

Avon Pension Fund Committee

Date: Friday, 27th September, 2019

Time: 2.00 pm

Venue: Council Chamber - Guildhall, Bath

Bath and North East Somerset Councillors: Bruce Shearn (Chair), Shaun Stephenson-McGall (Vice-Chair), Chris Dando, Paul May and Manda Rigby

Co-opted Voting Members: Councillor John Cato (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member) and Shirley Marsh (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions), Michael Rumph (Trade Unions) and Cllr John Goddard (Parish and Town Councils)

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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<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

Avon Pension Fund Committee - Friday, 27th September, 2019

at 2.00 pm in the Council Chamber - 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 JUNE 2019 (Pages 5 - 22)

8. MINUTES OF THE PENSION BOARD 13TH JUNE 2019 AND PENSION BOARD ANNUAL REPORT (Pages 23 - 40)
9. UPDATE ON LEGISLATION (Pages 41 - 90)
10. APPROVAL OF FSS (POST CONSULTATION) - TO FOLLOW
11. UPDATE ON BRUNEL PENSION PARTNERSHIP (Pages 91 - 120)
12. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 121 - 156)
13. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 157 - 168)
14. ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES (Pages 169 - 216)
15. REVIEW OF INVESTMENT PERFORMANCE (Pages 217 - 272)
16. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER (Pages 273 - 312)
17. WORKPLANS (Pages 313 - 326)
18. DATES OF FUTURE MEETINGS

Future meeting dates of the Committee can be found at:

<https://democracy.bathnes.gov.uk/ieListMeetings.aspx?CId=212&Year=0>

Future meeting dates of the Investment Panel can be found at:

<https://democracy.bathnes.gov.uk/ieListMeetings.aspx?CId=213&Year=0>

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 June, 2019, 2.00 pm

Bath and North East Somerset Councillors: Bruce Shearn (Chair), Shaun Stephenson-McGall (Vice-Chair), Chris Dando, Paul May and Manda Rigby

Co-opted Voting Members: 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: Paul Middleman (Mercer) and Steve Turner (Mercer)

Also in attendance: Donna Parham (Interim Director - Finance), Jeff Wring (Service Director - One West), Liz Woodyard (Investments Manager), Geoff Cleak (Pensions Manager), Kathryn Shore (Technical and Compliance Advisor), Carolyn Morgan (Governance and Risk Advisor) and David Richards (Finance & Systems Manager (Pensions))

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Toby Savage, John Goddard and Mick Rumph. There was no North Somerset representative present, because they would not make nominations to external bodies until 25th June 2019.

3 DECLARATIONS OF INTEREST

William Liew declared a non-pecuniary interest as the representative of an employer in the Fund in relation to items 10 (Update on Legislation) and 11 (Approval of Draft FSS for Consultation).

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

The Chair explained that only members of the public who had given the required notice to Democratic Services could address the Committee at today's meeting. The required notice was 2 clear working days for statements and 4 clear working days for

questions. Three members of the public had given the required notice to make statements.

Cllr Carla Denyer (Bristol City Council) made a statement, a copy of which is attached as an appendix to these minutes.

Adrian Shaw made a statement, which is attached as an appendix to these minutes.

Matthew Soames had submitted a written statement, which is attached as an appendix to these minutes.

The Chair thanked them for their statements and said that their comments would be considered by the Committee when they reviewed the investment strategy later in 2019, and that the impact of climate change on the Fund's strategy would be specifically considered as part of the review.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 22 MARCH 2019

A Member raised a point of accuracy on the minutes in item 68 (Governance Review), paragraph 2.1a (proposal to reduce the number of B&NES Councillors on the Committee). He said that his group had voted against this proposal, and would like that to be recorded in the minutes. The Committee accepted this amendment, and it was accordingly agreed that the record of the voting on this proposal should read:

“The recommendation was put to the vote and was carried by 5 votes in favour and 2 votes against with one abstention.”

RESOLVED that the minutes be approved and signed by the Chair subject to this amendment.

8 PENSION BOARD MINUTES: 7TH MARCH 2019

RESOLVED to note the minutes of the meeting of the Pension Board of 7th March 2019.

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Governance and Risk Advisor presented the report. She suggested that the Committee should discuss and vote on each of the recommendations separately.

2.1 and 2.2

The Committee noted the roles and responsibilities of the members, advisors and officers and the Terms of Reference of the Committee and the Investment Panel, which had been approved by the Council.

2.3 Governance Compliance Statement

The LGPS regulations require the publication of a revised Governance Compliance Statement whenever there is a material change. The draft revised statement in Appendix 2 reflected the revised Terms of Reference agreed by the Council on 21 May 2019. Members were invited to approve the draft.

2.4 Membership of Investment Panel

B&NES Members are appointed to the Panel by the Political Groups in accordance with the rules of political proportionality. The Groups had appointed Cllrs Bruce Shearn, Shaun Stephenson-McGall and Chris Dando as Members of the Panel. The Committee appointed Shirley Marsh and Pauline Gordon as the remaining Members of the Panel.

2.5: Committee Representation on Brunel Oversight Board

The Chair was appointed as the Committee's representative on the Brunel Oversight Board.

2.6 Membership of Brunel Working Group

The Chair and Pauline Gordon were nominated as members of the Brunel Working Group.

A Member asked whether it was in accordance with good governance that the Chair should be both the Committee's representative on the Brunel Oversight Board and a member of the Brunel Working Group. The Investment Manager replied that the purpose of the Working Group was to support the Oversight Board representative and act as a sounding board and a channel of communication and it would not have executive powers; she suggested therefore that there was no conflict of interest between the two roles. The two nominations to the Working Group were approved.

2.7 Members to represent Fund on Local Authority Pension Fund Forum

Cllr Steve Pearce and Richard Orton were appointed to this role.

It was noted that Wendy Weston would succeed Richard Orton as the voting representative of the Trade Unions for the current year with immediate effect.

RESOLVED:

1. to note the roles and responsibilities of the Members, advisors and officers;
2. to note the approved Terms of Reference of the Committee and Investment Panel;
3. to approve the Governance Compliance Statement;
4. to agree the membership of the Investment Panel as indicated above;
5. to agree the Brunel Oversight Board representative as indicated above;
6. to agree the membership of the Brunel Working Group as indicated above;
7. to agree the members to represent the Fund on the Local Authority Pension Fund Forum as indicated above;

8. to agree to delegate the drafting of the Annual report to Council to officers and the Chair (subject to informal consultation with Committee Members prior to the Chair approving the report).

10 UPDATE ON LEGISLATION

The Technical and Compliance Advisor presented the report. She drew attention to the consultation responses made on behalf of the Fund.

A Member asked how the Fund was likely to respond to the MHCLG consultation on the LGPS Local Valuation Cycle and the Management of Employee Risk in relation to the proposal that further and higher education corporations would not have an automatic right of admission to the Fund. The Investment Manager replied that the response would be from the Fund's perspective and would use financial metrics to demonstrate the likely long-term impact on the Fund.

A Member referred to the comment in the final paragraph on agenda page 77 about a University seeking to deprive non-academic staff of LGPS membership, and asked whether since the consultation response had been submitted there had been any further evidence of current employers in the Fund trying to do the same. The Investment Manager replied that there was no evidence of this.

RESOLVED to note:

1. the current position regarding the developments that could affect the administration of the Fund;
2. the responses sent to the MHCLG consultations on 'LGPS Asset Pooling', 'Fair Deal' and 'Late Retirement Factors'.

11 APPROVAL OF DRAFT FSS FOR CONSULTATION

The Investment Manager presented the report and invited Members to approve the draft Funding Strategy Statement (FSS) 2019 for consultation with employers and the Pension Board. The consultation would conclude in early September, and a revised draft would be presented to the Committee at the 27 September special meeting, when Members would be invited to approve it. Members were invited to delegate to officers, having taken advice from the Actuary, the power to amend the draft FSS as new legislation or guidance was issued.

The Fund's Actuary, Paul Middleman, presented the draft FSS. He said it was a very important document, because what it did essentially was to set employer contribution rates.

He directed Members to paragraph 5.7 of the covering report (agenda pages 89-90), where the major changes from the existing FSS were set out.

He said that a key assumption that has to be made is the discount rate, which is set by the Actuary to reflect the expected overall long-term real investment return with an allowance for prudence. The level of returns that can be expected depends on the

assets held by the Fund, the outlook for those assets and the protection policies the Fund has in place.

The assumption about life expectancy had to be changed to take account of the fact that the rate of improvement had tailed off a little. That would have a 3-4% positive effect on the Fund's liabilities.

There were a number of national issues whose outcomes would need to be incorporated into the FSS when they were clarified, as detailed in paragraph 5.9 of the covering report. They could be incorporated under delegated powers by officers, if the Committee granted these. One of the most significant of these issues is the proposed move from a three-yearly to a four-yearly valuation cycle. He drew the attention of Members to paragraphs in the draft FSS that reflected these issues.

After discussion it was **RESOLVED**:

1. to approve the draft Funding Strategy Statement as set out in Appendix 1 for wider consultation, subject to the insertion of information which can only be included when the actuarial valuation and consultation processes are complete;
2. to delegate power to officers, having taken advice from the Actuary, to amend the draft FSS as new legislation or guidance is issued as appropriate.

12 UPDATE ON BRUNEL PENSION PARTNERSHIP

The Investment Manager presented the report.

She said that since the last Committee meeting in March the Brunel Oversight Board (BOB) had met once, in April. There were two matters of particular interest to the Committee. One was a report on governance. Brunel is reviewing the governance arrangements for the whole partnership after 18 months of operation. The review is in large part focussed on technical issues to reflect changes in legislation, FCA regulations, and operational practice now that Brunel is established. The legal officers of the client funds will review the draft proposals, which will go back to BOB in July for comment with the final proposals being considered by BOB in September. Governance arrangements are a special reserved matter, so any changes will require the unanimous approval of the shareholders. The other matter was a review of the Brunel's internal control environment. Because Brunel is an FCA-regulated company, the control environment is quite onerous. Brunel is in the process of developing their control environment and as part of this process the internal auditor had completed audits on different aspects which identified areas that needed to be strengthened. This had been constructive, and would assist Brunel in developing a robust control environment. Progress would be reviewed by BOB in July. The plan for transitioning assets remains on track. The client assurance framework, by which funds in the pool will hold Brunel to account for service delivery, is near to completion.

Before considering exempt appendices 2a, 2b and 3 the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting for the consideration of exempt appendices 2a, 2b and 3 and that the reporting of this part

of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

After the Committee returned to open session it **RESOLVED** to note:

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

13 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE

The Investment Manager introduced this item. She informed the Committee that there would be an investment training session in the morning before the Investment Panel meeting of 2 September for new Committee Members and Panel Members. An invitation would be sent out the following week.

Mr Turner presented the Mercer Annual Investment Review.

A Member suggested that the Fund's communication strategy should be reviewed, as he and other Members were getting lots of emails about the Fund's investment policy. The Investment Manager replied that a new communications manager had been appointed for the Fund, who would start in August.

Responding to a question from a Member the Investments Manager said that the annual report on the Fund's carbon footprint would be available later in the year and presented to the Committee. It would inform the Fund's Investment Strategy.

RESOLVED to note:

1. the information set out in the report;
2. the LAPFF quarterly engagement report.

14 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND RISK REGISTER

The Pensions Manager presented the report.

Members noted that there during the year 57 employers had joined the Fund and that there were 74 potential new employers in the pipeline, with 38 expected to join in the next six months.

A Member referred to the agenda page 249 (cases measured against SLA) and noted that payments at death were only made within target in 61.76% of cases. He asked whether there was plan to improve performance in this area, as these payments could be critical at a difficult time for the families concerned. The Pensions Manager said that the performance on the table was given against the Fund's own SLA; against the new national standard issued by CIPFA performance would be much better.

A Member requested an update on the conversations that Pensions had been having with B&NES about improving the employment package for pensions' staff to make it more attractive in the market place. Officers advised that the conversations were ongoing.

A Member asked when an employer was last fined by the Fund for repeated poor performance in submitting data. The Pensions Manager said that the first response was to offer training and to find out where things had gone wrong. In 2016 there were 100 employers who failed to provide accurate or complete data by year end. In 2018 there were less than 30.

RESOLVED to note:

1. membership data, Fund and employer performance for the 3 months to 31st March 2019;
2. progress and reviews of the TPR Data Improvement Plan.

15 BUDGET AND CASH FLOW MONITORING 2018/19

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

A Member asked for a breakdown of the £70,000 increase in Brunel management fees referred to in paragraph 4.2 (agenda page 278. The Investments Manager said that she did not have this information immediately available and would reply to the Member after the meeting.

RESOLVED to note:

1. the administration and management expenditure incurred for the year to 31 March 2019.
2. the Cash Flow report for the year to 31 March 2019.

16 WORKPLANS

The Governance and Risk Advisor presented the report.

RESOLVED to note the workplans and training programme for the relevant periods.

The meeting ended at 4.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Avon Pension Fund must respond to the climate crisis we find ourself in, and divest from fossil fuel companies over the next 5 years. I welcome the Fund moving more of its equity to be invested in the Brunel Pensions Partnership's low carbon fund. This is a recognition of the threat climate change poses not just to the Fund's investments, but to people and the planet.

The Fund must therefore recognise that its' holdings in oil and gas companies have helped to create the climate emergency we find ourselves in. Engagement with the fossil fuel companies it is invested in, is no longer an acceptable option in the circumstances we now face.

As a young member of the Avon Pension Fund, I am increasingly worried about the world in which I will retire into. To use my money to actively support an industry which threatens my very future is unacceptable.

Other members of the Fund I speak to are also unhappy the money for our retirement is going towards industries which undermine the planet in which we will retire into. I ask the Pension Fund to listen to its members, and divest its investments currently held in fossil fuel companies. This is an opportunity for the Fund to take bold steps in ensuring it is part of the solution to the climate emergency, and not part of the problem.

Matt Soames
Member of Avon Pension Fund

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Dear Committee members, I thank you for the opportunity to address you today. I speak as a father and a grandfather, and ex-Avon County employee.

The global climate emergency, ecological degradation, species loss – these are humanity's - our greatest challenges.

Although species extinction is a natural phenomenon (having a natural "background" rate of about one to five species lost per year) scientists estimate that we're now losing species at 1,000 to 10,000 times this background rate. That's literally dozens of species going extinct every day. Dozens! Gone! Never to return! Scientific evidence points indisputably to human industrial activity as the driver of climate change and ecological breakdown.

Now, I know I am speaking to intelligent and informed people. I would be greatly disappointed if you were not already very well acquainted with the facts of the current environmental catastrophe. You and I know this is real! This is happening! The house is burning down around our ears - but it often seems as if our collective response is to open a bottle of wine and see what's on Netflix. No! Now is the time to act decisively and responsibly!

On an individual level, I have "done my bit" for many decades - day-to-day choices - avoiding excess packing, choosing cleaner ways to travel, reusing, repairing, recycling - all of those things! Apart from these, there are overarching changes which we, as concerned citizens must unequivocally demand. One of these changes is the immediate closing down of the oil industry and its subsidiaries.

Each of us can do a little to lessen the impact of human activity on the planet - turning the thermostat down, walking into town rather than driving. Each individual action added together makes a difference.

But, there are human industries that individuals find it almost impossible to affect at the speed with which we need to act. This is both distressing and enormously frustrating.

And this is why I am addressing you today. Dear committee members. You can do this for me. You can do this for each one of us. You can take action in a powerful and effective way, on our behalf.

I ask you, Avon Pension Fund committee, please - stop investing our pension fund in the fossil fuel industry. Make this bold, moral decision, for us and with us, to preserve and serve the precious life of earth.

Thank you.

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Statement to Avon Pension Fund Committee meeting, 21 June 2019

Subject: Fossil Fuel divestment and diversification

Speaker: Cllr Carla Denyer, reserve APF committee member and Bristol councillor

In December 2015 councillors on Bristol City Council voted unanimously in favour of ‘fossil free’ pensions. The motion was also supported by Bristol UNISON, which has 5,000 members working at Bristol City Council and hundreds of community organisations. The motion required the Mayor and the Council’s representative on the Avon Pension Fund to work towards divestment from fossil fuel investments.

We were promised a report on the implications, although many of us actually just wanted to get on with divestment.

Three and a half years later, the climate crisis we face has become even clearer, as has the financial argument for divestment – fossil fuels are rapidly becoming stranded assets that cannot be used.

As the instigator of the Bristol ‘Climate Emergency’ motion last November I’m delighted that over 100 other UK councils have now passed similar motions – including Bath & North East Somerset and North Somerset. The signs are clear, following last year’s IPCC report into the **severe environmental impacts** of even 1.5° C of global warming, and the subsequent reports into the **economic impacts**, that we now need to press for action, and our representatives support this.

Managing our local government pension fund is essential to show that we meant what we said – to put our money where our mouths are. This means consciously investing our fund, making it work for our future, not dragging out the past.

The 2015 motion was drafted to ask this Pension Fund to **divest from fossil fuels gradually over a period of 5 years**, diversifying into energy efficiency, renewables and energy storage - to help build the smart energy economy we are aiming for, not support the one we’re leaving behind. It followed advice from the Governor of the Bank of England to beware of stranded assets as fossil fuel reserves lose their value and the majority have to stay in the ground. **3 and a half of those 5 years have now passed – we are running out of time.**

Meanwhile around the world other organisations are getting on with divestment – investment houses, universities, oil fortunes like the Rockefeller family and the Norwegian Sovereign Wealth Fund, and pension funds. The sums building our new economy this way now top £8 billion. Moving funds systematically over 5 years increases their value and will help create jobs and skills in the new economy to retrofit our homes, power our city with clean energy, and help our businesses thrive and export. It fits well with the fiduciary duties of the fund managers to ensure secure, long term returns and build prosperity.

While APF now invests through the Brunel Pensions Partnership, APF still has the power to decide to move out of fossil fuels and has not done so. It has declared environmental and social policies, and backs some low carbon funds. However the ‘low carbon fund’ does NOT exclude carbon intensive stocks, it just weights the fund to be low carbon overall*. APF has chosen to adopt a policy of

‘engagement’ with the fossil fuel industry. Rather than divestment, the idea is monitoring and talking to the fossil fuel companies. **Has that engagement borne any fruit so far? How many more decades will you wait for the fossil fuel companies to change their spots?**

Later this year there will be another divestment and diversification motion in Bristol, once again with active support of our staff in Bristol UNISON, calling for Avon Pension Fund to join other local authority funds in undertaking a **just transition to cleaner energy** by getting our staff pensions out of fossil fuels and into the sectors **working for all our future**.

Members of Avon Pension Fund: many of you are the self-same councillors of Bristol, Bath & North East Somerset and North Somerset who declared a Climate Emergency, though that may have been before some of you were elected. Either way, I ask that when you make your financial decisions on this committee, please think of the points I’ve made here, the commitments your Councils have made to tackle the Climate Emergency, and the importance of preserving a habitable planet for your children to live on.

* See Share Action/Unison Analysis of ISS of the LGPS administration authorities, **enclosed**.

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:	27 September 2019	AGENDA ITEM NUMBER 8
TITLE:	Local Pension Board – June Minutes & Annual Report	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Pension Board Minutes – June 2019 (draft)		
Appendix 2 – Pension Board – Annual Report 2018/2019		

1 THE ISSUE

- 1.1 The purpose of the report is to notify the Pensions Committee of the latest draft Local Pension Board minutes and to present the approved Annual Report of the Board's activities for 2018/19, as required under its Terms of Reference.

2 RECOMMENDATION

- 2.1 The Pension Committee is asked to note the report and appendices subject to any comments at its meeting.

3 THE REPORT

- 3.1 The draft minutes of the latest LPB meeting in June 2019 are included with this report at appendix 1.
- 3.2 Under the Public Service Pensions Act 2013 and as part of its terms of reference the LPB is required to produce and publish an annual report to the Council on its work, including any breaches of the law by the fund, recommendations on process and governance, and it should be circulated to the fund members and employers, and S151 officer and Monitoring Officer.
- 3.3 Based on its Terms of Reference document the LPB annual report summarises the Board's establishment and activities over the past 12 months and briefly looks forward to the proposed work plan for the forthcoming year.
- 3.4 The Annual Report, appended at appendix 2 will be available on the Fund's website and also be referenced in the Annual Report of the Avon Pension Fund.

4 RISK MANAGEMENT

- 4.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5. CLIMATE CHANGE

- 5.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

6 CONSULTATION

- 6.1 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	<i>Geoff Cleak [Jeff Wring] (01225 477323)</i>
Background papers	<i>Council Report – Establishment of Avon Pension Fund Board – 15th January 2015</i>
Please contact the report author if you need to access this report in an alternative format	

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 13th June, 2019

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

Also in attendance: Jeff Wring (Service Director - One West), Liz Woodyard (Investments Manager), Geoff Cleak (Pensions Manager) and Kathryn Shore (Technical and Compliance Advisor)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 APOLOGIES FOR ABSENCE

Apologies were received from Tom Renhard.

3 DECLARATIONS OF INTEREST

There were none.

4 ITEMS FROM THE PUBLIC

There were none.

5 ITEMS FROM MEMBERS

A Member requested that thought be given to reducing the volume of agenda papers sent to Members, who were after all volunteers with other commitments. The Chair recalled the plan to supply information to AFP Committee members through an electronic portal, and requested that Board Members should be included in this, so that Members were not confronted with large amounts of paper arriving at the same time.

6 CHAIRMAN'S INTRODUCTION

The Chair welcomed Councillor Bruce Shearn, the newly-appointed Chair of the Avon Pension Fund Committee to the meeting. Cllr Shearn thanked him and said that his was his intention to attend future meetings of the Board.

The Chair reminded Members that the role and purpose of the Board (specified in section 5 of the Public Service Pensions Act 2013) was to assist the administration authority to secure compliance with Regulations, other legislation relating to the governance and administration of the LGPS, the requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the Avon Pension Fund.

7 MINUTES OF PREVIOUS MEETING: 7 MARCH 2019

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

8 ACTION TRACKER

The Chair noted that the Administration Strategy had been approved for consultation by the Pensions Committee at its March meeting, and was item 12 on today's agenda. This action was therefore complete.

There had been progress on one of other four actions and three were still open.

RESOLVED to note the Local Pension Board Action Tracker.

9 MINUTES OF AVON PENSION COMMITTEE: 22 MARCH 2019

The Chair noted that the issues of particular relevance to the work of the Board were the change in the Fund's governance arrangements and the Administration Strategy that had been agreed at the meeting. The latter formed the subject of a later agenda item.

RESOLVED to note the Minutes of the meeting of the Avon Pension Fund Committee of 22 March 2019.

10 MINUTES OF THE AVON PENSION COMMITTEE INVESTMENT PANEL: 27 FEBRUARY 2019

Exempt Minute 43: Brunel Pension Partnership

A Member asked about transition costs. The Investment Manager explained that transitions were performed by a transition manager. Before the transition an estimate was made of the costs of the transition, which was used as guidance in selecting a transition manager. The costs were higher than estimated, but officers were satisfied that they were reasonable.

The draft Minutes of the meeting of the Brunel Oversight Board for 30 April were circulated to Members, and the Investment Manager gave an update on Brunel Pension Partnership. She said that Brunel was reviewing its governance arrangements and its internal control environment. Brunel had issued a Climate Change Position Statement. The Committee would be considering climate change in October/November as part of its review of investment strategy and she hoped that by then Brunel's climate change policy would be well-developed if not finalised.

The Chair requested that the Board to be kept informed about the progress of the Brunel governance review and any changes proposed. The Investment Manager reminded the Board that governance changes were a reserved matter, and would have to be approved by the shareholders. The Chair also asked about the reporting of investment costs and whether there would be transparency about the impact on APF. The Investment Manager said that there would be information in the Fund's annual report about actual and cumulative costs, with a commentary. She was waiting for the final numbers to be provided.

RESOLVED to note the public and exempt Minutes of the Avon Pension Fund Committee Investment Panel of 27 February 2019.

11 LGPS UPDATES

The Technical and Compliance Advisor presented the report.

A Member asked whether there the Fund had a policy on which consultations it responded to and which ones it did not. The Technical and Compliance Advisor acknowledged there were a number of consultations to which the Fund had not responded; there was no policy, but the Fund responded to those it thought important.

The Chair congratulated the Fund on adopting on the key performance measures recommended by CIPFA (agenda page 50) with effect from 1 April 2019.

