual report by audit

PENSIONS ADMINISTRATION TEAM WORKPLAN

Project	Proposed Action	Report
Employer Self Service rollout	Continuing Employer Self Service training of all new and remaining employers to enable full electronic data delivery. Review of software to ensure product is fit for purpose and meets Fund requirements. Undertake review as part of PAS	Ongoing March 2019
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live (BCC, B&NES, S.Glos – all live) North Somerset – In Progress (expected to go live by end Jan 19) All Other Employers (see strategic projects below; identified in 2018/21 Service Plan)	March 2019
I-Connect Roll Out	Key projects identified in 2018/21 Service Plan To improve efficiency and performance Roll out of monthly returns across all employers (75% of active membership covered as at 31 October)	Ongoing
Address Tracing	To achieve compliance with TPR Cop 14 and enable member ABS to be issued (Stage 1 – mortality screening) (Stage 2 – automated reference testing) (Stage 3 – manual tracing) (Stage 4 – forensic trace)	Completed Completed In Progress Due following stge 3
Member Aggregation	Aggregation/link option - Appx 3,869 cases (45% cleared at November 2018)	In Progress
Reply Due	Develop new process & clear outstanding backlog	Commencing Nov/Dec 2018
2014 Scheme – refund option	Develop & Implement new process to manage increase in workload – impacting from April 2019	Commencing Q4
Trivia commutation of Small Pension Pots	Undertake review of pensioner member pots to identify potential commutation opportunity following Gov't budget announcement. Feasibility study – in progress	Due March 2019
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously	Identify cases and contact former members (tracing agent support) concerning pension refund payment. Page 453	Ongoing Completion due 18/19

untraced)		
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance. Undertake review of overall data accuracy – incorporating new TPR Data Score requirements for Common and Scheme Specific data. Sept 2018 - Further guidance on scheme specific data measurements awaited from SAB/TPR/LGA	Completed On Hold
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing Due Completion 18/19
2017/18 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2018 (1) Issue employer data match file (2) Deadline for data receipt (30/4/18) (3) Deadline for reconciliation (end June 18) (4) ABS production timetable (July/August) (5) Member AA Notifications (by 6 Oct 18)	Completed Jan 18 Completed Completed Completed Completed Report Dec 2018
Move to Electronic Delivery of generic information to members	Continue to move to electronic delivery to all members (other than those who choose to remain with paper). Campaign to increase the sign up of members to Member Self Service (<i>My pension online</i>)	Ongoing Ongoing
Review Pension Admin Strategy	Review & update current PAS (2015) for approval by Pensions Committee (including employer SLA document)	Due Q4 (Report at March Committee)
General Data Protection Regulation (GDPR)	Undertake review of existing arrangements in conjunction with B&NES corporate policy to ensure compliance with EU legislation - effective May 2018)	Update Report at March 2019 Committee

Committee Work plan to March 2020

MARCH 2019
Review of Investment Performance for Quarter
Pension Fund Administration – Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring 2018/19
Budget and Service Plan 2019/22
Audit Plan 2018/19
Approval of Revised Administration Strategy
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Update on Legislation
Workplans
Planned Workshops: Pre meeting workshop - Brunel session (TBC)

JUNE 2019
Roles & Responsibilities of the Committee – reference only
Pension Fund Administration – Performance Indicators for Year and Risk Register
Budget & Cashflow Monitoring 2018/19 – outcome
Annual Review of Investment Strategy & Performance
Report on Investment Panel Activity
Noting of draft Accounts 2018/19
Approval of Draft FSS for consultation
Update on Legislation
Update on Brunel Pension Partnership
Approval of Committee's Annual Report to council
Workplans
Planned Workshops: Pre meeting workshop: Mercer session on FSS and valuations; PB to be invited (will have valuation updated for financial markets only) July – Investment Strategy review

SEPTEMBER 2019
Review of Investment Performance
Pension Fund Administration –Performance Indicators and Risk Register
Budget & Cash flow Monitoring
Approval of FSS (post Consultation)
Report on Investment Panel Activity
Annual Review of Risk Management Strategies
Annual Responsible Investing Report
Update on Brunel Pension Partnership
Noting of Final Accounts 2018/19
Update on Legislation
Pension Board Annual Report
Work plans
Planned Workshops: October – Finalise Investment Strategy

DECEMBER 2019
Strategic Investment Review for approval
Draft ISS for consultation with PB
Review of Investment Performance for Quarter
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Review of AVC arrangements
Update on Legislation
Workplans
Planned Workshops:

MARCH 2020
2019 Actuarial Valuation outcome report & Covenant review
Revised ISS post review and consultation
Review of Investment Performance for Quarter
Pension Fund Administration – Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring
Budget and Service Plan 2020/23
Audit Plan
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Update on Legislation
Workplans
Planned Workshops:

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INVESTMENT PANEL WORKPLAN

Panel meeting	Proposed agenda
Panel Meeting February 2019 (extended meeting)	• Review performance • Transition of assets - plan update • Review policies/options ahead of Strategic review • Review Private Market commitments to Brunel portfolios (by 31 March 20189)
Panel Meeting May 2019	• Cancel due to elections
Panel Meeting September 2019 (extended meeting)	• Review performance • Transition of assets - plan update • Introduce Brunel Client reports for assets managed by Brunel • Consider options for Equity protection and LDI strategies given 2019 valuation market levels • Implementation considerations from strategic review
Panel Meeting November 2019	• Review performance • Transition of assets - plan update • Agree future strategy for equity protection and LDI post strategic review workshops • Implementation considerations from strategic review
Panel Meeting February 2020	• Review performance • Transition of assets - plan update • Implementation considerations from strategic review • Agree Private Market commitments to Brunel portfolios (by 31 March 2020)

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Appendix 5 - Committee training programme 2018-20

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board & legislative framework List of key strategy and regulatory documents	Committee	June 2018 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers
3	Actuarial Valuations	Valuation monitoring 2018 interim valuation outcome & GAD valuation methodology, plus LGPS Cost Cap Mechanism 2019 Triennial Valuation	Committee Workshop Workshop	Committee reports Interim valuation workshop 3Q18 Committee report 4Q18 2019 Valuation & FSS workshop 2Q19
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy Covenant assessment process Admission and exit policies and funding basis used	Committee	Committee reports Covenant report 4Q18 FSS review 2Q19
5	Investment strategy	Asset allocation & Investment Strategy Statement Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees Strategic Review Brunel: - Asset transition plan - Monitoring of performance and service delivery	Committee Workshops Committee	Quarterly monitoring report 3&4Q19 Brunel transition plan monitoring (from 2018) Brunel performance monitoring (from 2018)
6	Managing liabilities	Monitoring and review of LDI framework Annual review of Risk Management Strategies Review of Investment Strategy for Corporate Bond bodies	Investment Panel Investment Panel & Committee Investment Panel	Panel reports 3Q2018, annually 3Q18

7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2018/19)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new member training);
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting) Annual Risk Management Framework Report
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee Covenant and Employer reports to Committee 2018 interim valuation workshop 2019 Triennial Valuation Workshop