The Chair said that there should be future agenda items on the Scheme Advisory Board's second survey of the effectiveness and operational efficiency of Local Pension Boards, which would be published later this year and on The Pensions Regulator report on the governance and administration of the LGPS funds. TPR had also done a special study on ten underperforming funds which would also be reported later in the year. He also drew attention to the Unison survey of responsible investing by LGPS funds, and was pleased to note that Avon was ranked second, for which officers and the Committee deserved congratulations.

RESOLVED:

1. to note the current position regarding the developments that could affect the administration of the Fund;
2. to note the responses to the MHCLG consultations on 'LGPS Asset Pooling', 'Fair Deal', and 'Late Retirement Factors'.

12 PENSION FUND ADMINISTRATION STRATEGY

The Pensions Manager presented the report.

He noted that the Board would monitor the implementation of the Strategy and performance against standards. The Fund had consulted with employers about the Strategy in April and May, but only one response had been received within the deadline. The Chair said that was disappointing, but perhaps, optimistically, the failure to respond indicated satisfaction with the Strategy.

A Member asked for clarification of the role of the Board in monitoring the administration strategy. He said that he understood the monitoring of performance, but was uncertain what the Board could or should contribute in relation to other aspects of the strategy. The Chair replied that the Board had a statutory role to ensure that the Fund met administration requirements and was efficient and effective. To do this the Fund needed a strategy; the Board had to consider the

appropriateness of that strategy and to monitor the performance of the Fund against it to ensure it was being delivered. If there were areas in which it was not being delivered, the Board had to investigate why that was the case, and to consider whether this might be due to a lack of resources or a need for changes in legislation, for example.

The Board noted the proposals for a charging service to employers who continually fail to meet agreed standards or who require additional assistance outside the Service Level Agreement. Members felt this was an imaginative innovation.

RESOLVED to note:

1. the draft Communications Policy Statement;
2. the draft ICT statement;
3. the draft Performance Standards;
4. the draft Customer Service Charter;
5. the draft Schedule of Additional Admin Charges.

13 PENSION FUND SERVICE PLAN

The Pensions Manager presented the report.

A Member asked whether there were still vacant posts in Pensions Administration. The Pensions Manager replied that all managers had now been appointed and were in place. A review was taking place of the structure of the Administration Team to ensure that it was appropriate going forward. There had been a restructuring in January 2017, which had freed up some staff resources. He said that it could be difficult to retain staff, given that some neighbouring authorities offered better remuneration packages.

The Chair said that the plan was very comprehensive, but wondered whether there was a prioritisation process for matching workload to available resources. The Pensions Manager replied that priority had to be given on the basis of urgency.

The Chair said that the Board would remain supportive of the Fund's efforts to secure the resources it required.

RESOLVED to note the 3-year Service Plan and Budget for 2019-22 for the Avon Pensions Fund.

14 COMPLIANCE REPORT

The Pensions Manager presented the report.

Members noted that there were 74 potential new employers joining the Fund in the next 6 months. As at the end of March, 254 employers are now on i-Connect and submitting monthly returns covering approximately 85% of the active membership. The project is currently on hold over the valuation period and will re-commence in July with the aim of getting the remaining employers using i-Connect by October.

The Chair thanked the Pensions Manager for the very comprehensive information now presented to the Board. The data was now sufficiently granular to allow the Board to do some probing.

Members were very pleased to note the significant increase in statutory targets being achieved, that on the SLA targets a number of 'reds' had become 'amber' and the progress on the i-Connect project.

RESOLVED to note:

1. Membership data, Fund and Employer performance for the 3 months to 31st March 2019;
2. progress and reviews of the TPR Data Improvement Plan.

15 INTERNAL AUDIT UPDATE REPORT

The Head of Audit and Assurance – One West presented the report.

Members were pleased to note that the audit finding was “Good” in each of the three reports, that APF management had accepted all the audit recommendations ,and that there was a high degree of assurance in relation to the three areas audited.

RESOLVED to note the report and outcomes from Internal Audit work carried out on the Avon Pension Fund for 2018/19.

16 RISK MANAGEMENT UPDATE

The Pensions Manager presented the report.

The Investment Manager drew attention to the actions being taken to mitigate risk R25 (lack of knowledge and continuity in the Committee) by the training of new members, including general training sessions and workshops relating to the imminent valuation of the Fund.

RESOLVED to note the report.

17 ANNUAL REPORT

The Service Director – One West presented the report.

He invited Members to communicate any comments about the content of the draft Annual Report by email within the next six weeks.

A Member noted that the budget for the latest year had been underspent again. The Service Director – One West said that he was very reluctant to reduce the allocation for training, so the budget had been set at the same level for next year.

RESOLVED to approve the draft annual report subject to any comments to be submitted by members.

18 TRAINING AND WORKPLAN

The Service Director – One West presented the report.

He noted that Gaynor Fisher and Tom Renhard would be leaving the Board after this meeting. The appointments of Mark King and Tony Whitlock would terminate next year. Recruitment to the Board had been delayed because of the absence on sick leave of the Head of Business Finance and Pensions. The appointment of the Chair had therefore been extended and his last meeting would be in October, to ensure that there is a proper handover to his successor. Meeting dates after October would be confirmed after the new Chair had been appointed. The quorum of the Board was 3, to include 1 member and 1 employer representative, so that it could still meet in October even if replacements for Gaynor Fisher and Tom Renhard had not been appointed. The position of Chair had been advertised.

The Chair said that he would try to ensure that there was a smooth handover to his successor.

The Chair and the Service Director – One West thanked Gaynor and Tom for their contribution to the work of the Board.

The Service Director – One West said that new Chair might have his/her own ideas about the priorities for the work plan and that future revision of it might be required. He had taken on board the comments made by Members about the volume of paper sent to them.

The Board wished the Head of Business, Finance and Pensions a speedy recovery.

RESOLVED to note the report.

19 DATE OF NEXT MEETING

NOTED that the next meeting was scheduled for 17 October 2019 in the Kaposvar Room, Guildhall, Bath.

The meeting ended at 3.35 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Avon Pension Fund – Local Pension Board – Annual Report 2018/19

1. Chairman's Summary

Welcome to the fourth Annual Report of the Local Pension Board (LPB) of Avon Pension Fund.

The Board was established in 2015 arising from the Public Sector Pension Act 2013 and Local Government Pension Scheme (Governance) Regulations 2015.

The purpose of the Board is to assist the Administering Authority (BANES Council) of the Avon Pension Fund (APF) secure compliance with the LGPS regulations and requirements of the Pensions Regulator (TPR) and ensure efficient and effective governance and administration of the fund.

This report covers the period 1st August 2018 to 1st August 2019 within which the Board has held three formal meetings. During this period the members of the LPB have continued to develop their knowledge and understanding of the LGPS and TPR requirements as required by law.

The fourth year of operation of the LPB was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management and benchmarking.

It has also actively monitored the fund's involvement in the Brunel Pensions Partnership (BPP) that was established in 2017 to facilitate the pooling of the funds assets with 9 other LGPS funds in 2018.

I am pleased to say that with the support of the officers to the APF; the LPB has made good progress in fulfilling its terms of reference and continuing to support the administering authority in its statutory duties.

The LPB has reviewed a wide range of LGPS regulations and TPR requirements and made a number of recommendations to the administering authority (see page 8 and Appendix 1).

This has included starting a process of review of all administration processes against their legal timeframes, reviewing high level of risks facing the APF on a regular basis, analysing key issues around data quality – notably missing addresses - and reviewing the refreshed statutory Investment Strategy Statement (ISS) for its compliance against the DCLG statutory guidance.

In addition we have received the outcome of our annual compliance check from Internal Audit in relation to the funds compliance with TPR Code of Practice 14 along with a number of other audit reviews of the fund and its administration. The LPB welcomed the actions being implemented by the fund to ensure it fully complies with the Code and improve the control framework around the Administration of the APF.

The LPB noted the growing administration pressures from more employers joining the fund as well as new TPR requirements in respect of record keeping and data quality. In light of this the LPB supported the need to future proof the level and quality of administration services to fund members in the forthcoming review of the fund's administration strategy.

The LPB also continues to overview the APF communication strategy and stressed the need for all scheme information to be kept up to date and the importance of the fund website to employers and members.

Looking ahead the LPB will continue to assist and support the APF in respect of minimising potential governance and other risks arising from BPP and the pooling of the funds assets with 9 other LGPS funds.

Last but not least could I thank my fellow Board members for their commitment to their roles on the LPB and I commend this report to you.

Howard Pearce

Avon Pension Fund – Local Pension Board – Annual Report 2018/19

Independent Chair

2. Legal basis of Local Pension Board

Background

At the request of central government Lord Hutton conducted a review into public service pensions in 2010 and published his findings in March 2011 which recommended significant change to the governance of the pensions *‘to make...schemes...more transparent’*.

Subsequently legislation was introduced in the form of the Public Sector Pension Act 2013 along with the Local Government Pension Scheme (Governance) Regulations 2015. These require each Local Government Pension Scheme (LGPS) administering authority to establish a new body known as a Local Pensions Board (LPB) to assist the Council (LGPS Administering Authority).

One of the key aims of the reform was to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests. The LPB must have equal representation of scheme members and scheme employers.

The APF LPB is a separate legal entity from the APF Pensions Committee (Section 101 committee) to which as administering authority (BANES Council) has delegated its functions in relation to the administration of the LGPS.

Specific Role and Purpose

The Public Sector Pension Act 2013 sets out the requirements for the establishment of a LPB with the responsibility for assisting the LGPS local scheme manager (BANES) in relation to the following:

- a) Securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and 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 LPB will assist the ‘scheme manager’ by monitoring and advising on compliance with the pension scheme regulations, along with all other legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the scheme.

The role of the LPB can be likened to that of a “critical friend” but is not a decision making body. It has an important advisory role for the APF and works with the Pensions Committee to scrutinise its decision making processes and to ensure the Fund’s compliance with all its legislative requirements.

The Pension Regulator (TPR)

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore one focus for the LPB is ensuring the fund’s compliance with TPR Codes of Practice. This is split into a number of areas which covers governance, risk management and resolving issues.

The LPB as part of their work plan has needed to consider these areas, to ensure the Fund is compliant and if not to make recommendations to the APF Pensions Committee to address these requirements.

Terms of Reference

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Terms of Reference for the LPB are available through the following link.

<http://www.avonpensionfund.org.uk/>.

3. Establishment of Local Pension Board

The requirement for an Independent Chair and Board Membership was outlined in the terms of reference to the LPB which were agreed by full BANES Council on the 15th January 2015.

Adverts for the role of Chair were placed on the Fund's website, Western Daily Press, Jobsgopublic.com, Local Government Chronicle online and the Council's job vacancy website.

All applicants were then reviewed against the five published criteria in the person specifications and a shortlist of four candidates drawn up for interview with the Strategic Director of Resources, Head of Business, Finance and Pensions and the Head of Audit West.

Interviews were held in June 2015 and a preferred candidate – Howard Pearce (former Head of Pension Fund Management, Environment Agency) – was identified and recommended to the LPB for an appointment of four years.

The process for the appointment of Board Members followed a similar path with adverts placed on the Fund's website and pro-actively distributed through the many employee and employer communications and conferences.

Interviews for Board Membership were held from June 2015 through to May 2016 and as at May 2016 a full complement of employer and employee members are now in post.

Details of the Local Pension Board Members

Independent Chairman:

Howard Pearce. Appointed 1st July 2015. Term of office extended to 31st October 2019.

Employer Member Representatives:

Gaynor Fisher, active member. Appointed 1st July 2015. 4 year term of office to 30 June 2019.

Steve Harman, active member. Appointed 1st July 2015. Term of office extended to 30 June 2021.

Tony Whitlock, active member. Appointed 1st May 2016. 4 year term of office to 30 April 2020.

Scheme Member Representative:

David Yorath, retired member. Appointed 1st July 2015. Term of office extended to 30 June 2023.

Tom Renhard, deferred member. Appointed 1st July 2015. 4 year term of office to 30 June 2019.

Mark King, active member. Appointed 1st May 2016. 4 year term of office to 30 April 2020.

In total the Board has well over 100 years experience of the LGPS. Details of each Board members experience, LPB training log, and register of interests for are available through the following link.

<http://www.avonpensionfund.org.uk/>.

Attendance at Local Pension Board Meetings – August 2018 – July 2019

Role	Board Member	Attendance
Independent Chairman	Howard Pearce	3/3
Employer Representative	Gaynor Fisher	3/3

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	Steve Harman	2/3
	Tony Whitlock	3/3
Member Representative	David Yorath	3/3
	Tom Renhard	1/3
	Mark King	2/3

4. Training**Background**

In accordance with the Pension Regulator (tPR) Code of Practice 14 every individual member of a LPB must in summary:

- Be Conversant with the rules of the local government pension scheme (LGPS) &
- Have knowledge and understanding of the law relating to pensions:

These responsibilities begin from the date the LPB member takes up their role. These knowledge and understanding requirements apply to every individual member of a LPB rather than as a collective group.

Degree of Knowledge and Understanding

The legal requirement is that members of the LPB must be conversant with the rules of the LGPS and any document recording policy about the administration of the fund. This is implied as a working knowledge so that members are aware of which legislation/policies to refer to when carrying out their role.

Areas of Knowledge and Understanding

LPB Members should be conversant with, but not limited to the following areas:

- a) Scheme approved policies
- b) Risk assessment/management
- c) Scheme booklets/members communications
- d) Role of LPB Members and the scheme manager
- e) Policies in relation to discretions
- f) Communications with scheme members and employers
- g) Key policy documents on administration, funding and investment

Training Undertaken

During the year on-going technical training was provided to LPB members by officers from or advisors to the APF on a full range of topics covering the LGPS framework and TPR requirements.

All 7 members of the LPB have completed the TPR public sector pension toolkit certification. In addition three members attended the LGE LGPS Fundamentals Course.

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The LPB training plan is a topic at each board meeting and all Board Members maintain a training log, which is also submitted annually to assist in the identification of on-going training needs.

Details of the LPB training plan and members training logs are available through the following link –

<https://democracy.bathnes.gov.uk/ieListMeetings.aspx?CommitteeId=563>

5. Local Pension Board Code of Conduct and Conflicts of Interest Policy

Code of Conduct

All LPB members have signed up to an LPB Code of Conduct in which emphasises that as a holder of public office there is an expectation that LPB members will comply with the ‘seven principles of public life’, also known as the ‘Nolan Principles’.

Conflicts of Interest

All LPB members have also signed up to the LPB Conflicts of Interest Policy. This requires all members to notify BANES Democratic Services team of any potential conflict of interest arising as a result of their position on the Board.

All meetings of the LPB include a standing item titled ‘Declaration of Interests’ at the start of the meeting where any declaration in relation to the items on the agenda should be made.

All LPB members have formally completed their declaration of interest forms and at the 4 formal meetings which have been held during the year no ‘conflicts’ have been declared. For more information on conflicts of interest and declarations at each meeting please use the following link –

<https://democracy.bathnes.gov.uk/mgCommitteeDetails.aspx?ID=563>

6. Pension Board Costs & Budget

In meeting the requirements of the Public Sector Pension Act (2013) and establishing a Local Pensions Board, Bath & North East Somerset approved terms of reference and necessary supporting arrangements at its meeting of its full Council on the 15th January 2015.

The LPB agrees a budget on an annual basis to enable the Board to perform its duties and a summary of the costs is included below –

Summary Financial Table

Budget Area	2018/19 Budget	2018/19 Actuals
LPB Members Allowances	£8,000	£7,500
LPB Members Training Costs & External Support	£6,000	£2,500
LPB Meeting & Democratic Services Costs	£6,000	£5,750
Total	£20,000	£15,750

Appendix 2

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As with all elements of the public sector there is exceptional pressure to ensure value for money can be demonstrated and the Board will continue to consider this in its future operations.

7. Local Pension Board Compliance with the Pension Regulator's Code of Practice No.14

As part of assessing both the effectiveness and compliance of the Board with its key requirements, the APF carried out a self-assessment of the LPB's current arrangements against TPR Code of Practice No. 14 in 2016/17. The full results of this exercise were reported initially in May 2016 and revisited in November 2016 and are available via the following link.

<https://democracy.bathnes.gov.uk/documents/s44211/LocalPensionBoardTPRCOP14UpdateNov2016.pdf>

Subsequent to this Internal Audit carry out an annual review of compliance against the Code and their latest report is available via the following link –

<https://democracy.bathnes.gov.uk/documents/s49951/LocalPensionBoardAuditUpdateFeb2018App2.pdf>

In summary the opinion was positive with a 'Good' opinion on compliance and the internal control framework and the review identified only a small number of issues identified for the APF to achieve best practice, including –

- Issues regarding the transparency of declarations of interest for the Investment Panel were noted, in particular the failure to consistently publish declarations on 'modern gov'. These are being addressed and do not impact directly on compliance with the Code so no formal recommendation has been made.
- Supporting records such as risk registers and the breaches control sheet had not always been completed accurately or fully. However the errors / omissions were not significant in nature.
- The way in which 'acknowledgements' in respect of formal disputes are handled is not always in line with procedures although no significant issues were identified.
- Communications with members had not always been in strict compliance with the requirements of the Code but again these were not significant.

The Board support independent review and the work of Internal Audit and their reports and findings were reported to the Board in February and June 2019 along with their other reviews of the Pension Fund and overall Plan –

<https://democracy.bathnes.gov.uk/documents/s49949/LocalPensionBoardAuditUpdateFeb2018.pdf>

8. Pension Fund Communications

Effective member and employer communications form a core part of the role of the APF. During the year the Board was represented at the Employers conference and also reviewed at a high level the APF's communications strategy and website.

The Board continue to work with APF officers on assessing all methods of communication both with Members and Employers, especially where issues have been identified and greater engagement or training is required.

Reviewing the strategy and approach to how the fund communicates to its many stakeholders will remain a key element of the work plan of the Board on a rolling basis.

9. Risk Management

Risk management processes for the APF follow the framework laid down by the LGPS administering authority (BANES Council). The APF Risk Register identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the mitigating action taken to manage down each risk.

The Register is reviewed regularly and the key risks fall into one of the following categories –

- (i) Failures in the fund administration & control of operational processes and strategic governance processes and TPR compliance;
- (ii) Service delivery partners not delivering in line with their contracts or SLAs;
- (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
- (iv) Changes to the LGPS nationally and increasing political pressure to reform the scheme structure, governance frameworks and to centrally direct investment decisions

The LPB's ongoing review of the risk register concurred with the Pensions Committee that the top risks facing the fund revolve around –

- BPP Governance, asset pooling and benefit realisation
- Significant growth of new employers, especially Academies
- Delivering the future funding strategy
- Recruitment and Retention
- Data Quality
- Compliance with Legal Timeframes
- Information Governance (GDPR)

The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service and the arrangements in place are supported by external and internal audit reviews.

The LPB has actively engaged on the key risks facing the APF and its administration and supports increases in resources to mitigate some of these risks as well as discussing issues around capacity, skills gaps and recruitment and retention created primarily as a result of indirect implications from BPP.

Appendix 2

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The LP will continue to ensure that a review of the funds risk register will remain a regular agenda item at each meeting.

10. Review of Areas Covered in 2018/19 & Recommendations Made

The fourth year of operation of the LPB was focussed on key governance themes of legal compliance, risk management, and best practice as well as monitoring the significant developments connected to asset pooling and creation of the Brunel Pensions Partnership. A summary of the areas covered is as follows –

Review of LPB Arrangements	Review of Pension Fund Activities	Review of Pension Fund Administration	Independent Assurance
Review of LPB Terms of Reference, Code of Conduct, Conflicts of Interest, Breaches Review of Training Requirements Review of Work Plan	Review of Avon Pension Fund Committee & Investment Panel Minutes Review of Project Brunel, Brunel Oversight Board Review of Investment Strategy Statement Review of Governance Framework Review of Scheme Employers & Admitted Bodies	Review of Compliance Reports at all meetings Review of Risk Register at all meetings Review of Service Plan annually Review of GDPR Implementation Review of Legal Timeframes & Missing Addresses Review of Annual Report	Review of TPR, SAB & CIPFA external benchmarking exercises Review of External Audit plan and reports Review of Internal Audit plan and reports

Meeting	Area	Action/Minutes
8 th November 2018	Action Log/Tracker APF Committee Minutes APF Investment Panel Minutes LGPS Updates & Developments BPP Update ISS Consultation Compliance Report Benefit Statement Update Risk Management Update Training & Work Plans	https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=563&MId=5268&Ver=4
7 th March 2019	Action Log & Tracker APF Committee Minutes APF Investment Panel Minutes	https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=563&MId=5269&Ver=4

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	LGPS Updates & Developments BPP Update Compliance Report Consultation on Governance Changes to APF Risk Management Update Training & Work Plans	
13 th June 2019	Action Log & Tracker APF Committee Minutes APF Investment Panel Minutes Brunel Oversight Board Minutes LGPS Updates & Developments BPP Update APF Service Plan APF Admin Strategy Internal Audit Update Compliance Report Risk Management Update Training & Work Plans	https://democracy.bathnes.gov.uk/documents/g5270/Printed%20minutes%2013th-Jun-2019%2014.00%20Pension%20Board.pdf?T=1

11. Forward Plan for 2019-20

The work plan for the next 12 months is detailed as follows and will be kept under regular review.

AGENDA ITEM	07/03/19	13/06/19	17/10/19	TBC Feb 20	TBC June 20
Board Governance					
Terms of Reference (Governance) review					
Code of Conduct/ Conflicts of Interest policy					
Work Plan (to be dynamically updated)	X	X	X	X	X
Annual budget setting and monitoring	X			X	
Training Plan (to be updated as required)	X	X	X	X	X
Annual Report to PC and Council approval		X			X
Scheme and Fund Governance					
Legal, policy, regulatory developments	X	X	X	X	X
Training – APF financial delegations (Council, PC, IP, BOB, and APF officers)	X				
Minutes PC, IP, BOB	X	X	X	X	X
Annual Service Plan		X			X
Training – APF internal & external SLA's financial controls			X		
External advisor appointments review process/controls				X	
Risk Register review	X	X	X	X	X
TPR Code 14 Compliance updates		X			X
Governance (& FRC) Compliance statement				X	
Internal Audit plan/reports on APF		X			X
External Audit Governance Report and Accounts			X		
Benchmarking against other BPP funds			X		X
Funding/Investments					
Statutory Funding Strategy Statement consultation/process/report			X		
2019 Triennial valuation process/controls/report					X
Statutory GAD S13 triennial funding report					
Statutory ISS annual update and associated RI policy			X		

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BPP update (delivery/savings)	X	X	X	X	X
Benefits Admin/Comms					
Admin Strategy Statement review and employer charging policy		X			
Fund and employers compliance/TPR reporting	X	X	X	X	X
Employer admission agreement policies					X
Breaches policy/register/TPR reporting					X
GDPR compliance					
Record keeping, data security, business recovery			X		
ABS process annual review	X				X
GMP reconciliation (one off exercise)	X				
Discretions policies review					X
Admin performance benchmarking			X		
Comms policy statement and website review				X	
Complaints policy, IDRPCs, PO cases review					X

Bath & North East Somerset Council		
MEETING	Avon Pension Fund Committee	
MEETING	27 September 2019	Agenda Item Number
		09
TITLE:	Update on Legislation	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Current matters affecting LGPS administration September 2019		
Appendix 2 – Copy of APF response to MHCLG consultation on ‘Local Valuation Cycle & Management of Employer Risk’		
Appendix 3 – Copy of APF response to HM Treasury consultation on ‘Restricting Exit Payments in the Public Sector’		

1 THE ISSUES

- 1.1 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. An updated list is included in Appendix 1.
- 1.2 In addition, APF responses to the following consultations are included as Appendices:-
- (1) Appendix 2 – MHCLG consultation on the ‘Local Valuation Cycle and the Management of Employer Risk’
 - (2) Appendix 3 – HM Treasury consultation on ‘Restricting Exit Payments in the Public Sector’

2 RECOMMENDATION

The Committee is asked to;

- 2.1 Note the current position regarding the developments that could affect the administration of the fund
- 2.2 Note the responses sent to the MHCLG consultation on the ‘Local Valuation Cycle and the Management of Employer Risk’ and the HM Treasury consultation on ‘Restricting Exit Payments in the Public Sector’

3 THE REPORT

The below items have been selected from Appendix 1 as we believe them to be key items of interest for committee members:-

3.1 McCloud and Sargeant Court Case

- (1) This case concerns the transitional protections provided to older members of the judges and firefighter pension schemes following their reform in 2015 as part of the public sector pension scheme changes.
- (2) In December 2018, the Court of Appeal found the transitional protections to be unlawful on the grounds of age discrimination
- (3) In June 2019, the Supreme Court denied the Government's request for an appeal and as such the case has been returned to an Employment Tribunal for remedy.
- (4) In July 2019, the Chief Secretary to the Treasury announced in a written statement that 'the government believed that the difference in treatment will need to be remedied across all public sector schemes, including the LGPS'.

3.2 LGPS SAB Cost Management Process

- (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
- (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. However, the SAB has its own cost management which allowed any changes to benefits to be taken into account before the HM Treasury process begins.
- (3) A proposed package of changes was put forward to SAB for approval with the intention that all scheme changes would be effective from 1 April 2019 and will apply until at least March 2023.
- (4) However, in January, the Government announced a pause in the cost cap process due to uncertainty caused by the McCloud and Sargeant court ruling on elements of the 2014/15 scheme reforms and subsequently the SAB confirmed that they would also be pausing their own cost management process until the effects of the outcome of this case is clear.
- (5) Therefore, scheme changes were not put in place for 1 April 2019 and the LGPS SAB Cost Management Process continues to be paused until the effects of the outcome of the McCloud and Sargeant Judgement is clear.

3.3 Equitable Life

- (1) Equitable Life announced that they had entered into an agreement to transfer the Society and all its policies to Utmost Life and Pensions (formerly known as Reliance Life), with the transfer taking place during the latter part of 2019.
- (2) As part of the transfer deal, the Equitable Life With-Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds.
- (3) Equitable Life has recently written to all administering authorities affected by the Proposal asking them to vote to approve the 'Scheme' and 'Change the Articles'

to make Utmost Life and Pensions the sole Member of Equitable. The deadline is 30 October 2019.

4 FINANCIAL IMPLICATIONS

4.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates.

4.2 Any other specific financial implications will be reported as appropriate.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 OTHER OPTIONS CONSIDERED

7.1 None

8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

Contact person	<i>Kate Shore, Technical & Compliance Advisor; Tel 01225 395283</i>
Background papers	<i>LGA Bulletins MHCLG Consultation Document HM Treasury Consultation Document SAB Meeting Minutes Technical Group Meeting Minutes</i>
Please contact the report author if you need to access this report in an alternative format	

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List of current developments affecting or expected to affect Scheme Administration - Sept 2019

SCHEME ADVISORY BOARD [SAB]	
New Item Pensions Tax	The Board was advised that HM Treasury is willing to hear representations from public service pension schemes concerned about the impact annual and lifetime allowances are having on the effectiveness of their workforces and service delivery. Particular reference was made to the situation in the health sector where it is claimed that waiting list targets are not being met because NHS staff are refusing to work overtime and additional shifts for fear of taking earnings and pension benefits over tax thresholds. It was suggested that some of these claims were being exaggerated. There was also a concern whether any remedy forthcoming from government may apply retrospectively to put right decisions taken in the past to avoid tax thresholds. The Board noted that the Secretariat will continue to attend the working group established by a number of public service pension schemes to lobby HM Treasury.
Local Pension Boards	Latest Update from SAB Meeting 8 July 2019:- The Board agreed that members should be given until the end of July to comment on the draft survey prepared by the Investment, Governance and Engagement committee. The Secretariat will then prepare the survey for publication in August with a deadline of completion by the end of November. This will allow provisional findings to be reported to the Board when it next meets on the 4th November. The Secretariat was also tasked to open discussions with stakeholders on the best way of distributing the survey to ensure a good response. Previous Updates:- SAB Meeting 8 Apr 2019:- Board members were advised that a working draft of the new local pension board survey was near to completion. It was agreed that delegated authority should be given to the Chair of the Investment committee to agree the final draft and publication arrangements to ensure that the survey was undertaken outside of the main Summer holiday break. SAB Meeting 16 Jan 2019:- Following concerns raised at the Investment committee about the effectiveness of some local pension boards, the Board agreed that the Secretariat should prepare a draft survey to build on the one undertaken in 2017. The draft will be considered by the Board when it next meets in April and, subject to their agreement, will be undertaken in the early Summer.

**LGPS SAB Cost
Management
Process / McCloud
Judgment**

Latest Updates:-

On 15 July 2019 the Chief Secretary to the Treasury announced in a written statement that ‘the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

At the SAB Meeting 8 July 2019 the Board was advised that a meeting between MHCLG, external auditors and GAD would take place shortly to discuss the implications of the Supreme Court’s decision to refuse the government’s application to appeal the McCloud judgement and, in particular, the impact this is having for signing off local authority accounts. Although there is now certainly that the McCloud judgement stands and that the case will now go back to the Employment Tribunal for remedy, there was clear support for the Board to issue a message to scheme stakeholders clarifying the uncertainties that remain. The Board agreed that the Secretariat should prepare a draft statement for consideration and approval of the Chair.

On 27 June 2019 the Supreme Court denied the Government’s request for an appeal in the McCloud and Sargeant case. The case concerns the transitional protections provided to older members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme changes. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. The Supreme Court ruling of 27 June 2019 means that the Court of Appeal’s decision will be upheld and the case will be returned to an employment tribunal for a detailed decision. The cost management page of the English and Welsh SAB website, [link here](#), contains background information on the case, including a Q&A which has been updated to take into account the Supreme Court ruling.

On 14 May 2019 central guidance was issued from the SAB on how the McCloud/Cost Management should be taken account in the 2019 valuation, this can be found [here](#). Also CIPFA provided a separate note on accounting for McCloud/Cost Management which can be found [here](#).

Previous Update:-

On 8 April 2019, at the SAB meeting, the Board was advised that the Civil Service Pension Scheme’s Advisory Board had recently written to their Minister setting out their agreed package to recover the cap breach of 5.4% and asking that the process, despite being paused, should be allowed to proceed as far as is possible. Board members were further advised that similar actions were being taken by the advisory boards of the other public service pension schemes and that it was open to them to agree to do likewise for the LGPS. The Board agreed that a letter in these terms should be drafted by the Secretariat for members to consider and approve. The letter will invite the Minister to open discussions with the Board about any alternative cost management package and seek his agreement that the Board must be part of any future

discussions surrounding the remedy package should the McCloud judgement stand.

Around 70 responses were received to the previous question posed to Administering Authorities, with regards to the 2019 valuation (see previous update), with the significant majority expressing a preference to receive central guidance, following which board published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations on 14 May 2019.

On 16 Jan 2019 at the SAB Meeting the Board was advised that since it had last met, there had been ongoing discussions with MHCLG and other interested parties regarding the package of scheme improvements formulated by the technical group commissioned by the Board and subsequently agreed by the Board itself to bring the scheme's costs of 19.0% back to the target cost of 19.5%. It was confirmed that a Q&A document to assist administering authorities in explaining the cost cap arrangement and its implications to scheme employers and others would be produced.

Board members expressed concern that in the absence of any agreement by government on the Board's agreed package that the deadline of 1st April 2019 for regulatory changes to be introduced was becoming increasingly challenging.

On 30 Jan 2019 the Government announced a pause in the cost cap process due to uncertainty caused by a court ruling on elements of the 2014/15 scheme reforms. The Written Ministerial Statement setting out the reason for the pause can be found [here](#), together with a summary of and the full Court of Appeal ruling in the case of The Lord Chancellor and Secretary of State for Justice and another v McCloud and Mostyn and others [2018] and Sargeant v London Fire and Emergency Planning Authority and others [2018]. Also listed is a letter from MHCLG confirming that the WMS applies equally to the LGPS as to the unfunded public service schemes.

On 7th February the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud case announced in the Written Ministerial Statement applies equally to the LGPS as to the unfunded public service pension schemes. Given that confirmation the SAB considered it had no option but to pause its own cost management process pending the outcome of McCloud. As a result there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months.

On 14th February the SAB published a Q&A on the McCloud case and it's potential impact on cost cap for administering authorities, the link can be found [here](#). There was an action for administering authorities to respond to the below question regarding the 2019 valuations:-

Question for LGPS administering authorities

With regards to the 2019 valuations would you prefer:-

A) To receive guidance from the SAB designed to promote a consistency of approach on how McCloud and/or cost

management should be taken account of as part of the 2019 triennial valuation exercise. Such guidance would take the form that;

- i. If there is no finalised outcome on McCloud/Cost cap (including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.
- ii. Each administering authority would then, with their Actuary, consider how they approach (and reflect in their FSS) the risk around this matter in the same way as they would for other financial, employer and demographic risks.
- iii. Once the outcome of McCloud is known and appropriate benefit changes are made administering authorities would, if they deem appropriate, re-visit employer contributions under such guidance or provision in regulation as may be available at that time.
- iv. A consistent approach to delaying or method of estimating exit credits and payments

Or

B) To have no central guidance and instead leave it to each administering authority to determine their own approach to their valuation (including any potential cost from McCloud or cost cap) taking advice from their actuarial adviser.

APFs response was submitted in favour of option A as we believe consistency across the scheme is preferable. However the guidance should not be too rigid or prescriptive, leaving funds with local discretion to have flexibility to apply within the framework of their valuation outcome. Therefore the guidance should be limited to principles and direction.

Previous Update:-

SAB 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 significantly increase employer contributions.

the 2% cost cap floor breached leading to member benefits improvements.

Funded Scheme LGPS

Cost cap floor breeched 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

	as will lead to improved member benefits. SAB has its own cost management which will allow any agreed changes to benefits to be taken into account before the HM Treasury process begins. As advised by the SAB's actuarial adviser, the total cost of the scheme (employer and employee) under the SAB'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 SAB for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019. SAB was also advised that discussions are underway to move local fund valuations to a quadrennial timeframe to ensure consistency with <u>future scheme valuations</u>. This will not, however, have any bearing on the 2019 valuation which will proceed as normal.
Page 49 Improving member data to meet the Pensions Regulator requirements	Projects in Service Plan for 2018/19 Latest Update:- On 4 July 2019 Bob Holloway, secretary of the SAB, emailed pension managers and software suppliers with a draft conditional data report to be scored in the Pension Regulator's (tPR) annual scheme return. This was prepared in agreement with representatives from tPR, SAB, software suppliers, fund actuaries and pension practitioners. The group will continue to work on developing the table, adding guidance notes for administering authorities and software suppliers. The LGA have confirmed that TPR intend to issue the 2019 public service pension scheme return to scheme managers in the last week of September 2019. In the meantime, APF have begun the development of reports to test our data in line with the draft recommendations. Previous Update:- 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

Good Governance in the LGPS (Previously Identifying the potential benefits of further increasing the level of separation between the host authority and scheme manager role.)

Latest Update:-

On 8 August 2019 The Scheme Advisory Board invited the Hymans Robertson project team to assist the Secretariat in taking forward the next stage of the good governance project. Two working groups will be established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered.

At the SAB Meeting in July the project team at Hymans Robertson presented the final draft report to the Board and the final report was subsequently published on 31 July 2019, see link [here](#). The Board agreed that the Secretariat should, in conjunction with the project team and scheme stakeholders, work to develop a detailed plan to present to the Board in November to implement the report's findings and conclusions. Scheme stakeholders will be given the opportunity to comment on the Board's recommended implementation plan before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance.

Previous Update from SAB Meeting 8 Apr 2019:-

The project team at Hymans Robertson updated the Board on progress to date and next steps. Members were advised that Hymans had approached 15 individuals across the scheme to identify relevant issues concerning administration and governance of the scheme as a means to ensure that future stages of the project, including an online questionnaire, are focussed on relevant and topical issues. The UNISON representative expressed concern that none of the options listed in the paper allowed for wholly new bodies, within the local government legal framework, to be recommended. The Board agreed that Option 4 in the paper should be re-drafted to accommodate for this outcome. Otherwise the Board agreed that Hymans can proceed.

On 17 April 2019 Hymans Robertson launched the Good Governance Project Survey to capture as many views as possible from those working within the LGPS with a closing date for submissions of 31 May. The findings will form the basis for a report that will be submitted to the SAB in July. APF officers have completed the survey.

Previous Update from SAB Meeting 16 Jan 2019:-

The Board was advised that on the 29th November that the project had been awarded to Hymans Robertson. However, concerns were subsequently raised about how Hymans Robertson would manage the potential conflict of interest given their position as clients to a number of LGPS administering authorities and the potential for recommendations to lead to paid work advising on TUPE transfers. At the Board's request, Hymans Robertson prepared a statement explaining how they would manage any conflict of interest given their position as clients to a number of LGPS administering authorities and the potential for recommendations to lead to paid work advising on TUPE transfers, which was subsequently accepted by the Chair and Vice Chair on the Board's behalf.

	The Board also agreed that the project should be re-named from the previous ‘Separation Project’ as this name had given rise to unfounded fears that options around removing the scheme from Local Authority control were being considered. It was agreed that “Good Governance in the LGPS” better reflected the aims and ambitions of the project to enhance the delivery of the function within local authority structures. This work will begin immediately and Hymans Robertson will be in touch with administering authorities with details of the project, including information on how to complete a questionnaire and further engagement plans. Previous Update:- 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> • 3 bids received to undertake the project • SAB 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	
Review of Academies	Latest Update from SAB Meeting 16 Jan 2019:- The Board was advised that the work of the academies administration working group had been put on hold due to competing priorities, in particular, work on the Board’s cost cap arrangement. Work on this project will now be resumed as a matter of urgency. Previous Update:- 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. GAD issued its report: Academies LGPS pension arrangements on 14 Sept 2018 which can be found here. 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. 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 A link to full information on the review of academies is available on the SAB website here.
Tier 3 Employers	Latest Update from SAB Meeting 16 Jan 2019:- The Board was advised that the work of the third tier employers' project working group had been put on hold due to competing priorities, in particular, work on the Board's cost cap arrangement. Work on this project will now be resumed as a matter of urgency. Previous Update:- 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 A link to full information on Tier 3 Employers is available on the SAB website here.
Code of Transparency - Compliance System	Latest Updates:- On 1 Sept 2019 the board announced that it has appointed Byhiras to develop and host a system designed to enable managers to evidence compliance with its Code of Transparency and provide a range of reporting and comparison tools for LGPS funds and pool companies. Once live in Q1 2020 the system will; 1. Enable managers to evidence compliance with the Code via a single online portal 2. Enable the uploading of template data in LGPS, CTI, CTI machine readable and ILPA formarts 3. Provide LGPS clients with a range of reporting and comparison tools 4. Link to new CIPFA reporting formats 5. Provide facilities for LGPS pool companies as both receiver and provider of templates The Board has produced a briefing note covering the code and the compliance system which can be downloaded here. The note provides the background to the code, the procurement of a compliance system, and answers FAQ from the points of view of both the Investment Managers and LGPS clients. On 21 May 2019 Liam Robson emailed administering authorities to confirm that a framework of templates and guidance had been published by the Cost Transparency Initiative (CTI). This is as an important step in achieving clarity in cost and value for asset owners and pension scheme members. The templates and guidance have been adopted as an integral

	part of the SABs Code of Transparency. SAB are eager to work with existing and new signatories in ensuring the new framework is a success and welcome feedback from managers as they implement or transition to the new templates. Previous Updates:- SAB Meeting 8 Apr 2019:- The Board was advised that a technical breach meant that the procurement project had to be cancelled and started afresh. SAB Meeting 16 Jan 2019:- The Board was advised that the deadline for bids for the Compliance contract was the 22nd January and that to date, four bids had been received. Once the procurement process has been completed, recommendations will be made by the bidding panel for the Board's consideration. The Board also agreed that the Northern Ireland LGPS should be added to the Code of Transparency. Previous Update:- 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 A link to full information on Code of Transparency is available on the SAB website here.
Cross Pooling	Latest Update:- In May 2019, at the PLSA Local Authority Conference, Rishi Sunak the Minister for local government pensions announced that a formal consultation on pooling guidance would be published in the forthcoming months. Previous Updates:- from SAB Meeting 8 Apr 2019:- The MHCLG representative confirmed to the Board that 93 responses had been received in response to the consultation and that many of these were very detailed and would need very careful consideration. APFs response was submitted on 25 March, a copy of the final response is attached to Item 9 as Appendix 2. From SAB Meeting 16 Jan 2019:- In January 2019 MHCLG prepared new statutory guidance on LGPS asset pooling. This will set out the requirements on administering authorities, replacing previous guidance, and builds on previous Ministerial communications and guidance on investment strategies. MHCLG are now inviting views on the draft guidance, see link to consultation here.

	The MHCLG representative confirmed to the Board that the consultation was not a public consultation and has been sent to interested parties (administering authorities, local boards, the SAB and pool companies) for informal comment. Closing date for comments is the 28th March. The Board agreed that member's comments should be sent to the Secretariat who would then draft a composite response to be considered and agreed by the Chair. This would not prevent individual organisations represented on the Board from responding directly to MHCLG provided that it was made clear that it does not represent the views of the Board. Administering authorities are welcome to share the draft guidance with advisors and incorporate their views within the authority's response. Previous Update:- 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. The slides from this session are available here.
Responsible Investment	Latest Update from SAB Meeting 8 Apr 2019:- The Board agreed with the recommendation from the Investment, Governance and Engagement committee ("Investment Committee") that the guidance should be web based rather than published in hard copy. A web based project will allow greater flexibility when updating and will also cater for linking with other related work and projects. The Board also agreed the recommendation from the Investment committee that a paper to be submitted by UNISON based on the report they commissioned from ShareAction on ESG policies, in particular, on climate change risk, should be considered by the Board at a future date. Previous Update from SAB Meeting 16 Jan 2019:- The Board agreed with the recommendation from the Investment, Governance and Engagement committee ("Investment Committee") that the draft guidance should be extended to include a checklist enabling administering authorities to measure whether their ESG policy, including climate change risk, represents the minimum to comply with the law, good practice or best practice. Work would also be undertaken in conjunction with scheme stakeholders to assist administering authorities in developing a specific policy, if they wish, on climate change risk.

	Previous Update from SAB Meeting 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.
MINISTRY FOR HOUSING COMMUNITIES & LOCAL GOVERNMENT [MHCLG]	
New Item Simplification Project	MHCLG have identified a need to make the Scheme regulations more adaptable, flexible and easy to administer, whilst maintaining a degree of consistency of approach across administering authorities. This project is called the 'Simplification project'. The Simplification project is supported by a working group made up of representatives from trade unions, actuarial services, MHCLG, SAB, LGA and where necessary scheme employers, payroll software providers, administering authorities and software providers. The terms of reference were agreed at the first meeting held on 8 May 2019. Also at that meeting the group considered a couple of administrative areas that may be improved / simplified. Should these considerations proceed further, a wider consultation will occur. These were: (a) application of assumed pensionable pay, and (b) employee and employer contributions during the 1st 30 days of an authorised absence)
MHCLG Consultation on LGPS Local Valuation Cycle and the Management of Employer Risk	Latest Update:- On 12 July 2019 APF submitted their response to this consultation, a copy of which is attached to Item 9 as Appendix 2. The LGA also submitted a response which can be found here. MHCLG received around 280 responses and expect to publish their response in the autumn of 2019. An update from the Scheme Advisory Board following their meeting in July is as follows:- On the proposal to move local fund valuations in the scheme to a four yearly valuation cycle in line with valuations undertaken by unfunded public service pension schemes and all scheme valuations. The next round of scheme valuations will be undertaken in 2020 and 2024 which means that there would be a potential 5 years between the current 2019 LGPS local valuations and the first of the four year period valuations. The Board agreed that five years without local valuations would not be the best way forward and that despite the administrative complexities of the alternative of an interim full set of valuations after 3 years, that is, in 2022 followed by another set in 2024, this was marginally the better of the two options. The Board also agreed that the response should record some concern about allowing administering

	authorities too much flexibility in exercising the proposed facility to hold an interim valuation. The Board took the view that the regulations and guidance must be clear that the circumstances in which the interim valuation power is to be used must be fully set out in an authority's Funding Strategy Statement. On exit payments, the Board was advised that the proposals included a new concept of “deferred employer” that would allow employers to continue to be recognised as such despite having no active members and having exited the scheme. The Board agreed the draft response on exit payments and noted that supplementary guidance would help to provide a robust framework to govern the exercise of the proposed power. On exit credits, the Board was advised that the draft response included representations to close an unintended loophole whereby administering authorities were liable to pay exit credits at the end of a contract even though steps had been taken by the employer to remove any risk from the contractor. The draft response agreed by the Board proposes that the amending regulations should include a provision requiring fund actuaries to take any side agreement into consideration when assessing exit credit payments. On the proposal in the consultation to change the status of HE/FE bodies from scheduled to designated bodies, although a view was expressed that the proposed response was too negative regarding the potential impact on the scheme; the substantive view taken was that that this part of the consultation should be deferred until the outcome of the Third Tier Employer's project is concluded and that such a delay was necessary to properly assess the impact of the proposed changes on scheme membership and cash flow positions. The Board agreed that the Board Secretary should re-draft the relevant section of the consultation response to reflect the different views expressed by Board members. Previous Update:- On 8 May 2019 MHCLG launched a 12 week consultation on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales, see link here. It covers the following areas: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership APF are current in the process of drafting a response to this consultation.
MHCLG Consultation on Late Retirement Factors	Latest Update:- A number of responses to this consultation raised concern with the proposed 1 May 2019 implementation date, therefore this was changed to 1 September 2019. The final GAD guidance was issued on the 28 June 2019, ahead of the

	implementation date, and our software provider are currently working to get the changes into the system. We are expecting the system to be able to calculate these with effect from 11th October and are manually amending any affected cases in the meantime. Previous Update:- On 28 March 2019 MHCLG conducted a short consultation on proposed changes to the late retirement increase factors and guidance with a closing date of 17 April 2019. The consultation document, draft guidance and examples can be found here. The proposals include a change in methodology as well as a change in factors which is intended to remove the ‘cliff edge’ that was the result of the last factor change in January 2017 for some members. APF submitted a response to this consultation on 11 April 2019 a copy of which is attached to Item 9 as Appendix 4.
MHCLG Consultation on Fair Deal	Latest Update:- The Board was advised that discussions are continuing with MHCLG, in particular, on what the default position should be if negotiations between employer and contractor fail to reach agreement. The Board agreed that the “deemed employer” option should be the default position given that it would give employers, contractors and scheme members complete clarity about the position should no agreement be reached on whether the “deemed employer” or “admitted body” should apply. The Board agreed the draft response. Previous Update:- APF submitted their response to this consultation on 2 April 2019 a copy of which is attached to Item 9 as Appendix 3. At their meeting on 8 March the LGPS Technical group agreed on their response which can be found as an appendix to their March 2019 minutes here. The LGPC also submitted a response which can be found here. MHCLG have since reported the following on the response to Fair Deal consultation:- - Total responses received was 79, 35 from LG funds & 9 from scheme employers (+ 7 from outsourced contractors) Disappointing return from scheme employers of which there are now circa 15,000. MHCLG are in the process of analysing all responses & will work with SAB on provision of Guidance. It is hoped that guidance will be published by end of 2019 even if this is ahead of the required change in regulations.

	Previous Update:- On 10 January 2019 MHCLG launched a policy consultation and draft regulations on ‘Fair Deal – strengthening pension protection’ in the LGPS. The consultation contains proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government’s October 2013 Fair Deal guidance that applies in relation to transfers from central government. The consultation closes on 4 April 2019. The LGPC will be responding to the consultation in due course. In addition, the national LGPS Technical Group have created a sub-group to review the impact of the consultation and to make recommendations for response. The sub-group will be working closely with the LGA and MHCLG. Avon Pension Fund will be responding to the consultation and circulating details of the consultation to employers for them to respond also.
HM TREASURY [HMT]	
Indexation and equalisation of GMP in public service pension schemes	Previous Update:- The DWP have published guidance on how the GMP conversion legislation might be used to achieve equalisation, see link here. Whilst this guidance does not apply to public sector pension schemes, MHCLG and HM Treasury may decide on future changes that would affect the LGPS and this guidance provides information on the possible routes that could be taken. HMRC announced that it is forming a working group with industry representatives to consider pension tax issues relating to GMP equalisation. Previous Update:- On 4 December, HMT issued an updated direction (dated 3 December 2018) under Section 59A of the Social Security Pensions Act 1975 which replaced the direction issued on 6 April 2016 and is backdated to that same date. The direction continues existing indexation provisions and, as a result of HMT’s 2017 consultation on GMP indexation and equalisation, extends the arrangements to some additional groups of pensioners and provides for the payment of increases to survivors whose SPa is after 5 April 2021. Previous Update:-

	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
Public Sector Exit Payments Cap	Latest Update:- On 28 June 2019 APF submitted their response to this consultation, a copy of which is attached to Item 9 as Appendix 3, along with Annex 1 which contains analysis APF carried out on the profile of members that would have been affected by the cap based on cases processed over the last 3 years. A response was also submitted by the SAB, which can be found here, and by the LGA, which can be found here. HMT received approximately 600 responses, and it is likely they will publish their response in the autumn of 2019. We understand that HMT are to introduce the cap no sooner than 1 April 2020. Previous Update:- On 10 April 2019 HM Treasury launched a consultation called ‘Restricting exit payments in the public sector: consultation on implementation of the regulations’, see link here. This is a 12-week consultation closing on 3 July 2019 and APF are currently drafting a response. The LGPC have produced a briefing note which ties together the contents of the consultation documents. The briefing note and the consultation documents can be found here. The key points in the latest consultation are as follows:- • No change from the earlier proposal that the maximum exit payment will be £95,000. • The cap will apply to a wide range of public sector employers, including employees of councils in England and Wales, fire authorities, police forces, academies and maintained schools.

- The £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will therefore be severely restricted in some cases.
- Certain employers in the LGPS e.g. Universities and Colleges appear not to be covered which will mean members would be treated differently within the LGPS depending on their employer on exit.
- As previously indicated, there will be provisions for the cap to be waived in some circumstances. However, the tone of the consultation makes clear that any waiver is expected to be the exception rather than the norm.

There will be some details to be ironed out in relation to the LGPS in England and Wales. We expect the MHCLG will run a separate consultation, and which will cover amongst other things the agreement and implementation of a common costing methodology and factors for strain payments.

HMT welcomes responses to the consultation from employers, employees and their representatives, HR, payroll and pension experts, and anyone else who might be impacted by the proposals.

Introducing a cap on exit payments will have significant implications for employers as well as for administering authorities. APF have communicated details of the consultation to fund employers to ensure that they also have an opportunity to respond.

It is expected that MHCLG will run a separate consultation in relation to the LGPS in England and Wales, which will cover amongst other things the agreement and implementation of a common costing methodology.

Previous Update:-

The Bill was initially expected to have its second reading debate on Friday 25 Jan 2019, however, it now shows that the date for the second reading is to be announced.

A link to the latest updates on this bill can be found [here](#).

Previous Update:-

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.

The third more broader proposals in the third consultation no immediate development on these has been reported, see link to consultation [here](#).

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.

Link to the Enterprise Act can be found [here](#).

THE PENSION REGULATOR (TPR)

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New Item TPR Codes of Practice	The Pensions Regulator (TPR) has announced changes to existing codes of practice. The content of the 15 current codes of practice will be combined to form a single shorter code. The changes will reflect the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. Codes most affected by these regulations will be addressed first, and this includes Code of Practice 14 (public sector schemes). Schemes will need to demonstrate that they have an effective governance system within 12 months of the date the updated codes are published.
New Item TPR Annual Report	TPR published its Annual Report and Accounts in July 2019, link here . The Report includes details of the organisation's activities, finances and developments in the 2018/19 year and an assessment of their achievement of key aims set out in the corporate plan.
New Item TPR Corporate Plan	TPR has published its corporate plan for 2019-22 a link to which is here . The plan outlines the Regulator's six priorities for the next three years, which include extending its regulatory reach with a wider range of proactive and targeted regulatory interventions, and enabling workplace pension schemes to deliver their benefits through significant change such as Brexit. The plan also states that TPR is receiving an extra £7.6m in levy funding from the DWP for this tax year, including £400k that will be used to support policy work relating to the pensions dashboard.
2018 Governance and Administration Survey	Latest Update:- On 24 July 2019 the full research report, which details all the 2018 survey results, was published together with commentary intended to draw out the key points and areas of concern identified. A link to both of these can be found here under the 'Public Service Pension Schemes' section. Main points to note: • there have been improvements in Schemes' performance in four of the six key processes • the report highlights the importance of receiving accurate and timely data, and identifies employer performance as a common reason for missing or inaccurate data • the percentage of LGPS members who were sent an annual benefit statement before the statutory deadline was lower than the average across the sector • the top three barriers to improvements in administration and governance were identified as complexity, lack of

	resources and legislative change. Within the LGPS, staff retention and lack of knowledge was cited as a top three risk by 28% of funds • six LGPS funds reported that they had fewer board members at the time they completed the survey than is required by regulation 107(2) of the LGPS Regulations 2013, but this was mainly due to vacant positions • LGPS administration was more likely to be delivered in-house, and administering authorities review their administration providers less frequently than the average across the public sector. Previous Updates:- The results of last year's survey will be published in May 2019. TPR issued the survey link to scheme managers and scheme contacts on 5 November and encouraged all administering authorities to complete the survey by the closing date of 30 November. APF completed the survey before the deadline.
ITEMS FROM OTHER SOURCES	
New Item Shareholder Rights Directive II	On 11 September 2019 the DWP published an explanation of the requirements established by Shareholder Rights Directive II (SRD II) relating to workplace pension scheme stewardship and governance, which will be adopted into UK law from 1 October 2019. Please see a link to the factsheet here, which confirms the actions DB schemes must take and by when. APF already comply with the actions required by the 1 October 2019 deadline as this is already in the guidance for our Investment Strategy Statement (ISS). We also comply with most of the rest but will be updating the ISS after our investment review and at that point will incorporate this directive. We understand that SAB/MHCLG guidance will follow on this and will increase requirements for LGPS but more in terms of fuller disclosure.
New Item CMA Order	On 10 June 2019 the Competition and Market's Authority (CMA) published The Investment and Fiduciary Management Market Investigation Order 2019. The Order defines fiduciary management services and potentially has implications for LGPS pools. The SAB has produced a briefing note to raise awareness of the content of the Order, link here. The note states that 'It is understood that MHCLG may come forward with some provisions for LGPS authorities but that these would only include the obligations under Part 7 (Investment Consultancy Services)'. On 29 July 2019 DWP launched a consultation which seeks views on the draft Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2019. The draft regulations enact the provisions of the CMA Order on the obligations of Schemes with regard to FM and IC services. Chapter 2 of the consultation document covers

	scope and explicitly rules out coverage of the LGPS. This short consultation closed on 2 September 2019. The CMA made recommendations in its final report for TPR to produce guidance to support trustees in complying with the new duties. TPR have issued a consultation containing the guidance to support these recommendations. The consultation closed on 11 September 2019.
New Item Equitable Life	Equitable Life announced that they had entered into an agreement to transfer the Society and all its policies to Utmost Life and Pensions (formerly known as Reliance Life), with the transfer taking place during the latter part of 2019. As part of the transfer deal, the Equitable Life With-Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. Details of the Proposal can be found on Equitable Life's website. Equitable Life has recently written to all administering authorities affected by the Proposal. Administering authorities as 'Scheme Policy Holders' and 'Eligible Members' are being asked to vote to: • approve the 'Scheme' • 'Change the Articles' to make Utmost Life and Pensions the sole Member of Equitable. The 'Scheme': • increases with-profits investments with an immediate one-off 'Uplift' • removes any investment guarantees, and • converts with-profits policies to unit-linked investments. Administering authorities are also able to object to the transfer of Equitable Life's business to Utmost Life and Pensions (which does not require a vote but does need the approval of the High Court). The deadline for the receipt of postal and online votes is 10am on 30 October 2019. In an email to administering authorities on 28 August 2019, Lorraine Bennett confirmed that the LGA is considering obtaining legal advice on the potential risk to administering authorities of future challenge associated with the above, but before doing wanted to gauge how many administering authorities are affected.
New Item RAF Survivors Pension Landmark Ruling	In a landmark ruling, on 17 July 2019 the Court of Appeal awarded a survivor pension in the RAF pension scheme to Ms Langford following the death of her partner in 2011. Ms Langford had cohabited with the scheme member for 15 years, but was married to someone else at the time of her partner's death. The decision could have far-reaching consequences for other cohabiting couples in the public sector where a surviving partner is married to a third party. We await the government's response to this decision.

New Item TPO Annual Report	The Pensions Ombudsman (TPO) published its Annual Report and Accounts on 18 July 2019, see link here. The Report contains information about TPO's performance in the 2018/19 year and summaries of completed investigations.
New Item PASA Guidance	On 8 July 2019 the Pensions Administration Standards Agency (PASA) launched DB Transfer Guidance. The guidance seeks to create the right balance between member protection and the statutory right to transfer and has three keys aims: • improve member experience through faster, safer transfers • improve efficiency for administrators • improve communications and transparency in the processing of transfers. Compliance with the guidance is voluntary, but it is anticipated that the Pensions Ombudsman will reference it when reviewing complaint cases as a source of what 'good practice' looks like. APF are currently in the process of reviewing their processes in line with the guidance. On 6 June 2019 PASA announced the publication of its cyber security guidance for pension schemes, link here. The guidance provides practical support for trustees in formulating a robust and effective review of how they safeguard their scheme from cyber security issues. It covers five main sections - Risk Assessment, Governance, Risk Management, Controls and Incident Management.
New Item PSIG Code on Combatting Pension Scams	On the 10 June 2019 the Pension Scams Industry Group (PSIG) published version 2.1 of Combating Pension Scams – A Code of Good Practice, link here. The updated code reflects recent regulatory and legislative changes, as well as the evolving nature of pension scams. A summary of the key changes to the Code is provided on page 6 of the document, these include: • the cold calling ban • TPR & FCA ScamSmart campaign and TPR Threat Assessment update • Money and Pensions Service (MAPS) reference • the rise of claims management firms • TPO determinations update and implications • revised Action Fraud reporting guidance • additional case studies • learnings from PSIG's Scams Survey Pilot 2018. APF are currently in the process of reviewing the updated code to ensure internal procedures are in line.

Page 66 Exit Credits	Latest Update:- The LGA are of the view that given the consultation proposes backdating the change to exit credit payments, it would be legitimate to delay payment of an exit credit, where a side agreement was in place, pending the consultation outcome. The SAB was advised that the draft response to the wider consultation included representations to close an unintended loophole whereby administering authorities were liable to pay exit credits at the end of a contract even though steps had been taken by the employer to remove any risk from the contractor. The draft response agreed by the Board proposes that the amending regulations should include a provision requiring fund actuaries to take any side agreement into consideration when assessing exit credit payments. Previous Updates:- The MHCLG consultation on LGPS Local Valuation Cycle and the Management of Employer Risk includes proposals for further policy changes to exit credits. Following the introduction of exit credits with the LGPS (Amendment Regulations) on 14 May 2018, a survey was issued before Christmas by the LGA asking authorities for details of any expected exit credits they will be paying and any paid to date. The expected and paid credits reported are currently £86m. The Secretariat is aware that the payment of exit credits is causing some issues, particularly where there is a side contractual agreement in place with the employer and also where contractors are no longer extending contracts/admission agreements but are looking to terminate the contract and re-bid in order to receive payment of an exit credit. They have now met with MHCLG on this issue – they have agreed that whilst the general thrust of the regulation requiring an exit credit is right, they will consider making a regulatory change or issuing statutory guidance to provide that where the employer bears no risk, this can be taken account in the calculation of an exit credit payment.
Discretionary Policies ➤ Action	Latest Update:- APF are currently in the process of reviewing their discretionary policies and will present a paper to Committee at it's December meeting for approval. APF are in the process of purchasing a tool from JLT to assist employers when developing their discretionary policies and will carry out an exercise, when the tool is available, to support employers in reviewing and updating their discretions to incorporate the amendments below. Previous Update:- The Secretariat has published revised versions of the Discretionary policy list and guide (versions 1.7 and 1.9

	respectively). Clean and tracked changes versions, can be found in the guides and sample document pages of www.lgpsregs.org. Action for administering authorities and scheme employers The documents have very minor changes though will require an amendment to both scheme employers' and administering authorities' mandatory discretionary policies: • whether to grant the application for early payment of deferred benefits (in respect of a member who left active membership before 1 April 1998) on compassionate grounds - application may now be granted by the administering authority where the former employer no longer exists. • where a member who opted out of the scheme continues to be employed by a Scheme employer, the member is only entitled to receive their benefits at NRD if their employer consents to them doing so (in respect of a member who opted out of the scheme after 31 March 1998 and before 1 April 2008).
Requirement to Pay Refund Under 2013 Regulations	Latest Update:- As reported previously, the National Technical Group made a recommendation to the SAB to remove the requirement to pay a refund of contributions within five years under the 2013 regulations. The SAB have agreed to proceed with this change and are in the process of making recommendations to MHCLG. Previous Updates:- On 12 March 2019 the National Technical Group made a recommendation to SAB to change the regulations to reflect the position prior to 1 April 2014 (i.e. to remove the prescription that requires an administering authority to pay a refund on the expiry of a period of five years beginning with the date the person's active membership ceased if no request is made before then – regulation 18(5) of the LGPS Regulations 2013 [SI 2013/2356]). In making this recommendation the group acknowledged that interest would be added up to the date of payment, as opposed to on the expiry of 5 years. From National Technical Group Meeting – Dec 2018 Under the 2014 scheme a refund must be paid on the expiry of 5 years from the date of leaving or, if earlier, at age 75. If payment cannot be made before within this timeframe then this is classified as a breach and as such would need to be reported to pensions committee, Local Pension Board and included on the breaches register. Additionally, the payment could not be treated as a Short Service Refund Lump Sum payment under section 166 and paragraph 5 of the Finance Act 2004 if the member: a) Had previously had a BCE in the Scheme, and/or,

	b) Holds deferred benefits in the Scheme, and/or, c) Has reached age 75 If any of the above circumstances have occurred, the payment would be an unauthorised payment, as such would need to be reported on the event report and the payment would be subject to both member tax charges and admin authority tax charges. Under all previous regulations there is no time limit by when the refund must be paid and the Technical Group are considering whether the current regulations can be amended to match. In the meantime, Technical Group have made a group policy recommendation on how to approach such cases and this is set out in the minutes available here.
DWP: Pension's Dashboard	Latest Update:- The Money and Pensions Advice Service (MAPS) will lead the delivery of the initial phase of the pensions dashboards and will bring together a delivery group made up of stakeholders from across the industry, consumer groups, regulators and government. The delivery group will be accountable to the MAPS board, and MAPS are in turn accountable to the Department for Work and Pensions (DWP). Chris Curry was appointed as Principal of the Pensions Dashboard Industry Delivery Group and Angela Pober as its implementation Director. Chris Curry published his first blog on 25 July which is available in the MAPS website. Previous Updates:- The LGPCs response to this consultation can be found here. On 4 April 2019 the government published its response to the consultation, which can be found here. Key details of the government's plans include: • Legislation to compel pension providers to make consumers' data available on the dashboard • Staged onboarding of schemes with the majority of schemes participating within 3 to 4 years • The inclusion of state pension data • A commitment to multiple dashboards, with a non-commercial dashboard being overseen by the Money and Pensions Service (MAPS). The DWP advises the pensions industry to get ready, in the next three to four years, to submit data. The hope is that the

dashboards project will move into a test phase beginning in 2019. Meanwhile, the DWP will need to find a legislative vehicle by which to compel recalcitrant pension schemes to feed data into the dashboards system. Compulsion will require primary legislation. Pensions Minister Guy Opperman has indicated his Department's intention to include a Pensions Bill in the next Queen's Speech.

The results of the feasibility study to explore the options for the delivery of online pensions dashboards were released in the form of a government consultation on 3 December 2018. The consultation was seeking views on how the government can best facilitate an industry-led delivery of pensions dashboards. The consultation closed on 28 January 2019.

The consultation proposals included:

- a non-commercial dashboard be hosted by the Single Financial Guidance Body (SFGB) together with multiple commercial dashboards hosted by different organisations, in order to improve consumer choice and enable them to use the dashboard that most suits their needs.
- the establishment of a delivery group convened and stewarded by the SFGB, which would work towards the successful implementation of the technology that will allow pensions dashboards to operate.
- a single 'Pension Finder Service' (PFS) will act as a search engine to find pension schemes linked to an individual.
- state pension data will ultimately be part of the service.
- with the consent of the individual, pension schemes will be required in legislation to provide an individual's data via pensions dashboards.
- public service pension schemes be given longer lead-in times to prepare their data prior to on boarding. It is expected that the pensions industry will start to supply data to a dashboard, on a voluntary basis, from 2019. The majority of schemes will be on-boarded within 3 to 4 years from the first dashboards being available to the public.

Previous Update:- 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

Key:- Any text highlighted in Grey was previously reported with latest updates indicated where applicable.

Newly reported items are labelled ****New Item****

Where action is required, this is indicated in first column where appropriate

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Avon Pension Fund

Local Government Pension Scheme

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12 July 2019

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Re: Consultation on Changes to the Local Valuation Cycle and the Management of Employer Risk in the LGPS

I write on behalf of Bath and North East Somerset Council as the administering authority for the Avon Pension Fund in response to the above consultation, which was published on 8 May 2019.

In drafting our reply the Avon Pension Fund have drawn on our experience as a Local Government Pension Fund with 400 employers, and attempted to clearly set out the changes to the Regulations that we believe will be helpful to Funds, Employers and Members.

The timing of this Consultation, overlapping with the Fund valuation, has created resource pressure on the Fund to prepare a meaningful response. Following so closely after the Fair Deal Consultation it results in Funds facing great uncertainty while drafting and consulting on the Funding Strategy Statement and calculating the 2019 Valuation. In future could there please be better planning to bring forward consultations and regulation changes in the inter valuation years, rather than the valuation year.

Section 1 - Changes to the Local Government Pension Scheme (LGPS) valuation cycle

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

We strongly disagree that LGPS fund valuations should move from a triennial to a quadrennial valuation cycle. We disagree that this will 'deliver greater stability in employer contribution rates and reduce costs'.

The LGPS currently has mechanisms for delivering stability of employer contributions (Regulation 62 and CIPFA Guidance). We believe less frequent valuations will mean potentially larger adjustments will be needed, leading to less contribution stability.

In the face of more legislative change (McCloud and changes to the Regulations), economic change (Brexit), political change (Brexit) and technological change we believe this is not the right time to extend the valuation cycle.

Unitary Authority budget setting is increasingly short term and it is likely these employers would not favour contributions being set for longer, as it will not reflect changing profiles and circumstances. In Avon Pension Fund two of the four Local Authorities employers have seen their active membership halve since the last valuation due to the effect of academisation, outsourcing and restructurings. This scale of change needs to be reflected in their valuation sooner rather than later.

In Avon Pension Fund we also have over 100 smaller employers whose covenant is less strong and reviewing contributions four yearly, would increase the risk of an employer failing with insufficient funds to meet their pension liabilities.

Neither does Avon Pension Fund agree that costs for the Fund or scheme employers will reduce. This is because:

- It is highly likely interim valuations (possibly at an individual employer level) and more frequent individual employer valuations will increase costs.
- If, as a result, an employer were to fail with insufficient funds to meet pension liabilities it will increase costs.
- If, our Investment Strategy is refined less regularly opportunities may be missed increasing costs.
- The IAS 19 and FRS 102 accounting regulations may continue to require scheme employers to be revalued at least triennially as a longer roll forward would increase the approximations in the intervening period; this would increase costs.

The very fact that the concept of interim valuations has had to be introduced is tantamount to an admission that four years is too long a period between valuations. Add to that the complication of determining when an interim valuation is justified, combined with the safeguards that the government feels obliged to introduce, and the simple three year cycle has been converted into a bureaucratic nightmare.

To quote one of the Avon Pension Fund employers, 'this proposal is nonsensical. When there is something that works well the Government's response is to change it'. Our experience is that scheme employers require up-to-date and accurate information for decision making, and this is provided by the current triennial valuations.

The desire to bring all public sector schemes inline is not a good enough reason for proposing this change. The LGPS is the only funded public sector scheme and its needs must be considered.

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

There are at least two additional risks that should be addressed:

Fund Governance: The purpose of the triennial valuation is to assess whether Funds are on target to meet pension liabilities as they fall due. By lengthening the inter-valuation period there is a greater risk of divergence of funding for the Fund as a whole, and individual employers, and this reduces the financial health of Funds and employers. This would present a serious governance issue and to address this risk Avon Pension Fund will have to seriously consider moving to two yearly full valuations which would significantly increase costs. Some Funds might take the easier and less costly option of only undertaking valuations four yearly. This will lead to greater divergence between Funds, with the stronger and well governed Funds undertaking two yearly valuations, and other Funds (and consequently their scheme employers) being exposed to increased risks. We do not believe this is beneficial to the LGPS. There is also the risk that an employer may request a review of their contribution rate in response to external factors that they believe would have the effect of lowering their contribution rate without considering the long term impact of doing so.

Accounting disclosures: Avon Pension Fund's actuary prepares annual financial disclosure of pension assets and liabilities for most of our employer's for their financial statements. This disclosure is required under International Accounting Standard 19 (IAS 19) and Financial Reporting Standard 101/102 (FRS101/102). The actuarial methodology for this work is prescribed in the Standards and the basis involves a roll forward from the last valuation. With triennial valuations the roll forward is at most three years. The longer the roll forward the less accurate is the financial information. Would four-yearly valuations meet the requirements of the accounting standards? If not it would incur employers in substantial additional costs to comply with the accounting standards. The stance of the audit profession would be relevant here. We therefore strongly recommend that the accountancy bodies are consulted on the impact of the proposed change on financial disclosure. If the result is that employers require triennial valuations as a basis for their accounting disclosure, it would result in Funds having to undertake both triennial **and** quadrennial valuations; this would be absurd and very expensive.

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

We do not believe it is necessary for the local fund valuation to be carried out at the same date as the scheme valuation.

Since the Local Government Pension Scheme is a funded scheme with its own actuaries and a variety of employing bodies, unlike the other public sector schemes, there is a legitimate question as to whether the review of the LGPS needs to be synchronised with the review of the other schemes.

We suggest the actuaries of LGPS Funds provide a rolled forward valuation every fourth year for the Government, to meet their requirement and to be in line with other public service schemes.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

To be clear, it is not our preference to move to a quadrennial valuation, however, if this proposal goes ahead then our preferred approach is (b).

Section 2 - Dealing with changes in circumstances between valuations

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

We support the proposal for interim valuations powers. If the LGPS Funds move to four-yearly valuations it will be essential to be able to carry out interim valuations to reflect the impact of asset volatility and changes in economic conditions. Without this flexibility there could be significant pressure on future contributions in some future scenarios.

Question 6 - Do you agree with the safeguards proposed?

We believe that interim valuations should only be permitted in the circumstances set out in the Funding Strategy Statement. There is no definition in the proposal of an 'interim valuation'; we believe it should be carried out across the whole fund to ensure assets are appropriately allocated to all employers. Logically, an interim valuation should only be undertaken at the midway point between statutory valuations, or, at the very least, not within one year of a statutory valuation.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Irrespective of whether we move to a four-year valuation cycle, we agree with the proposal to allow more flexible review of employer contributions between valuations.

Avon Pension Fund recently had a parish council in surplus whose only employee moved to the 50:50 scheme. There was no basis to reassess the contributions and the parish council had to overpay contributions until the next valuation. The ability to request a reassessment of the contribution rate would address such problems.

In addition to the existing provision for contribution rates to be amended where an employer is about to leave the Fund, we would support a review of contributions being permitted where:

- i. An employer closes to new members.
- ii. There is a material transfer of staff in or out of an employer.
- iii. There is a change in covenant of an employer.
- iv. There is significant membership change.

The circumstances in which a contribution rate could be amended would need to be included in the Funding Strategy Statement both for reasons of transparency and to place a check on rates being revised for short term financial gain.

We do not support an employer being able to request a reassessment because they believe it will lead to a reduction in contribution rate, as this could negate the objective of the stability of contributions.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Assuming interim valuations are permitted in the circumstances set out in the Funding Strategy Statement, logically the advice would be included in the guidance on Funding Strategy Statements. Regulation 58 refers CIPFA guidance and we do not believe that SAB guidance in addition to CIPFA guidance would be helpful.

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Funds already have access to professional actuarial advice and this should be sufficient to enable them to determine whether individual employers' rates should be amended between statutory valuations.

Section 3 - Flexibility on exit payments

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

The term "full buy out basis" is not applicable to the LGPS. Avon Pension Fund has an ongoing funding basis and a lower risk funding basis. The lower risk funding basis is used where an employer is exiting from the fund and has no guarantor; in this case the Fund have to meet any future deficit arising on "orphan" liabilities – where no individual employer has future funding responsibility.

In our experience Regulation 64(4) already achieves the effect of the Scottish Public Pensions Agency model, and we also use Regulation 64(3) to spread exit payments. These involve the actuary in issuing the appropriate certificate. We have no experience of legal side agreements and do not see the need for them.

We believe that the default position should remain that exit payments on the lower risk funding basis are settled in full and only where the employer makes an evidence based request to the Fund on affordability grounds should a payment plan over a suitable period, at the Fund's discretion, be agreed on the basis of achieving the optimum outcome for the Fund.

Exit payments on the ongoing basis should be settled immediately in full, if this is not affordable it is up to the guarantor to come to an arrangement with the contractor.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

We agree with the introduction of deferred employer status as it will assist us to manage exits and administer and track a deferred debt. *It would be helpful to be consulted on the detailed amendments proposed to the Regulations in due course.*

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Our suggested improvements are:

1. Given the uncertainty of the timing of an exit we believe it would be useful to allow scheme employers who have closed to new members to participate in deferred status arrangements **prior** to the last member leaving, and thereby have a planned exit strategy, 'flight plan', with the possibility of an alternative funding strategy in place to reduce the impact of the final exit payment. In this case having active members would not be a "relevant event".
2. A deferred debt arrangement should have defined review dates, and an end date.
3. In addition to 3.3(iii) a termination event could be triggered by either the Fund or employer unilaterally. This would lead to an immediate exit valuation and repayment of the full exit debt. This would cover the eventuality of an improvement in fortunes where the employer can afford to repay all, or a significant deterioration in covenant **before** insolvency (at which point it's too late to recover the remaining debt).
4. The deferred employer facility should not apply to bodies admitted under paragraph 1 (d) of Part 3 of Schedule 2 which are guaranteed by another Scheme Employer.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

We agree that the key obligations and entitlements should be in the Regulations including the list of considerations which must be included; we envisage this being similar to Part 3 of Schedule 2 in respect of Admission Agreements. The use of this facility should be advisory not mandatory. This will ensure consistency and minimum standards.

The Regulations should make clear whether deferred employers have discretionary policies relating to their deferred pensioners and whether they should consider and process requests from deferred pensioners for early release of pension.

As these arrangements are a material shift in how exits are managed we believe guidance should be statutory. As this could be a key aspect of managing exits, which present a financial risk to the Fund, we believe it is vital the detailed Regulatory proposals are consulted on so that they are effective and can be operated practically by Funds.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

We believe options 1 and 2 are currently available to our Fund. We support the introduction of option 3 provided that administering authorities can determine which exiting employers qualify and the conditions under which this facility is offered.

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

We believe that guidance should be available and have statutory force because it will apply in contentious situations (i.e. it should be referred to in the Regulations, to ensure consistency, whilst also retaining local discretion).

Section 4 - Exit credits under the LGPS Regulations 2013

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

The Fund would be fully supportive of a change in the Regulations. In our view this is a high priority. We are very concerned that the Administering Authority might be drawn into a dispute between the contracting parties as to whether the exit credit is payable or not. This type of situation has manifested itself in the current dispute between Northamptonshire Council Pension Fund and a former environmental services provider. This is an issue on Avon Pension Fund's risk register. We ask for priority early resolution of this issue.

The Avon Pension Fund has addressed the problem highlighted in the Consultation Paper by requesting the letting employer to ask the contractor to forgo any exit credit, in those cases where it was not liable for any exit payment. This has involved the Fund and the outsourcing Scheme Employers in a considerable amount of additional work. This equitable approach is not currently supported by the Regulations which has made it a delicate issue. Through this process we have discovered:

- That the Fund has to rely on the outsourcing Scheme Employer to provide the relevant contractual information and the Fund has to have the resources to interpret often lengthy and complex contracts.
- We have been surprised by the number of occasions where the contracts are inadequate with regard to the allocation of pension's risk.
- In some cases there is no signed commercial agreement.
- Many commercial agreements are not clearly worded, and in some cases there is no mention of pensions in the agreement.
- There is inadequate consideration of pension in call off arrangements within Framework Agreements when maintained schools convert to academies.
- There are a number of different pension risk sharing arrangements in operation.

In context, as Local Authorities have outsourced more services and maintained schools have converted to Academies who then outsource services, the admissions of scheme employers related to short term contracts has proliferated and Avon Pension Fund now have about 100, and growing, admission bodies. Therefore you can appreciate that the workload involved in reviewing contracts to identify the pensions risk and hence treatment of an exit credit is huge and complex.

We are very concerned that in this environment the Administering Authority might be drawn into a dispute between the contracting parties as to whether the exit credit is payable or not. We do not believe it is the Funds role to adjudicate on the contractual arrangements of the scheme employer and contractor in this way.

Question 17 – Are there other factors that should be taken into account in considering a solution?

We believe the Regulations should state that:-

- no exit credits will be paid for “transferee admission agreements” (Paragraph 1 (d) of Part 3 of Schedule 2) unless all pensions risk is fully and clearly transferred to the contractor under the contract, and
- a signed copy of the contract is provided to the Fund.

The regulations should state that the commercial contract should specify clearly who is liable for any exit payment under Regulation 64(2) and, by the same token, who is entitled to any exit credit. If wording to this effect could be included under this Regulation it would carry much greater weight than individual administering authorities trying to persuade Scheme Employers of the need for this to be addressed in their contracts.

Without this, trying to determine how much pensions risk the contractor has taken will be contentious and the administering authority is not best placed to adjudicate having not been party to the contractual negotiations and not qualified in contract law.

In the case of admission bodies, other than contractors, and other types of employer, the exit credit should be payable to the exiting employer unless an admitted body is guaranteed by another scheme employer and there is an agreement in place which leaves the pensions risk with that scheme employer.

Retrospection is problematical. If there is any doubt about whether the action taken by Funds to withhold payment of exit credits is legal, retrospection is arguably unavoidable but we remain concerned that it could be challenged in law. This supports a change in the Regulations on exit credits being a priority.

Section 5 - Employers required to offer LGPS membership

Question 18 – Do you agree with our proposed approach?

We do not agree with the proposal to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to close.

In evaluating this proposal it is important to understand the equality issues, and impacts of closure on the Fund, Employer and Members.

Summary:

- Equity: The lack of any form of equity in these proposals and the implications of a legal challenge, if made, means that we do not support this proposal.
- The Funds: HE and FE employers in Avon Pension Fund represent c13% of the total Fund assets and liabilities and 18% of the Fund payroll. Therefore in terms of scale they are a material proportion of the Fund. In view of the materiality of this sector within LGPS we ask that analysis is undertaken by GAD of the impact on each Fund if HE and FE employers closed, and the impact on the LGPS as a whole before implementation is considered further.
- The HE/FE employers: In the short term the FE and HE employers will see a large increase in their ongoing costs and face exit liabilities (for the eight HE/FE's in Avon Pension Fund of c£226m). These costs cannot be ignored as they will reduce the money available to deliver education.
- Employees: There will be inequality between the 'have LGPS' and 'have not LGPS'.
- *We strongly request a more thorough review of the impact of the proposal on the LGPS as a whole by GAD, and on HE FE finances, is undertaken. This will ensure that the consequences are fully understood and prevent further 'unintended consequences' or McCloud's debacles.*

We start by asking;

Are Higher and Further Education corporations really 'private sector bodies'?

A fundamental objection to this proposal stems from the fact that HE and FE employers are classified as 'private sector bodies'. Whilst these bodies may have autonomy in management and budget setting they are unquestionably publicly funded with 16-18 education being Government funded, the Apprenticeship program is funded by taxes foregone, Higher Education fees being set by the Government and funded by the Student Loan Company with part of the loans appearing as Government expenditure, and the new Insolvency Regime which is dependent on whether or not the Department of Education continue to support an education provider. In summary we disagree with the notion set out in the consultation paper that Higher and Further education corporations ('HE and FE employers') are 'private sector bodies'.

Equality Issues:

Notwithstanding our fundamental view regarding the status of Higher and Further Education corporations, the question then becomes, is it reasonable to allow those employers to close the LGPS to new employees? The argument that non-teaching staff should have their entitlement to an LGPS pension withdrawn because the Government no longer takes any responsibility for the financial viability of those organisations is a specious one.

If these corporations were rescued previously when they were public sector bodies, the additional costs would have been funded by the taxpayer. If these corporations fail now they will leave liabilities with the Local Government Pension Scheme which will have to be funded by local taxpayers or other bodies such as academies and other HE and FE employers. Why non-teaching staff should be penalised if other public sector bodies have to meet the shortfall, whereas teaching staff continue to be supported from public funds if their organisation fails is difficult to fathom.

Within non-teaching staff there will be inequity between staff on the same grade, with the added complexity of different reward packages depending on their start date. Inequity will arise in the form of 'have LGPS' or 'have not LGPS'. There is also the potential for staff remaining in the LGPS to be considered differently in redundancy situations. Someone under 55 could be targeted for redundancy to save the contributions to the LGPS, but someone over 55 could be refused redundancy or flexible retirement due to strain costs.

We know from the recent cases of McCloud and Sargeant, and others, that equality is a real and increasingly challenged established legal principle, and therefore robust legal advice should be sought and evaluated before this change is seriously considered. It would be a nightmare to untangle and reinstate members who were previously denied access if HE/FE employers 'close' without legitimate grounds and a challenge were successful. It has the potential to be akin to PPI miss selling, with advisors assisting people to claim 'back' contributions and so forth.

The concern is that the proposal rests on specious arguments designed to support those who are content for a divide to emerge in further and higher education corporations in order to compensate for the shortfall in their finances. It would be easy for a local authority pension fund to support this proposal from a purely financial viewpoint but the lack of any form of equity and the adverse impact on working relationships within further and higher education means that our support is with-held in this case.

Although the consultation does not specifically ask for an assessment of the financial impact of the Government's proposal on the Fund and the existing HE/FE participants, we have asked the Fund's actuary to provide one. His findings are set out below:-

Financial impact on Avon Pension Fund.

The HE and FE employers in Avon Pension Fund represent c13% of the total Fund assets and liabilities (equivalent to estimated assets of c£625m and liabilities of c£675m, 31 March 2019). In addition these employers represent 18% of the Fund payroll. Therefore in terms of scale they are a material proportion of the Fund. In view of the materiality of this sector within LGPS we ask that analysis is undertaken by GAD of the impact on each Fund if HE and FE employers closed, and the impact on the LGPS as a whole before implementation is considered further.

Avon Pension Fund would experience material changes in cash flows which we would need to pay the actuary to analyse if this proposal is implemented. These changes would result in initially increased contributions as future service rates and deficit payments would increase. Then as remaining active members leave/retire over time total future service contributions would decrease. The Fund would then become more cash flow negative at a faster pace as benefit payments exceed the contributions. This would affect the Funds investment strategy as we would need to divest as the cash flows become negative. Further, as the employers move towards potential termination there would be a new lower risk investment strategy with higher contributions.

The Avon Pension Fund will therefore reach the point sooner where the investment strategy backing these employers' liabilities needs to be altered to reflect the increasing need for liquid assets in order to pay benefits. Therefore the Fund might bring forward an investment strategy which is more matched to the Funds benefit cash flows and or potential exit position. This in turn would affect the investment returns achieved and therefore the impact on long term costs could be significant, our estimates suggest an initial increase of c3% of pay for HE and FE employers.

This proposal will also create additional administrative burdens for Avon Pension Fund as closed schemes tend to be difficult to monitor in that only the correct members are entered into the scheme. As stated in the consultation those already in employment at the time of the change will continue to be eligible. Therefore someone who previously opted out could join the scheme and become an eligible starter whereas a new employee would not be allowed access. Payroll providers would have to ensure that a robust process was in place to make sure that only eligible members were put into the scheme plus the Fund would need a checking mechanism to ensure that non eligible employees are not put in the Scheme by mistake.

This is further complicated by the fact that all of Avon Pension Funds HE and FE employers submit monthly data via a data transfer platform called iConnect. This system has been implemented to improve the quality and accuracy of our data in line with TPR Code of Practice. With the use of iConnect it is not possible to mark the scheme as 'closed' within our pensions administration software (Altair) and therefore we would not have an automated way of ensuring that only eligible employees were put into the scheme. A separate schedule of eligible employees would have to be kept and checked manually each month. This would be an onerous task for such large numbers of members and at a time when we are trying to streamline and automate administration not make it more complex.

Then there is the time and cost wasted by Funds and HE FE corporations in evaluation and modelling the costs and benefits of 'closing' to new members. It would be preferable if this was done centrally and a decision made either to abandon this proposal or for all HE FE corporations to close to new members with added funding to achieve this outcome.

In summary the simple proposal to allow HE and FE employers to close to new members could have far reaching unintended consequences for LGPS Funds and a full analysis of the impacts and costs should be understood if these changes are essential.

Financial impact on further and higher education corporations that close to new members:

If a HE and FE employer closes access to new members the average future service rate in the Avon Pension Fund is estimated by our actuary to immediately increase by c3%. This is because when closed the average age of the cohort increases and contributions have less time to gain investment returns to meet the promised benefits.

In addition, recovery periods would need to be reviewed and the maximum period would be based on the average working life time of the membership. This average, in Avon Pension Fund, is currently 11 years for the FE HE employers, so those employers with longer recovery periods would see an increase in deficit contributions. The deficit recovery periods will have to reduce over time as the members' age, which may increase deficit contributions.

Therefore, in the short term the FE and HE employers will see a short term increase in their ongoing costs which cannot be ignored. Over time, as the active membership falls away, the monetary impact would be less significant, but, then the employer will have to start planning to pay for the exit payment.

The actuarial assumptions adopted in a termination assessment are more prudent and the lower risk funding basis is used where an employer is exiting from the Fund and has no guarantor, as is the case for HE FE employers. This is because the other fund employers have to meet any future deficit arising on the historic "orphan" liabilities, where an exited employer has no future funding responsibility.

An estimate of the exit liabilities payable is provided by the FRS valuations in employer's accounts and for the eight HE FE's in Avon Pension Fund this amounts to £226m (31 July 2018). It should be noted that other employers have wanted to leave the Fund and found it unaffordable.

In summary the cost of closing to new members and exiting from the Fund will be very costly in the short and medium term and will divert money, and possibly assets, away from providing education services.

In addition the recent release of the Augar Review may result in more change to the HE FE employers so implementation of the proposed approach may be premature.

Impact on members

The proposal will result in employees who are denied access to LGPS having inferior pensions in old age which is socially undesirable. Where the government is the principle funder and has significant influence it is our view that it should be exercised responsibly to maintain and improve pension provision and not to reduce the quality of pension provision with the result of more benefit payments in old age. It is better in society for it to be 'worth working' and good quality pension provision is part of the financial reward of a working life.

Government guarantee

The removal of the implicit government guarantee for further or higher education corporations in LGPS would seem to have created more problems than it has solved. As the consultation points out, when the government guarantee was in place if a HE FE corporation failed the government would have met any LGPS pension deficit. Now the guarantee is removed any LGPS pension deficit will be met by local authorities, academies, parish and town councils and other HE FE corporations in the Fund. So the burden has merely been passed to a different part of the public sector. In addition the banks have become very cautious about lending to the HE FE sector, particularly colleges, because of the substantial pension liabilities and the new insolvency regime. Perversely, the magnitude of pension liabilities on a winding up would result in a Pension Fund becoming one of the largest creditors and therefore with one of the largest claims, to the detriment of the banks resulting in their reluctance to unsecured lending. The answer to this problem would be for the government to guarantee the pension liabilities.

Section 6 - Public sector equality duty

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

The fund would stress that there is insufficient justification put forward to discriminate against non-teaching staff in Section 5 and there is a risk of unintended inequalities if the workforce are mainly female staff. The proposals under section 5 could be deemed to undermine the importance of pension provision within the wider society. Lastly, we are concerned that proposals to exclude non-teaching staff in HE FE provision creates a precedent that can be used to deny the LGPS to other groups of workers that currently earn the benefit of the LGPS such as non-teaching staff in academies and so forth.

We hope our responses are useful in taking the proposals forward and look forward to being updated in due course.

Kind Regards,

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Avon Pension Fund

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28 June 2019

ExitPaymentCap@hmtreasury.gov.uk

Re: Consultation on Exit Payment Cap

With reference to the recent consultation regarding the proposed exit payment cap, published on 10 April 2019, this is the response from Bath and North East Somerset Council as the administering authority for the Avon Pension Fund which represents 36,479 active members from 384 actively contributing employer bodies.

In addition to our response to the consultation questions, which follow below, we would like to start by bringing to your attention the following significant concerns and or recommendations we have in relation to this consultation that we feel must be strongly considered, and where necessary addressed, before any such cap is implemented:-

- There must be a specified minimum level of earnings which triggers the cap and this should be set at a level high enough to ensure that lower earners with long service are not penalised.
- The cap should be index linked and subject to annual increases.
- A one size fits all approach is not appropriate when the make-up of the different public service pension schemes is so different.
- Introducing this cap will cause significant administrative burden for both employers and pension administrators inevitably leading to additional staffing costs.
- The LGPS regulations must be changed to allow a member to defer the payment of their pension in the event that they are made redundant over the age of 55 as is available in other Public Service Pension Schemes.
- There must be more guidance available to pension administrators in relation to the calculation of the partial reduction and also options available for members to make payment to buy out any such reduction.

Section 2 – Proposed scope of draft regulations

Question 1 – Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1)? If not, please provide details.

We believe that draft schedule 1 does capture the bodies intended.

Question 2 - Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

No, if this cap is introduced then we feel that the restriction should apply to all public sector bodies, with no exceptions, from day one. Although, the government expects public sector authorities, who are not

currently listed as being in scope, to apply commensurate arrangements voluntarily, there is no legally enforceable way of ensuring that this happens.

One key area that could be challenged is which employers are considered to be “public sector”. Some employers from public sector schemes are included in the proposed legislation whereas others are excluded, for instance, Universities & Housing Associations are exempt therefore the Local Government Pension Scheme will have the majority of their employers within their Fund subject to the conditions but also some who are not.

An inequitable scenario also occurs where a local authority puts a service up for tender. If it is retained in-house then any scheme member subsequently made redundant will be subject to the exit payment restrictions, whereas if the contract is outsourced to a private contractor there could possibly be no restrictions imposed on any exit payments made even though the payments could be the same. Clearly there is the possibility that two employees in the same service within an organisation could be treated very differently on redundancy which would be difficult to explain and could result in a legal challenge.

Another concern is which employers have been exempted, as there does appear to be a very definite objective to put restrictions on the more basic public sector staff whereas other publically owned bodies such as banks and media companies appear to be excluded.

Many local government workers devote years of loyal service on low pay. The Government’s own pay comparisons across sectors show that many working in the public sector could earn higher salaries for the same jobs in the private sector. On grounds of inequality, should the same cap also apply to all private sector schemes as well?

Question 3 - Do you agree with the exemptions outlined? If not, please provide evidence.

Please see comments to question 2 above.

Section 3 – Guidance and directions

Question 4 - Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

The guidance goes some way in supporting employers to apply the draft regulations, however, as the guidance states, it is the employer’s responsibility to ensure that a payment is not made in excess of the cap and this will inevitably place an additional responsibility and administrative burden on already strained employers. Managing downsizing will be affected with the process of redundancies taking on a different slant in that employers will need to be satisfied that they fully understand the impact the proposed legislation will have on a scheme member’s benefits and decisions that may be made which could result in costs materially higher than the level of the cap. It is more than likely that there will be fewer volunteers to take severance on redundancy as a result, leading to more compulsory redundancies and adding to already difficult downsizing challenges. Managers who have been downsizing their departments over the past few years may find themselves caught by these restrictions if they happen to be last out the door. It would appear that despite their efforts in the process they will have their benefits reduced just because they leave after these restrictions take effect.

Where there is flexibility, such as the priority between cash payments and pension strain costs, these will have to be clearly communicated to the employee to allow the required decisions to be taken.

Engagement between pension funds, their employers and the individual members who are involved will be required at a much earlier stage in the process to facilitate this and this will involve much more work for all involved with the numerous options available and especially with regards to partial buyouts.

Although it is the assumption that employers will, where possible, cap the redundancy lump sum and allow individuals to receive their pension top up in full, this is not a requirement under the regulations meaning that employers will be able to opt for the pension to be reduced instead, this should be for the employee to decide as their pension could be significantly reduced due to an employer decision. As the guidance suggests, it is the governments expectation that pension schemes will provide members with options to use their own monies to make up any shortfall or to take a partially reduced pension where the pension strain cost is to be capped, which places massive additional administrative burden on to administrators. In addition, it should not be assumed, as seems to be the case, that all members will be in a position to make up the shortfall in full.

There is also no indication of an intention to phase in the cap but merely come straight in with the proposed cliff edge approach. Any scheme member over the age 55 will find it difficult to make provision to compensate any potential reductions in benefits should redundancy occur.

Has there been any engagement with pension administration software providers? Significant work is likely to be required to implement any changes required to calculations and systems will need to be ready for such a significant change in calculation methodology such as partial reductions. Most pension administrators encourage members to self-service, for example, carrying out their own pension estimates to ease the administrative burden, how will this work with the additional options available to members in relation to their redundancy benefits and how will they even begin to understand this without significant support from pension administrators. Another exercise often carried out is the running of bulk redundancy calculations for employers who are carrying out mass redundancy exercises to provide them with strain costs and figures for their members, how will this be possible with the multitude of options that may be available with regards to the strain cost. A costing exercise should be carried out to determine whether the savings gained by the cap would significantly outweigh the cost of the extra administration involved.

Question 5 - Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?

Whilst we feel that the guidance on the application of the relaxation is sufficiently clear, there is no indication as to the expected timescales involved for cases where the consent of HM Treasury is required which we feel would be useful for employers.

Question 6 – Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.

The guidance for pension scheme administrators is severely lacking, for us as administrators of the LGPS it provides no assurance that the proposed amendments to the regulations to allow for partial reduction of a member's pension benefits, where otherwise the exit payment cap would be breached, and the option for a scheme member to pay a charge to buy out some or all of that reduction will come into force at the same time as the cap.

There needs to be some clear understanding as to how the cap will be operated as the draft guidance/regulations do not give any indications on which to respond. Areas that need to be addressed are as follows:

1. The LGPS does not allow an individual to defer the payment of their benefits in the event of them being made redundant etc over the age of 55. The option to do so in other public service pension schemes already exists.
2. There is no detail as to how the payment that a member is able to make to cover any shortfall in pension is to be made or even calculated and whether this can be recovered from their lump sum retirement grant etc. If actuarial guidance is to be provided there may be no way to respond to the basis of this calculation until after the regulations are passed.
3. The LGPS regulations state that a pension strain cost is to be calculated by an actuary appointed by the administering authority. Due to the differences in demographic make-up across the country these factors can often differ from one administering authority to another meaning that the strain cost will also differ. We feel that a standard method of calculating pension strain across the LGPS should therefore be introduced to give consistency across the scheme.
4. By setting an exit cap of £95,000 this automatically introduces inequality as members of the LGPS will in some circumstances have higher strain on fund costs because of the way public sector schemes dealt with previous protections for early retirement. The LGPS uses actuarial reductions for the period from a member's retirement date to their State Pension Age, subject to a minimum of age 65.

Section 4 – Devolution summary and equalities impacts

Question 7 – Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

1. The original reason given for the change to introduce an exit cap was to curb exit payments for high profile retirements particularly those scheme members with high salaries, but what about the effects on benefits of long serving low salaried members who get drawn in as a consequence of the way our scheme is structured. We have carried out some analysis on exit payments that occurred following redundancy retirements from our scheme over the last 3 years which show that only 5% of the cases that would have been caught by the cap, had it been introduced, earned more than £80,000 with more than 41% of the cases earning less than £40,000. The lowest earner that would have been caught by the cap earned just £29,706 per annum on leaving after dedicating more than 37 years of service to Local Government. Therefore, the suggested cap of £95,000 seems to be flawed in that members who have been in the scheme for a substantial period could be on a salary of less than £30,000 and be affected by the intended exit cap provisions. We therefore feel that the cap should only apply when a person's salary on leaving exceeds a set amount so that it captures the higher earners that it was originally intended to.
2. Some public sector schemes have, over recent years, lost key legal battles in certain cases resulting in additional administration required to rectify matters. This could potentially happen with these proposed introductions if the inequalities are not addressed sufficiently. The cost of

the exit payment will have to be weighed against the potential other costs that may arise from a legal challenge including the legal costs themselves.

3. The proposals will add a further level of complexity, for scheme members, employers and administrators to go with many others whilst also dealing with austerity. Communication and the requirement to explain this in simple terms to all members to support them in making informed decisions when even independent financial advisors struggle to cope with the complexity of regularly changing Local Government Pension Scheme.
4. There is an inability for scheme members to plan for the future caused by constant changes to pension structures which seemingly counteract the government's aim of enabling individuals to manage their finances in retirement and instead is in danger of creating a climate of increased poverty in retirement.
5. It does appear that employers are also being restricted in how they manage their workforce, further destabilising it through increased uncertainty over pension payments. There can no longer be a recruitment package which can include the pension arrangements as a benefit that can be relied on in the future, if it is subject to constant future changes.
6. Not to mention that this is directly disadvantaging individuals who lose their jobs due to government austerity cuts.

Question 8 – Are you able to provide information and data in relation to the impacts set out above?

1. An example of the analysis of data carried out is attached as Annex 1.
2. An example of some of these key legal battles that have brought about retrospective change, including ongoing cases that are expected to cause retrospective change are:
 - i) Milne v GAD case
 - ii) Norman v Cheshire FRS
 - iii) Brewster v NILGOS
 - iv) Walker v Innospec Ltd
 - v) Sargeant and others v London Fire and Emergency Planning Authority
 - vi) McCloud and others v Ministry of Justice

Further Comments:-

When Lord Hutton set out to review public sector pensions there was a consensus that they should be regarded as a standard and that there should not be race to the bottom with regards pension provision. The review certainly set out the recommendation that the public sector schemes should be fair and transparent.

All the public sector pension schemes were each separately negotiated and agreed between Departments, Employers and Unions and then submitted for HM Treasury approval, and yet within just 5 years of the 2014 LGPS becoming operational, there have already been many changes implemented and yet more new restrictions are now to be imposed changing the scheme structure which is certainly at odds with the previous comments of the Chief Secretary to the Treasury that the schemes would be around for 25 years.

We hope our response is useful in taking the proposals forward and that full consideration is given to all points raised as to whether it is currently able to deliver the objectives required in a manner that is fair and transparent. We look forward to being updated in due course.

Kind Regards,

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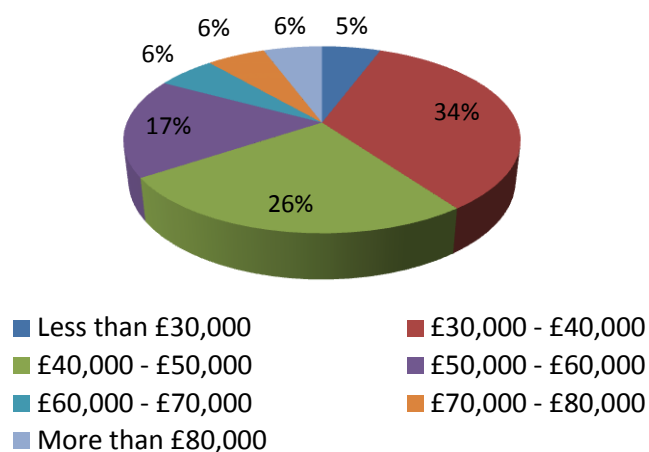
Annex 1

The following table shows a number of cases processed over the last 3 years where, had the cap been introduced, the LGPS member would have required for their pension strain to be capped. This data assumes that the member received a statutory redundancy payment only, along with a pension strain cost as they were over the age of 55 and under the rules of the scheme would have been entitled to the immediate payment of unreduced benefits.

Sex	Age at Date of Leaving	Whole Years of Membership	FTE Salary on Leaving	Pension Strain Cost	Statutory Redundancy Payment	Total Exit Payment	Amount Over £95,000 Cap
F	55	22	£52,625	£158,007	£13,716	£171,723	£76,723
M	59	27	£122,734	£148,104	£14,732	£162,836	£67,836
F	57	27	£59,895	£127,283	£14,224	£141,507	£46,507
M	57	38	£58,891	£120,218	£14,224	£134,442	£39,442
M	58	35	£54,665	£120,046	£14,478	£134,524	£39,524
F	56	37	£40,024	£117,722	£13,970	£131,692	£36,692
F	55	27	£53,447	£116,603	£13,716	£130,319	£35,319
M	56	38	£39,847	£116,193	£13,970	£130,163	£35,163
M	62	9	£80,098	£115,807	£6,858	£122,665	£27,665
M	55	8	£59,011	£115,131	£6,096	£121,227	£26,227
F	55	31	£43,172	£114,930	£13,716	£128,646	£33,646
M	58	19	£77,363	£114,739	£13,970	£128,709	£33,709
M	57	39	£42,720	£94,843	£13,412	£108,255	£13,255
F	55	23	£41,458	£93,427	£13,203	£106,630	£11,630
F	55	37	£62,788	£106,139	£13,716	£119,855	£24,855
F	56	14	£49,773	£93,172	£10,668	£103,840	£8,840
M	55	33	£32,005	£90,410	£12,933	£103,343	£8,343
M	55	12	£36,743	£93,801	£9,144	£102,945	£7,945
M	55	34	£29,712	£87,276	£12,933	£100,209	£5,209
M	57	28	£45,968	£86,688	£13,412	£100,100	£5,100
M	55	37	£29,706	£86,844	£12,933	£99,777	£4,777
F	56	15	£49,540	£88,661	£10,778	£99,438	£4,438
F	57	17	£46,006	£87,379	£11,975	£99,354	£4,354
M	58	13	£65,018	£99,246	£9,906	£109,152	£14,152
F	55	28	£39,719	£86,283	£12,933	£99,216	£4,216
F	55	14	£48,094	£98,469	£10,668	£109,137	£14,137
F	56	9	£36,682	£91,555	£6,858	£98,413	£3,413
F	55	9	£35,841	£91,640	£6,467	£98,107	£3,107
M	56	38	£32,058	£84,882	£13,173	£98,055	£3,055
M	56	30	£36,016	£84,151	£13,173	£97,323	£2,323
F	55	37	£39,033	£84,375	£12,933	£97,308	£2,308
M	58	34	£76,749	£96,077	£14,478	£110,555	£15,555
F	55	32	£32,058	£82,959	£12,933	£95,892	£892
M	57	31	£39,464	£82,356	£13,412	£95,768	£768
F	55	37	£35,841	£82,123	£12,933	£95,056	£56

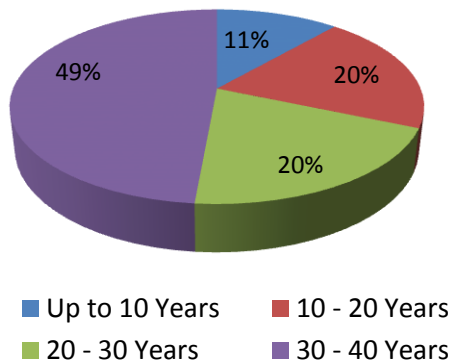
Annex 1

FTE Salary on Leaving



Less than £30,000	£30,000 - £40,000	£40,000 - £50,000	£50,000 - £60,000	£60,000 - £70,000	£70,000 - £80,000	More than £80,000
2	12	9	6	2	2	2

Whole Years of Membership



Up to 10 Years	10 - 20 Years	20 - 30 Years	30 - 40 Years
4	7	7	17

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 September 2019	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 2– Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 3 – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 4 – APF Risk Dashboard March 2019 Exempt Appendix 5 – Special Reserve Matter 16 Appendix 6 – Pooling extract from Annual 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 reviews specific investment aspects at its regular meetings.
- 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 2019/20. They have been calculated in line with the current pricing policy. The fees and pricing policy have been approved by the Shareholders.

4 PROGRESS UPDATE

4.1 Governance:

- a) Brunel Oversight Board (BOB) has met twice since the June 2019 update report. The minutes of the July 2019 meeting are attached, but no minutes are available for the meeting held on 26/09/19.. The next BOB meeting is 21 November 2019.
- b) The Client Group (CG) meets monthly with weekly update calls as required. Six sub-groups work with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at each meeting/call.
- c) Work is progressing to provide full KPI monitoring of Brunel to BOB and CG. An assurance framework for monitoring the transition process by the CG is in place and CG provides independent assurance to BOB at the end of each transition. Quarterly investment performance reports covering all the operational portfolios are now provided by Brunel for BOB. CG considers a more detailed version as part of its monitoring process and will highlight any issues/ areas of concern to BOB. Each client receives its own quarterly investment performance report covering just the portfolios that the client is invested in.
- d) The 'business as usual' reports for monitoring all of Brunel's activities are being finalised by Brunel in conjunction with CG. This will consist of RAG reporting on agreed metrics and commentary on action taken by Brunel to bring back into line underperformance or areas of concern. A summary report will be considered by BOB which will include a RAG for each portfolio, and performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.
- e) Brunel is reviewing the governance arrangements to ensure they are aligned with best practice, operate efficiently, and are consistent with the operating model of Brunel now operational. A report is to be considered at September BOB meeting (update to be provided at committee meeting).

The review covers the Articles of Association, the Shareholders Agreement (not all the related policies) and the Services Agreement. The Client Group is working with Brunel on the review, with the intention of concluding the review during 2019. Any changes to the governance arrangements will require unanimous approval of the shareholders.

- f) One Special Reserve Matter was considered by BOB. See Exempt Appendix 5 for detail.
- g) Client engagement days have been scheduled for November on 12th, 13th and 19th. An invite has been circulated to all members. One of the aspects on the agenda will be Brunel's approach to Responsible Investing.

4.2 Investments:

- a) The transition remains on track with the plan. The creation of the Emerging Markets Equity portfolio is nearing completion; the selection of managers for the Global High Alpha, LDI and DGF portfolios are in progress. The Investment Panel discussed the new portfolios and progress at its meeting on 02/09/19.
- b) Two more portfolios have been launched, Global Smaller Companies and Global Sustainable Equities for transition in 2020.
- c) Brunel provides quarterly reports covering investment performance and stewardship activity. These reports are now included in the Investment Panel meeting paper; Panel will highlight any issues or areas of concern via its normal reporting (covering all our managers) to Committee.
- d) Brunel is developing its Climate Change Policy.
- e) Avon's project plan for the transition of its assets (see Exempt Appendix 2) is based on Brunel's timeline for transitioning the assets. There is no change from June update. The timing of transitioning of assets is continuously reviewed by Brunel and CG 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.
- f) Avon's project plan includes a Risk Register (see Exempt Appendix 3) of risks specific to the transition for Avon.
- g) There have been no further transitions to report since June meeting.

4.3 Operational/Financial:

- a) Brunel provides BOB with a business update at each meeting which includes high level monitoring of the budget and the transition plan. CG monitors the budget variances in detail on a quarterly basis, raising any issues with BOB. The outturn for 2018/19 was an underspend of £674k, of which £385k is to be carried into 2019/20 due to timing differences (agreed with CG), leaving a net underspend of £289k.
- b) Brunel's business plan and budget for 2020/21 is being developed and will be discussed with CG before initial consideration by BOB later this year /early 2020.
- c) The Business Case for pooling is updated following each transition, once fees and costs are known, and is reviewed by CG. To date only 3 portfolios have transitioned: UK equities, passive equities and Low Volatility equities. The actual savings and transition costs realised to date are ahead of the budget (i.e. savings are greater than estimated; transition costs are lower than expected). Following Avon's transition to each portfolio, Committee are provided with an update on fee savings and transition costs.
- d) From 2018/19, all LGPS funds are required to include information about pooling in their Annual Reports. The CIPFA guidance is prescriptive as to the data to be included, actual costs and savings against the Original Business Case (OBC,) which was based on 2016 asset allocation and fee rates, as opposed to current asset allocation and fees charged. As we are at very early

stage of the transition, timing differences to the OBC means that the current outturn differs to the OBC (see Appendix 6 for extract from Annual Report).

4.4 The Avon Brunel Risk dashboard is in Appendix 4. There are no changes.

5 BRUNEL WORKING GROUP

5.1 The Brunel Working Group has met twice since the June Committee meeting as follows:

a) 22 July 2019

- Discussed the BOB papers for meeting on 25 July 2019
- Discussed CEO resignation in light of letter to Shareholders from Brunel Board and Fund's view ahead of discussion at BOB

b) 21 August 2019

- Discussed SRM16 issued by Brunel to agree whether Fund will approve/reject (see Exempt Appendix 5).

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.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

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	Client Group and BOB papers
Please contact the report author if you need to access this report in an alternative format	

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1415/19

Meeting / Decision: Avon Pension Fund Committee

Date: 27 September 2019

Author: Liz Woodyard

Report Title: Brunel Pension Partnership – Update on pooling

Appendix 1 – Minutes of Brunel Oversight Board meeting

Exempt Appendix 2 – Project plan for transition of Avon's assets to Brunel portfolios

Exempt Appendix 3 – Risk Register for transition of Avon's assets to Brunel portfolios

Appendix 4 – APF Risk Dashboard March 2019

Exempt Appendix 5 – Special Reserve Matter 16

Appendix 6 – Pooling extract from Annual 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 include 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)

Brunel Oversight Board Meeting Minutes

Purpose: To review Brunel/Client progress agree next steps
Date and time: Thursday 25 July 2019, 10:30 – 12:45
Location: Brunel Offices, 101 Victoria Street, Bristol, BS1 6PU
Dial-in details: Dial In: 0330 336 1949 | Participant Pin: 429632

Pension Committee Representatives		
Bruce Shearn	Avon	
John Chilver	Buckinghamshire	Apologies
Derek Holley	Cornwall	
Ray Bloxham	Devon	
John Beesley	Dorset	Phone
Robert Gould	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice-Chair
Mark Simmonds (MSim)	Somerset	Absent
Tony Deane	Wiltshire	

Member representative observers		
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	

Fund Officers and Representatives		
Tony Bartlett	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	Apologies
Mark Gayler	Devon	Apologies
Aidan Dunn	Dorset	Apologies
Craig Martin	EAPF	Apologies
Marion Maloney (MMa)	EAPF	
Mark Spilsbury	Gloucestershire	Apologies
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Sophie McClenaghan	Mercer - Minutes	

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
Steve Tyson	Brunel Shareholder NED	
Mike Clark	NED and Chair of ARC	
Matthew Trebilcock	Brunel, CRD	Apologies
Dawn Turner	Brunel, CEO	
Mark Mansley (MM)	Brunel, CIO	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CCRO	
Chris Crozier	Brunel, CRM	
Catherine Dix	Brunel, CRM	
Alice Spikings	Brunel, CRA	
David Anthony	Brunel, HoF & CS	

Item	Agenda	Paper provided	Timing
1	Confirm agenda Requests for Urgent or items for Information Any new declarations of conflicts of interest	Agenda Verbal C of Interest	10.30 – 10.35 5 mins
	Apologies were received from John Chilver and Matthew Trebilcock. The Board welcomed Bruce Shearn. <u>Conflicts of Interest</u> No new conflicts were raised.		
2	Review 30 April BOB minutes	Minutes	10.35 – 10.45 10 mins
	The April minutes were agreed and confirmed as final.		
3	CEO appointment process DLG to clarify the recruitment process.	Paper	10.45 – 11.00 15 mins
	DLG provided an update on the CEO recruitment process. The process will be similar to that used to appoint the recent NED but will also include RT (or a nominated deputy) and Brunel employees at an early stage. The Brunel Board is proposing to go to market early next week, with an application deadline of 9 September. The recruitment process will be as follows - Initial application screen. - Kevin Jones, DLG, Vicky Chessell will meet all suitable candidates to determine a longlist. - The NEDs will be consulted before creating shortlist. - The shortlist will include 4-6 candidates.		

	5. Formal first panel consisting of DLG, PwC, NED (ST) and RT. 6. 30 minutes to write an answer to a question. 7. 2nd formal panel consisting of RT, MM, JW where the candidate will present their strategy response. DLG has spoken with all shareholders and BOB representatives. The Board recognise that the current salary cap will restrict CEO recruitment for the skillset required. A change in the salary cap would be a Special Reserve Matter and therefore would require 100% shareholder approval. The Board is proposing an increase in the total compensation package cap, in addition the Board will introduce a DC scheme for the higher salary rather than eligibility to the LGPS. AB asked why increase is necessary given the local authority background of the business. DLG responded that Brunel was very lucky in recruiting DT. Although BPP has a local authority background, it is FCA regulated and the CEO is taking on significant risk. It was asked if this will result in increased salaries of the other executive positions. DLG assured the BOB that the existing executive's remuneration would not change but this change in cap would future proof the business should it be required to recruit for these roles in the future. IB noted that this is what happened in the private listed space, companies pushed up pay when trying to be top quartile payer. He noted the other Pools are not directly comparable to Brunel. ST noted that even if the higher cap was approved, Brunel would be a bottom payer when compared to each of the below benchmarks ; 1. Pools 2. Asset management industry 3. Senior local government positions It was noted that Brunel does not pay bonuses whereas other pools do. The benchmark exercise was undertaken by an external company, but for the pools publicly disclosed data was used. LC noted that City salaries reflect the risk and scale of a potential fine, i.e. the risk that there is a significant and material breach of FCA roles. JW added that another risk is that the new CEO doesn't have sufficient experience to lead the company. DH would prefer to test the water at a lower salary cap before an increase. He noted the short timeline but acknowledged that LC was a suitable interim appointment. DH was also concerned that tier 2 employees will look at the change in CEO pay and also expects a pay increase. KB noted that this salary increase was being recommended by the NEDs. He felt it was of utmost importance that the right person is in place as soon as possible. KB noted he would like to see that final candidate meets shareholders ahead of appointment, potentially a lunch, to provide the chance to raise any concerns. DLG agreed this would be possible.	Brunel
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	TD thanked DT for her work as CEO. At a recent Wiltshire committee meeting an increase in salary was discussed and the Committee independently concluded that the salary would need to be increased. A concern at PwC's involvement was highlighted. Wiltshire believes Brunel should not compromise and should appoint the right person. RB agreed with KB and TD. RB acknowledged Brunel is reaching a stage of asset management and business as usual so the appointment of CEO is all about the bottom line. The Funds don't want mediocrity; each Fund wants the bottom line to be as good as it can be. MC commented that if Brunel went to market at the current salary cap, the firm's reputation would be tarnished as this is an unrealistic budget. BS confirmed that Brunel needs to bring in the right people and therefore need to pay the market rate. RG noted that EA will need a full report to put the salary into context in order to get it approved. DLG confirmed this would be contained within the SRM. TD asked for assurance that underperformance from the CEO and Brunel as a whole will not be tolerated. MC as Chair of ARC gave that assurance. TB emphasised that the SRM will cover executive salary which currently includes 4 roles at Brunel. The SRM includes the CEO however the CEO's salary is not split out. TB asked that this is made clear in the SRM. TB also asked if the increase is funded from current budgets. DLG confirmed it is. JB was conscious of 1 change leading to lots of change over time. He felt the increase would lead to an imbalance between newly recruited and longer standing employees which will cause further issues in the future. After further discussion, the Oversight Board supported an increase in the total salary cap excluding pension. It was queried if the Board could guarantee no increases in line with the revised cap for 1 year for other executives. It was discussed and concluded that the Board could not be constrained in this way given the uncertainty of events over the next 12 months. It would be the role of the Board to manage salary within the agreed cap and budget. Any increase in budget would need to be referred back to shareholders as an SRM. The Brunel Board will go out to market tomorrow with the request for applications.		Brunel
4	Brunel Control Environment	Presentation on the day	11.00 –

	Presentation from Laura Chappell on Brunel's Control Environment and regulatory oversight.		11.20 20 mins
	LC spoke to a presentation and provided a view of what requirements the FCA place on Brunel as a regulated business. LC summarised the types of processes Brunel have in place to ensure FCA compliance. Brunel is open and transparent with the FCA and its underlying clients. Within the FCA handbook customers are assumed to be individual therefore Brunel is asking for more clarity on the pooling of customers. Brunel can only provide services to professional clients, not retail investors, and therefore will be required to annually review Funds' knowledge for Brunel to continue to classify each Fund as a professional investor. Brunel has Directors insurance (professional indemnity) though this does not cover illegality and potentially would not cover an FCA breach. SM to share the slides presented by LC.		SM
5	Client assurance framework Review and feedback of the Clients assurance framework including Manager Access Policy.	Paper	11.20 – 11.45 25 mins
	Due to time, SC asked for questions. RB noted there was no inclusion on climate change in the Oversight paper and requested this is included. SC agreed this could be included.		CG
6	ARC update <i>To note</i> - A semi-annual update from Mike Clark, NED and Chair of the Audit and Risk Committee (ARC) including the outcomes of the recent internal audit.	Paper	11.45 – 12.00 15 mins
	Due to time, MC asked for questions. No questions were received.		
7	Brunel Business Report <i>To note</i> - A standing item update from Brunel on its business activities.	Paper Brunel	12.00 – 12.15 15 mins
	Brunel has revised its disinvestment query response letter given questions that have come in. The letter has been shared with CG and Brunel will share with the oversight board,		Brunel

	DH raised some queries • P5: will the split of the UK and International property funds reduce fee savings? MM confirmed that Brunel do not expect there to be a material impact on savings. • P5: has the Wiltshire AMC/TER issue now been resolved? MM confirmed that it has and all funds are now represented on the same basis. The only changes to the business case going will be to reflect actual transitions. • P14: has budget ownership now be delegated to budget holders? Yes ownership has now shifted to Directorate held. • P26: DH asked Brunel to expand on the on boarding risk of the property portfolios and why on boarding is taking so long. MM confirmed Brunel is asking funds to get data loaded so Brunel can begin management and realise the fee savings. • P28: client allocations to DGF has fallen, will this result in fall in fee savings? Brunel does not expect the fee saving impact to be material. DH asked why has the appetite declined. MM noted that some clients have made strategic decisions away from DGF and some clients have felt that the Brunel product does not fit their specific need. RT then provided some questions • RT asked for more clarity on the timing adjustments on P16. Shareholders approved budget for additional investment support, but some of the work shifted into the next year. RT noted the high use of consultants and asked if there is a policy on the use of them. Brunel set a budget and determines how long the resource will be required. If short term, then consultants will be brought in to provide specialist roles in the short term. • RT asked if the budget is being managed in line with expectations. JW noted that during the development phase, there are a lot of moving parts but Brunel is pleased that so far the process has been within tolerance of expectations. • Transition costs remain a large risk but Brunel are doing everything it can to minimise transition costs. As more transitions are completed, the risk reduces. Transitions are due to take place till 2021 but by mid 2020, two significant transitions will have been completed (Emerging Markets and Global High Alpha) which will account for a significant proportion of the transition costs. Emerging Markets is likely to be the most expensive transition in basis point terms. • RT asked if ESG will impact investment returns. MM responded that Brunel has done a lot of work to integrate RI and believe that reducing ESG risk will not affect returns and should have a positive impact. The Brunel Climate change policy will be provided in the autumn. • The ESG table on the Oversight board report shows a combination of ESG rating and size. The score is how good a company is and the net attribution (i.e. the rating scaled by the position size) determines the order of the table. CC noted the June quarterly report is due out in August.	
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8	Shareholder NED update <i>To note - A standing item update on the activities and perspective on the Partnership and its activities.</i>	Paper ST	12.15 – 12.30 15 mins
	Due to time, ST asked for questions. It was asked how Brunel judges investment managers on future investment performance. MM explained that Brunel aim to look at forward looking indicators i.e. how do managers generate ideas, how managers learn from mistakes, how do managers integrate risk, culture etc. TD expressed concerns around PwC's involvement and questioned whether the statement that the culture DT created is preserved should be included. DLG noted that the continuation of culture is important to existing employees for continuity. DLG confirmed the firm and its culture will continue to evolve.		
9	Any other Urgent or items for Information Future meeting dates • 26th September • 5th November to 21st November	Chair	12.30 – 12.45 15 mins
	The 5th November meeting has now been moved to 21st November. RT thanked DT in advance for all the work she has done at Brunel.		
10	Meeting close	Chair	13.00

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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
Staffing implications	- Brunel Staff recruitment - Resourcing of APF team - Governance and Risk Manager - Senior Investment Officer	Amber Complete 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 to focus on key areas: - Accounting - Financial - Operations - Investments - Responsible Investing - Strategic & Governance	Green Avon is 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	- Transition plan - Monitor transition plan, transitions, risks and costs/savings - Avon plan for transitioning legacy assets	Green – on track Green – Avon project plan; Brunel providing reports to capture costs and analyse transitions to Brunel portfolios Amber – due late 2019/20

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 Budget & 3 year Business Plan agreed by Shareholders	Green – ongoing
APF budget for Brunel costs	- Investment and operational costs of Brunel included in APF 2019/20 budget - Governance costs of supporting Client side work included separately	Green – Brunel investment management fees in fee budget; 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, transition costs & fee savings, investment performance Green – ongoing after each transition

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EXTRACT FROM ANNUAL REPORT

POOLING OF ASSETS – ANALYSIS OF COSTS & SAVINGS

In 2015 **LGPS: Investment Reform Criteria and Guidance** was issued which set out how the government expected LGPS funds to establish their asset pooling arrangements. The objective was to deliver:

- Benefits of scale.
- Strong governance and decision making.
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to managing the Fund's assets. Pools are responsible for implementing each local fund strategy; however, responsibility for determining asset allocation and the investment strategy remains with Avon Pension Fund Committee.

The Avon Pension Fund is one of ten LGPS funds participating in the Brunel Pension Partnership. The other funds ("clients") are Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

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. Brunel Oversight Board is supported by the Client Group, comprised of investment officers drawn from each of the administering authorities. The Client Group is responsible for monitoring Brunel, including the plan for transitioning assets to the portfolios, and provides a forum for discussing technical and practical matters. It is responsible for providing practical support to enable the Brunel Oversight Board to fulfil its monitoring and oversight function.

Along with the other administering authorities, Bath and North East Somerset Council approved the business case for the Brunel asset pool in February 2017, based on estimated potential fee savings of £550 million over a 20 year period (to 2036) across the ten funds, of which Avon Pension Fund's share was £73 million. Initial costs of the project meant the Fund's breakeven was in 2024.

The expected costs and savings for the Fund from the original business case, and submitted to Government as part of pooling, are set out in the following table.

**Avon Pension Fund Expected Costs and savings from Pooling:
(as per Business Case Submissions)**

	2016- 2017 £'000	2017- 2018 £'000	2018- 2019 £'000	2019- 2020 £'000	2020- 2021 £'000	2021- 2022 £'000	2022- 2023 £'000	2023- 2024 £'000	2024- 2025 £'000	2025 to 2036 £'000	Total £'000
Set up Costs	117	1,148									1,265
Ongoing Brunel Costs			674	893	923	953	985	1,017	1,051	14,127	20,623
Avon Fund Savings			(259)	(267)	(275)	(283)	(291)	(300)	(309)	(4,077)	(6,061)
Transition Costs			2,957	4,067	260	-	-	-	-	-	7,284
Fee Savings			(125)	(1,216)	(2,687)	(2,927)	(3,185)	(3,892)	(4,164)	(78,583)	(96,778)
Net costs / (savings)	117	1,148	3,248	3,478	(1,779)	(2,257)	(2,491)	(3,175)	(3,422)	(68,533)	(73,667)

Following approval of the business case, Brunel Pension Partnership Ltd was established in July 2017, 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 strategic asset allocation of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Once the portfolios are established, Brunel is responsible for allocation between mandates within each portfolio and monitoring the performance of the underlying managers.

Now that the pool is operational, its financial performance will be monitored to ensure that Brunel is delivering on the key objectives of pooling. This includes reporting of the costs associated with the appointment and management of the pool company including set up costs, investment management expenses and the oversight and monitoring of Brunel by the client funds. The set up costs incurred by Avon Pension Fund are set out in the following table.

Set up costs

	Direct £000s	Indirect £000s	Total £000s	Cumulative £000s
Recruitment				18
Legal				133
Consulting, Advisory & Procurement				82
Share Purchase				840
Total Set Up Costs				1,072

The set up costs have come in within the budget which was an achievement given the complexity of creating a new company and investment platform.

During the year, £736m of the Fund's assets transitioned to Brunel portfolios and the table below shows the assets currently managed within the pool.

Investment assets by manager from Statement of Accounts

	31 March 2019	
	£'000	%
Investments managed by Brunel Pension Partnership:		
LGIM Low Carbon Global Equities	520,926	10.8
Brunel Infrastructure Portfolio	11,152	0.2
Brunel Secured Income Portfolio	16,695	0.3
Brunel UK Equity Portfolio	187,270	3.9
	736,043	15.3
Investments managed outside Brunel Pension Partnership	4,083,710	84.7
TOTAL INVESTMENT ASSETS	4,819,753	100.0

In 2018/19 transition costs arose from the transition of the Fund's UK Equity and the Low Carbon Passive Equity assets. The transition of the Low Carbon Equity assets was in July 2018 and the UK Equity assets followed in November 2018. The transition costs were below the estimate in the business case for 2018/19 as fewer transitions than anticipated were completed in the year; the original business case assumed c. 50% of the Fund's active equity assets would transition in 2018/19. With an increase in assets transitioning in 2019/20, it is anticipated that transition costs will increase in 2019/20.

Transition Costs

	Direct £000s	Indirect £000s	Total £000s	Cumulative £000s
Transition Fee				
Tax		300	300	300
Other Transition Costs		672	672	672
Total Transition Costs		972	972	972

The analysis below shows the fee savings achieved for the assets that have transitioned to Brunel portfolios against the fees charged to the Fund at the time the business case for pooling was prepared in 2016. It therefore ignores fee reductions that have been negotiated with incumbent managers between the formulation of the business case and the transition to Brunel.

Investment Fee savings from Pooling

	Value in Original Business Case 31 March 2016 £'000	Value at 31 March 2019 £'000	Price Variance £'000	Quantity Variance £'000	Total Saving / (Cost) £'000
Passive UK Equities	167,800	-	-	49	49
Passive Global Equities	348,900	-	-	101	101
Passive Low Carbon Equities	-	520,925	55	(129)	(74)
Active UK Equities	201,993	187,270	190	39	229
Infrastructure	-	11,152	(13)	(18)	(31)
Secured Income	-	16,695	(7)	(12)	(19)
			226	30	256

The price variance shows the savings / (costs) on the fee rate achieved through pooling. The quantity variance reflects the savings / (costs) due to changes in allocations compared to the business case. Therefore, when comparing the fee savings against the business case the price variance reflects the actual saving in fees.

At the time of the business case in 2016, the Fund was invested in Passive UK and Global Equities; these assets switched into Passive Low Carbon Equities in 2017, prior to pooling. The fees for the Passive Low Carbon equities are higher than those for Passive UK and Global equities, giving rise to a 'cost' from pooling. The fee rates achieved on all the passive portfolios established by Brunel are lower than the fees charged in the business case.

The fee saving for the UK Equity portfolio is due to the lower overall fee rate achieved by Brunel. The fee paid by the Fund prior to pooling consisted of a combined annual management fee and performance fee. The fee rate negotiated by Brunel has no performance element. There is also a saving from transitioning fewer assets than in the business case due to a reduction in the allocation to UK Equities since 2016.

In addition to these transitions, the Fund has made new allocations to Brunel's Renewable Energy Infrastructure and Secured Income portfolios. The Infrastructure portfolio invests in private market pooled vehicles which have a higher cost than the Fund's other infrastructure portfolio. The new allocation to Secured Income is funded from lower cost assets, thus showing an overall increase in costs.

The ongoing fee paid to Brunel in 2018/19 for its core services was £1.05m. This includes custody, performance measurement and reporting costs for Brunel as well as client's side support costs. The estimated cost in the original business case of £0.67m excluded custody and performance measurement costs of £0.15m. The increase in the costs for 2018/19 is due to inflation and additional resources approved by Shareholders required by Brunel over and above those envisaged in the original business case, in order to deliver the service

required by the clients. As a result, the ongoing overhead cost of the company is higher than originally estimated.

A summary of the costs and savings to date compared to the original business case is provided in the following table.

Expected versus Actual Costs and Savings to Date

	2017/18				2018/19			
	Budget		Actual		Budget		Actual	
	In Year	Cum. to date	In Year	Cum. to date	In Year	Cum. to date	In Year	Cum. to date
	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs	1,148	1,265	1,072	1,072	-	1,265	-	1,072
Ongoing Brunel Costs	-	-	-	-	674	674	1,053	1,053
Avon Internal Savings	-	-	-	-	(259)	(259)	(215)	(215)
Transition costs	-	-	-	-	2,957	2,957	972	972
Fee savings	-	-	-	-	(125)	(125)	(226)	(226)
Net costs / (savings)	1,148	1,265	1,072	1,072	3,248	4,513	1,584	2,656

The most significant variances from the original business case are summarised as follows:

- Transition costs are lower as fewer transitions completed in 2018/19 than assumed in the Business Case;
- Fee savings are greater than anticipated mainly due to the lower fees of the UK Equity portfolio
- Ongoing costs of Brunel are higher than anticipated

The Fund's internal savings are marginally lower than those envisaged in the original business case. These savings includes the cost of custody and performance measurement (based on 2016/17 costs and now included in on-going Brunel costs), a slight reduction in staff costs and limited savings for investment advice.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 SEPTEMBER 2019	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 2018/19 (draft)		

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 will be updated following the 2019/20 strategic investment review.
- 1.3 Brunel are our strategic partner for developing, implementing and monitoring our RI policies and priorities. Therefore their RI policy is included in our report. For the year ending December 2019 onwards, Brunel will provide an annual RI report which will be incorporated in the Fund's annual RI reports in the future.
- 1.4 The draft Responsible Investment report for 2018/19 is in Appendix 1. It demonstrates how the Fund has implemented the policy throughout the year. The report 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 2018/19
- 2.2 Agrees the RI priorities for 2019/20.

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 seventh 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 Awareness of climate change and the implications for pension funds in terms of the risk to asset values as the world transitions to a low carbon economy increased markedly during the year. The Fund received a number of statements from members and campaigners requesting that the Fund divests from fossil fuel companies. The Committee has committed to review its current policy to remain invested when it reviews its strategic policy later this year. The Fund has acknowledged the risk climate change poses to its asset portfolio since 2016 and has been implementing strategies to reduce the impact; this will develop further as the Fund continues to explore the range of solutions and opportunities within its investable universe.
- 4.3 The report sets out the RI and Environmental Social and Governance (ESG) issues that have been taken into account and how these were addressed through strategic decision making. The major strategic updates during the year were as follows:
- a) Transition of assets to Brunel and further policy development in collaboration with Brunel and its strategic partners.
 - b) Appointment of Trucost via Brunel for third year to analyse the carbon and environmental footprint of the Funds equity portfolio.
 - c) Monitoring, reporting and scrutinising investment managers RI activity
 - d) Active participation 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.
 - e) Development of Brunel's RI and Stewardship Policies – member of the Client Group's RI sub group that works with Brunel to develop their policies.
- 4.4 The Fund participated in over 1,800 separate company meetings over the year, casting votes in over 25,000 resolutions. In general terms, the Fund noted an increase in environmental-related proposals winning voter support. In the UK market executive remuneration and board structure continued to be a focus for shareholder resolutions.
- 4.5 The Fund's exposure within equities is more carbon efficient than its benchmark, outperforming the benchmark by 28% (i.e. having a lower exposure). The lower exposure is attributed to the Fund's low carbon passive strategy and active equity managers generally 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 20%.
- 4.6 The report contains information relating to how Brunel's third party providers help them to deliver against policy. Specifically, the report includes a review of the

major engagement activity undertaken by Brunels Voting and Engagement provider, Hermes EOS (however, our asset transitioned after the main AGM season so the activity was limited this year). From 2019 onwards, Brunel will provide an annual RI report detailing their activity in more depth. This will be incorporated into our annual RI report. In addition, Brunel provides quarterly information in terms of ESG metrics and carbon analysis for its listed equities portfolios.

4.7 Within the wider scope of Responsible Investing which covers all our Stewardship activities (voting and engagement with companies), Avon was acknowledged as a leader in the LGPS community for its RI policy development in Unison/ShareAction 2018 report entitled “Responsible Investment in the LGPS”.

4.8 The Fund’s RI priorities and additional engagement themes for 2019/20 are in the final section of the report. The Committee are asked to agree these priorities:

- a) Climate change including pollution, waste and plastics
- b) Human capital and diversity
- c) Cyber security especially in respect of access and governance
- d) Cost and tax transparency

5 RISK MANAGEMENT

5.1 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.

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

8.1 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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2018/19 Annual Responsible Investing Report (Draft)

Contents

1. **Executive Summary**
2. **Introduction**
3. **Responsible Investing Policy**
4. **Strategic Developments**
5. **Engagement**
6. **Voting**
7. **Environmental and Carbon Analysis**
8. **2019/20 RI Priorities**
9. **Appendices to Report**

1. Executive summary

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 seventh year that the Fund has published its Responsible Investment Annual Report.

This Report summarises the activities undertaken during 2018/19 by the Fund, its managers and partners to meet and support its Responsible Investing Policy.

Progress and achievements in year:

- Invested in renewable energy infrastructure funds
- Carbon and environmental exposure of asset portfolio is more efficient than its benchmark
- Development of Brunel's Responsible Investing and Stewardship policies that will be applied to the assets they manage on our behalf
- Cited as leader in LGPS community for its RI Policy development by Unison/ShareAction 2018 Report

The Fund defines Responsible Investing as the integration of environmental, social and governance issues into its investment processes and ownership practices in the belief this can positively impact financial performance.

Over the year the Fund built on the successful implementation of its RI strategies. Our low carbon passively managed assets transitioned to Brunel along with our UK active equity mandate. The global sustainable equity mandate seeded by the Fund last year delivered strong absolute returns over the period and opportunities were identified, via Brunel Pension Partnership (Brunel), to start investing capital against the 2.5% commitment to renewable infrastructure made last year.

The Fund participated through Brunel, its other investment managers and its strategic partners such as LAPFF and Climate Action 100+ in a number of high profile engagements. Traction in the Energy sector meant an increasing number of companies acknowledged the financial risk of climate change and made commitments to improving disclosures and capping emissions in line with industry guidance.

The Fund participated in 1,843 company meetings and voted on over 25,000 resolutions; we noted an increase in environmental related proposals winning investor support. In the UK market executive remuneration and board structure continued to be a focus for shareholder resolutions.

A critical component of how the Fund engages with and educates its stakeholders on how it delivers against policy is through its RI reporting. Enhanced policy coverage, dedicated ESG scoring, ongoing carbon analysis and a clear voting and engagement framework as well as access to key industry bodies are some of the clear benefits of increasing scale through Brunel.

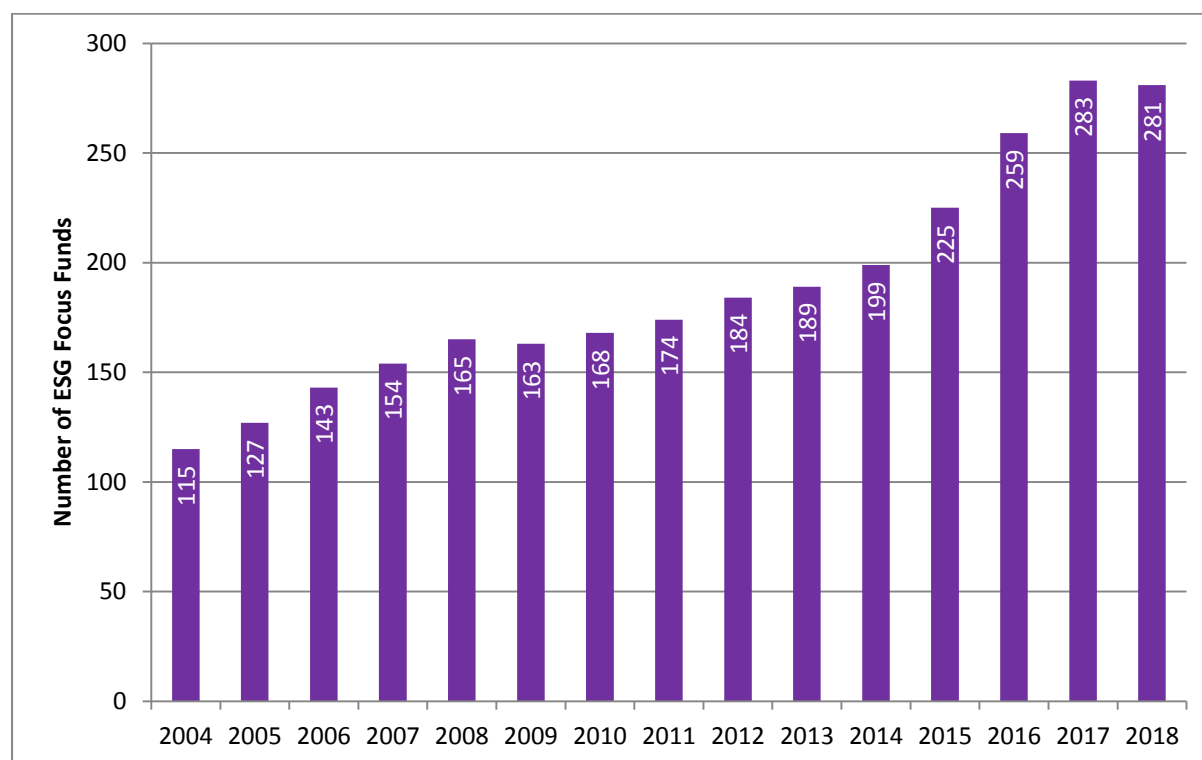
More detail on each area is provided within each relevant section of this report.

2. Introduction

The year to March 2019 saw the financial as well as physical risks of climate change sharply in focus for institutional investors. The debate on climate change and balancing fiduciary duty has moved beyond setting policy as investors put pressure on asset managers and underlying companies to deliver tangible results. High profile support from the Governor of the Bank of England who posits that financial reporting on climate change may soon become mandatory and legislation that put the UK on a path to become the first major economy to set net zero emissions targets has helped focus the minds of companies and asset managers alike.

The impact is being felt on a global scale. The proposed US Green New Deal has received praise for its ambitiousness and keeps pressure on policymakers to make change. Indeed, the effect is already being felt at a micro-level where environmental resolutions increasingly dominate AGM agendas and win the support of shareholders, forcing companies to concede and take measurable actions to address not just environmental issues but social and governance issues too.

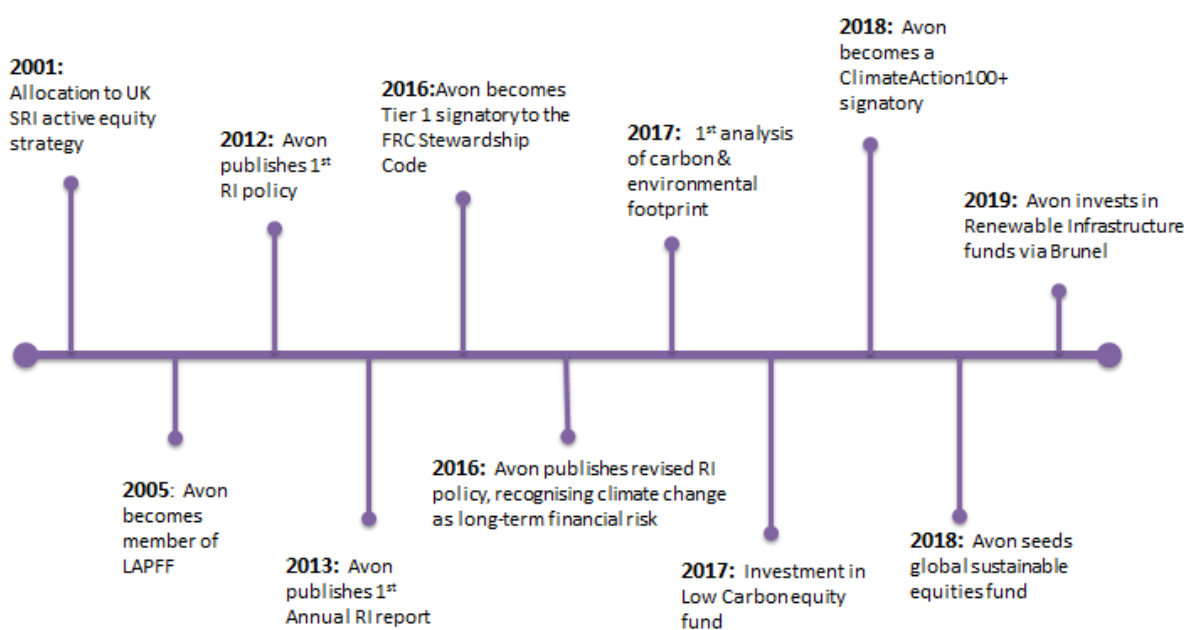
This greater awareness by investors has led to a significant increase in demand for ‘sustainable’ investment products. The past year saw record inflows received by Sustainable Funds which grew by 15% in the first 6 months of 2019. Since 2004 Environmental, Social and Governance (ESG) focussed funds have grown by 144% (Morningstar, 2019), with most of the growth in the last 4 years.



Source: Morningstar, 2019

Market innovation has led to increasing complexity of the ESG investor space. ESG definitions vary widely and there is no consensus as to what qualifies as a 'sustainable' company or indeed whether the term 'fossil fuel companies' should extend to companies beyond the big 'extractors'. A conflicted asset management industry is not the only barrier for investors wishing to access truly sustainable investment opportunities. The lack of transparency is pervasive across industry sectors. A 2019 report published by the Transition Pathway Initiative (TPI) assessed the climate performance of 274 of the world's highest-emitting publicly-listed companies and found that almost half (46%) did not adequately consider climate risk in operational decision-making. A quarter (25%) did not report their own emissions at all, undermining a key recommendation of the Taskforce for Climate-related Financial Disclosure (TCFD).

It is in this crowded and complex area that Avon continues to build on the progress it has made in decarbonising its portfolio, constructively engaging with its investee companies and, more recently, leveraging the collective expertise of Brunel to ensure the framework that surrounds ESG-based investment decision making stands up to scrutiny. Avon was proud to be counted as a leader in the LGPS community for RI policy development in Unison's recent report entitled "Responsible Investment in the LGPS" https://www.unison.org.uk/content/uploads/2019/04/UNISON-ShareAction-LGPS-responsible-investment-final-report-319_2.pdf



3. 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 2016, advised by Mercer. The current policy can be found in Appendix 1. The Fund will be undertaking a full investment strategy review in 2019, where managing the risks and opportunities relating to climate change will be covered in detail and following this the policy will be updated. In addition, assets now invested via Brunel portfolios are subject to Brunel's rigorous RI and Stewardship policies.

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

- We are a long-term investor, with liabilities stretching out for decade to come, and seek 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.
- ESG issues are integrated at all stages of the Fund's investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers.
- We recognise that climate change is one of the ESG factors that poses a long-term financial risk.
- We seek to identify innovative and sustainable investment opportunities, in-line with our investment objectives.
- We apply evidence-based decision-making in the implementation of our approach to RI.
- We have a duty to exercise our stewardship and active ownership responsibilities (voting and engagement) effectively by using our influence as a long-term investor to encourage responsible investment behaviour
- We recognise the importance of collaboration with other investors in order to achieve wider and more effective outcomes.
- We aim to be transparent and accountable by disclosing our RI policy and activity.

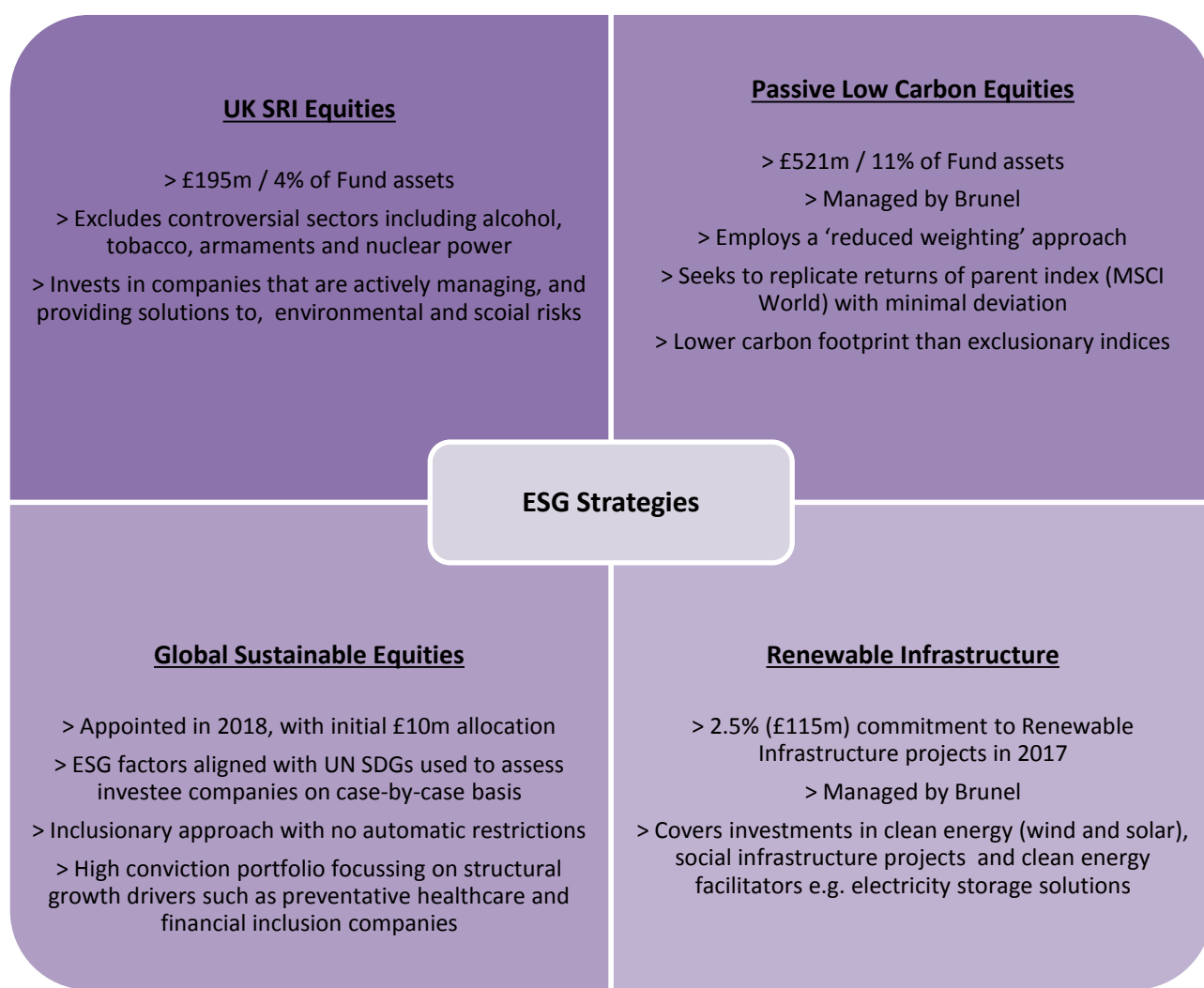
Further detail on how our policy is being delivered is covered throughout this report.

4. Strategic Developments

The strategic focus for the Fund during 2018/19 was the transition of assets to Brunel. The assets transitioned to date not only benefit from Brunel's dedicated RI and Stewardship policies but allow Avon, as a client of Brunel, to access best-in-class analytics and reporting capabilities to better inform and support investment decision making. The contribution made by Brunel to our investment strategy is discussed in detail below.

Awareness of climate change and the implications for pension funds in terms of the risk to asset values as the world transitions to a low carbon economy increased markedly during the year. As a result, the Fund received numerous requests from both members and campaigners to divest from investments in fossil fuels. In addition a number of the Fund's employers declared a climate emergency and are developing strategies to address the issue. The Committee has committed to consider the option to divest from fossil fuels in its strategic review, due to be completed in 1Q20. This issue is complex and requires to be considered within the wider investment objective and strategy to ensure that the risk to the Fund's assets is managed efficiently, that the full range of solutions and opportunities are explored and it continues to use its power as a shareholder effectively.

The strategic review of asset allocation and implementation may lead to further changes in our RI strategy. The Fund's current RI strategies are summarised in the below table:



(i) Brunel

Over time Brunel will manage all the fund's assets under our pooling arrangement. As such, their RI and Stewardship policies will determine how the Fund's RI Policy is implemented and monitored. Over the year Brunel developed policies to guide its appointed investment managers with respect to voting, engagement and RI more generally. Brunel policy is informed by its investment beliefs and its clients' policies and priorities together with regulations and statutory guidance.

Brunel's RI policy (Appendix 2) details how it aims to deliver stronger investment returns over the long term and protect its clients' interests by contributing to a more sustainable and resilient financial system, which supports sustainable economic growth. Brunel is a signatory of the UN-backed Principles for Responsible Investment (UNPRI) and aligns its practices and processes to the UNPRIs six principles and definition of RI¹. RI is central to how Brunel fulfil its objective of delivering sustainable, long-term investment returns and expects appointed managers to assess ESG risks and opportunities as part of their wider evaluation of investment risk and return objectives as opposed to treating them as a stand-alone concern. However, Brunel is not an ethical investor².

¹ Responsible investment is an approach to investing that aims to incorporate environmental, social and governance factors into investment decisions, to better manage risk and generate sustainable, long-term returns

² Ethical investment is an investment approach determined by an investors specific views, usually based on a set of values. These values can take precedence over financial considerations

Brunel's Stewardship Policy (<https://www.brunelpensionpartnership.org/stewardship/>) sets out their overall approach to engagement and voting on a range of issues including climate change, human and natural capital, company boards, executive remuneration and audit. Being an active, responsible owner is essential to Brunel's ability to identify risks and opportunities in its investment portfolios. Brunel does not consider a top-down approach to disinvestment to be an appropriate strategy for its clients, instead opting to assess the merits of each investment on a case-by-case basis. Brunel set engagement objectives linked to six priority themes:

- **Climate change**
- **Cost and tax transparency**
- **Human capital and diversity**
- **UK policy framework**
- **Cyber security**
- **Supply chain management**

These themes are kept under review for appropriateness by a group representing the 10 underlying client funds.

Collaboration is core to how Brunel delivers its outcomes. Brunel's key affiliations are detailed in the table at Appendix 3. These partnerships assist in integrating best practice guidance into investment decision making; the Transition Pathway Initiative (TPI) for instance is used in Brunel's Stewardship Policy, where Brunel will vote against management where a company has not at least reached Level 2 of the TPI framework³. A glossary of key industry bodies and initiatives can be found within Appendix 2.

Implementation is supported by Hermes, a dedicated proxy voting and engagement overlay provider.

Hermes adopt a holistic approach to engagement by developing a 3 year plan outlining key priorities that are aligned with client requirements and reviewed annually. Hermes' current areas of focus are detailed in the below chart:

³ Companies' management quality is assessed against a series of indicators and placed on one of five levels (0= unaware of climate change as a business issue; 1= acknowledge climate change as business issue; 2= building capacity; 3= integrated in operational decision-making; 4= Strategic assessment)



Source: Hermes EOS 2019-2021 engagement objective and plan

Further information on how Hermes discharged their voting and engagement duties are found in section 5: Engagement and section 6: Voting.

Truevalue Labs were appointed by Brunel to enhance ESG reporting and support objective investment decision making for Brunel portfolios. TrueValue Labs analyse positive and negative sentiment across large public data sets to determine ESG scores, which can then be assigned to underlying holdings within a portfolio. The resulting metrics demonstrate how companies are responding to ESG considerations by highlighting improving or deteriorating scores over various time frames.

Utilising TruCost's market leading carbon and environmental analytics, Brunel undertakes carbon foot printing and fossil fuel exposure analysis for each listed equity portfolio and publishes aggregated carbon metrics in an Annual RI and Stewardship Report. This year Brunel co-ordinated the TruCost carbon analysis of the Avon equity portfolio, which covered both assets transitioned to Brunel and assets yet to transition to Brunel. Details of the analysis and outcomes can be found at section 7.

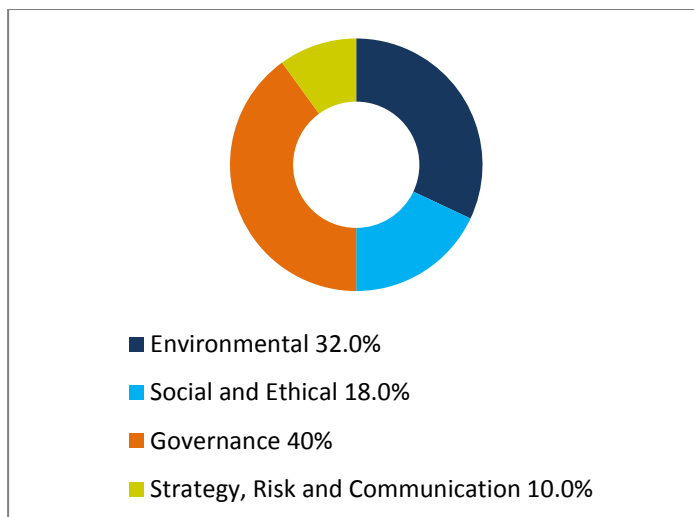
5. Engagement

One of our key RI beliefs is that we have a duty to exercise our stewardship and active ownership responsibilities effectively by using our influence as a long-term investor to encourage responsible investment behaviour. In order to achieve this we recognise that working in collaboration with other investors will get the most effective outcomes. The following sections outline how the Fund has

fulfilled its role as a responsible steward and what tools have been used to facilitate meaningful engagements over the year.

(i) Engagement by Brunel

Over the year to March, Brunel's proxy voting and engagement provider, Hermes, has engaged with 21 companies (see chart below) held by Avon in Brunel's UK Active Equity portfolio on a range of 50 ESG issues. Environmental topics have featured in 32% of engagements, 63% of which relate directly to climate change. Social topics featured in 18% of engagements, where diversity and human rights featured prominently. Of the 40% of Governance related engagements the majority of discussions revolved around executive remuneration.



As part of their role Hermes also consult on public policy. Over the year to March 2019 they were asked to provide input into the Financial Reporting Council's consultation on development of the UK stewardship code and were invited to give evidence to the UK parliaments Business, Energy and Industrial Strategy Committee to inform its inquiry into fair pay.

(ii) Engagement by Investment Managers

Examples of engagements that our investment managers and Hermes have either led, or participated in, during the year are listed in the table below. During the year managers have been involved with several high profile engagements and the examples highlight how meaningful engagement can yield positive results across a range of issues. Engagements that have resulted only in limited success are included and highlight the need for sustained pressure on companies to effect change.

Company / Engagement Topic	Action	Outcome
Royal Dutch Shell • <i>Climate change risk</i>	Climate Action 100+ and asset managers lead engagement with Shell on emissions reductions targets	As a result of continued investor pressure, Shell made a series of commitments in its 2018 Annual Report, including; 1) A target to reduce its net carbon footprint (encompassing Scope 1, 2 and 3 emissions) by 2-3% from its 2016 level. 2) Linking the remuneration of its top 150 executives to delivery of this target. 3) A commitment to set a further three year reduction target in 2020.

Alibaba Group • <i>Social risk</i>	Engagement seeking improved disclosure of employee satisfaction, diversity, turnover, and formal policies (anti-discrimination, internal mobility)	Ongoing engagement with partial success saw Alibaba appoint a Chief People Officer with direct responsibility for monitoring employee satisfaction levels. Engagement is ongoing to bring Alibaba disclosure rates in line with the wider Technology sector.
BP • <i>Climate change risk</i>	Manager collaborated on a statement at BP's 2018 AGM on behalf of Climate Action 100+, seeking additional information on the methodology used to set targets to reduce emissions, disclosure of emissions beyond scope 1, and a timeline for reporting that fully adopts the recommendations of the TCFD.	Public support of the Paris Agreement and a move into new low carbon businesses in addition to a newly adopted framework focussing on the reduction of emissions has been received well. A lack of transparency on the methodology used for setting reductions targets means engagement is ongoing.
ExxonMobil Corporation • <i>Climate change risk</i>	The company was asked to disclose information on how it gathers information to inform decision making around emissions reductions targets, whether climate change is included as a key performance indicator to determine executive pay and whether the company intends to publicly support the TCFD. Other key engagements relate to the volume and disclosure of lobbying activity, particularly with respect to climate change.	ExxonMobil remain resistant to pressure to disclose targets to reduce its greenhouse gas emissions in line with the Paris Agreement. Shareholder resolutions seeking to exert pressure on Exxon to increase disclosure levels have increasingly won support over the past year. The CEO has now acknowledged the threat climate change has on Exxon's operating model, which has led to a \$100m pledge to support research into new technologies including carbon capture and storage. A commitment to reduce methane leakage from its existing operations and an annual report on how climate policies will impact business operations are further signs that Exxon's position is beginning to align with its peer group.
Japan Tobacco • <i>Social risk</i>	Investor concerns about child labour practises within the tobacco industry in which Japan Tobacco was highlighted.	Led to a joint initiative in conjunction with the International Labour Organization and Winrock International, with the aim of eliminating child labour in tobacco growing communities where the company is active. The organization supports education funding in countries such as Malawi, Brazil and Zambia. Manager continues to engage with Japan Tobacco to ensure they retain high levels of industry best practice within their supply chain.
Mitsubishi UFJ Financial Group • <i>Governance risk</i>	Investor concerns about Board Composition and the company's cross-shareholdings.	The majority of the board is now made up of independent directors and the remuneration of senior management has been aligned with increasing corporate value.
Ocado Group • <i>Governance risk</i>	Investor concern about remuneration policy prior to the 2019 AGM.	Initial discussion about the complexities of designing a remuneration policy that motivates the management team to achieve the delivery of the strategy while also attracting new people to a growing global business, and on the quantum of the payouts in different performance scenarios. Manager shared industry insights and will

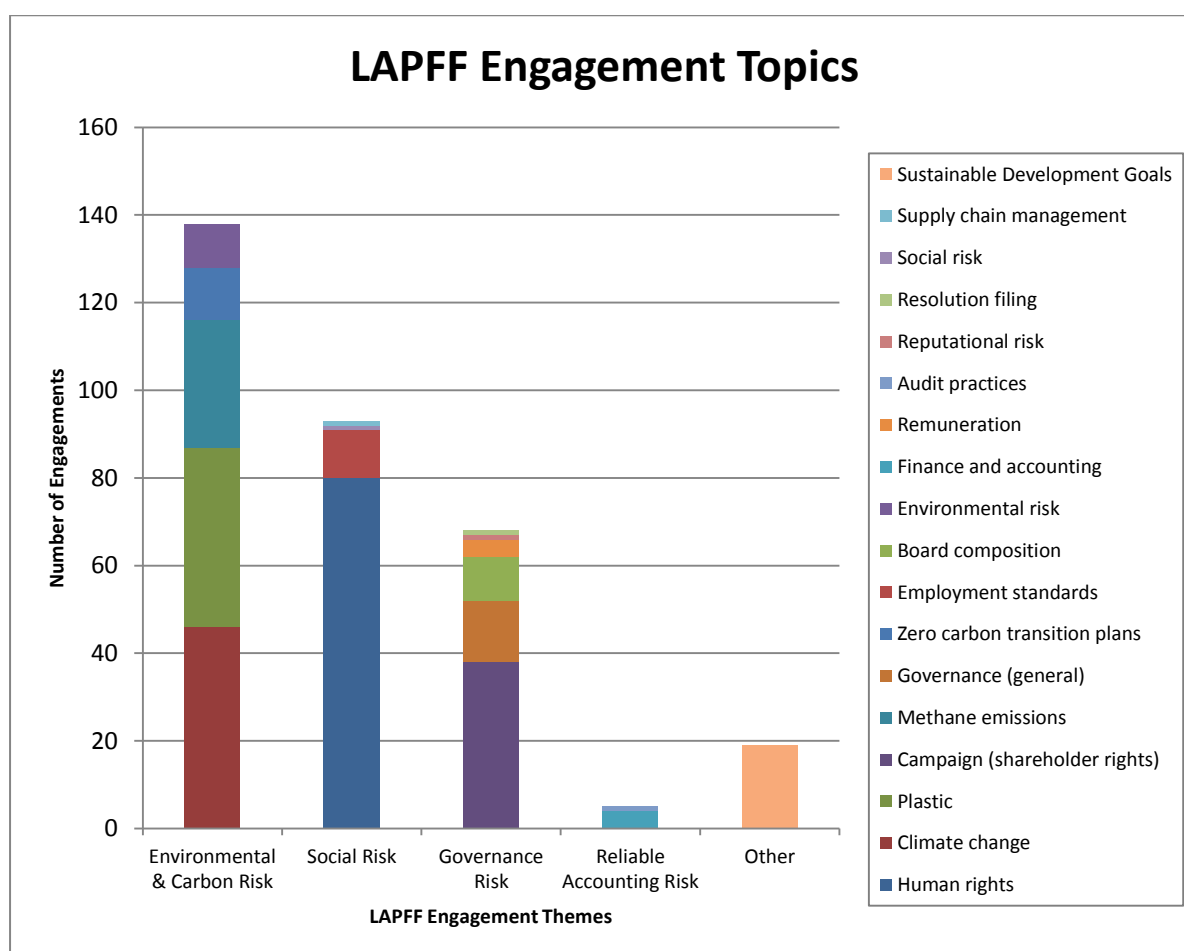
		continue to engage and consult on the topic.
Rio Tinto • <i>Technology risk</i>	Investor concerns about what protections were in place against accidental or deliberate interruption to the communication between the operations centre and the mine complex.	Although unable to disclose the full details of their security provisions, they did confirm that their communications network is designed with backup and alternative routes. All systems are regularly tested with business recovery exercises and all systems can revert to independent local operation in the event of a complete failure of the control network.
Air Liquide • <i>Climate change risk</i>	Air Liquide present investors with internal objectives to reduce their carbon intensity by 30% by 2025; considered to be one of the most ambitious climate objectives within the sector.	Air Liquide's commitment to increased use of clean energy, has started producing revenues for the company, primarily through its use of bio-methane and hydrogen. Approximately 50% of the yearly innovation expense (or ~€100m) is used to reduce its carbon footprint.
Anglo American • <i>Climate change risk</i>	CA100+ investors led by Hermes EOS participate at AGM	Committed to publishing analysis of resilience to low carbon scenarios and a consistency review of its lobbying activities. Also set GHG emissions reduction targets for 2030

(iii) **Engagement by 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. LAPFF represent 86 LGPS funds and five pools and focus engagement activity across four major themes:

- a) **Environmental & carbon risk:** LAPFF's engagement focus on high carbon companies continues through its participation in the Climate Action 100+, an initiative that Avon independently pledged commitment to last year. LAPFF also continues other long-term engagements through its membership of leading advocacy group CERES in the US, the 50/50 Climate Project and LAPFF's observer status on the Institutional Investor Group on Climate Change (IGCC) shareholder resolution sub-group.
- b) **Social risk:** LAPFF has undertaken human rights-related engagements with companies in a range of industries. Much of LAPFF's collaborative engagement on human rights thus far has taken the form of work on fundamental labour rights, including child labour, forced labour, non-discrimination and freedom of association and collective bargaining. Prominently, this year the Forum collaborated with a group of leading investors on an initiative with the objective of preventing further tailings dams collapses following the Brumadinho disaster in 2018.
- c) **Governance risk:** LAPFF co-signed a letter to the US Securities and Exchange Commission (SEC) to state their concern that new regulations to make it more difficult to file shareholder resolutions in the US would limit shareholders' ability to challenge companies on boardroom issues ranging from executive pay to climate change disclosures.
- d) **Reliable accounting risk:** The Government has announced plans to replace the Financial Reporting Council (FRC) with the Auditing, Reporting and Governance Authority (ARGA). Both the Kingman Review, which recommended the replacement, and the recent CMA consultation acknowledged LAPFF's contribution to the debate.

Each of the themes encompass a range of more focused 'sub themes'. Chart [] shows the number of engagements made in each area over the year.



Committee Members and Officers attended all four LAPFF business meetings in 2018/19. LAPFF activity and achievements are reported quarterly to Committee via LAPFF's quarterly engagement report.

6. Voting

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.

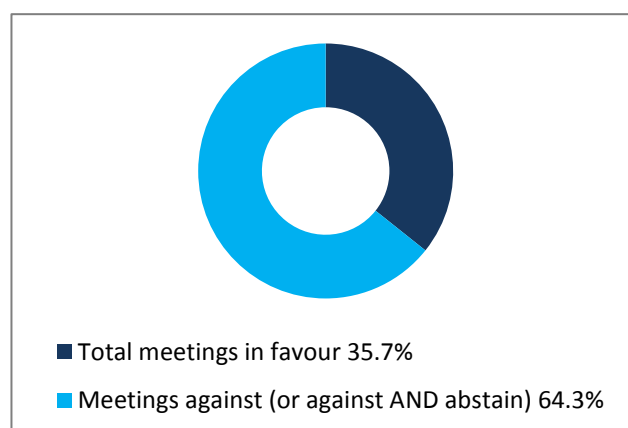
We participated in 1,843 company meetings, casting over 25,000 votes demonstrating the scale and range of topics covered at company AGMs. A review of the 2019 US proxy season showed Director Elections faced the strongest opposition in 9 years, indicating increased scrutiny by investors. 'Environmental & Social' shareholder proposals outnumbered 'Governance' shareholder proposals for the third consecutive year. Furthermore, support rates for resolutions between Environmental & Social issues and Governance issues narrowed to their lowest level (*ISS, 2019*), highlighting the changing nature of the ESG narrative between companies and their shareholders.

Patterns in voting behaviour from our investment managers appeared to follow the broader market. Ruffer, for instance, voted against management on 156 resolutions in 2018, compared with 74 in 2016. Fewer votes cast against management year-on-year (9.4% in 2018 vs, 11.3% in 2017) by our equity manager Schroders, was due to improvements in governance practices amongst companies they held, particularly in Europe.

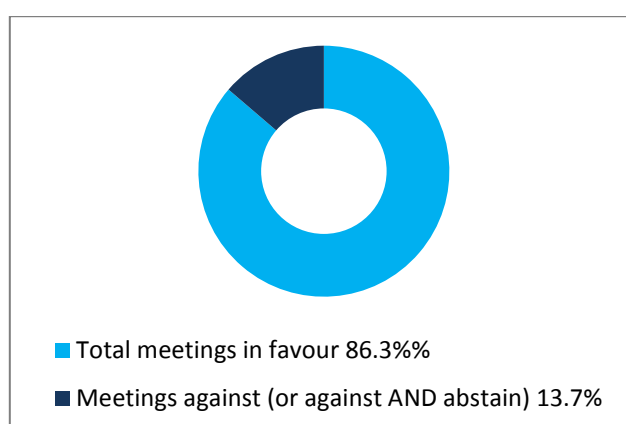
In the UK there were clear signs that shareholders were dissenting more, specifically in relation to excessive remuneration. The number of FTSE companies that received 20% or more votes against management on remuneration issues increased 14% over the previous year. A recent shareholder resolution at Weir Group, a company held by the Fund, received overwhelming support to change the long term incentive plan, resulting in a 50% reduction in the maximum equity award for top executives. In addition to pay, UK shareholders used their vote to express dissatisfaction with commonplace ‘overboarded’ directors and a lack of gender diversity at board level.

(i) Voting by Brunel

With respect to Avon’s holdings in the Brunel UK Active equity portfolio, Hermes made voting recommendations at fourteen meetings covering over two hundred resolutions (see chart below). At nine of those meetings Hermes recommended opposing one or more resolutions. The majority of resolutions where Hermes recommended voting against management related to Board Structure and Remuneration.



For our passively managed Low Carbon Global Equity portfolio managed by Brunel, the appointed manager LGIM votes on our behalf. The table below summarises voting undertaken by LGIM; of 3721 votes cast, 511 were cast in opposition to management.



(ii) LAPFF Voting Analysis

As part of their service, LAPFF issues voting alerts to investors to raise awareness of voting concerns. The following section summarises the LAPFF alerts forwarded to relevant managers during the year and the rationale of managers when voting differed to LAPFF's recommendation. The Forum has issued several voting alerts throughout the year on issues ranging from remuneration and board structure, to climate change reporting.

- Rio Tinto Group

This recommended members support an amendment to the company's constitution to allow for the filing of advisory shareholder resolutions at the Australian listed entity, and to abstain on a resolution seeking a review of the company's direct and indirect public policy advocacy on energy and climate change. The former received 10.7% support and the latter, 18%.

- Royal Dutch Shell

A shareholder resolution requesting the Company to set and publish targets aligned with the goal to limit global warming. LAPFF advised members to abstain on the basis that the company had already committed to reporting in line with TCFD guidelines and has ambitions beyond the scope of those covered in the resolution. The vote outcome was 5.54% in support.

- Anadarko Petroleum Corporation

Recommended members support a shareholder proposal seeking a climate change risk analysis and advised members to pre-declare voting intentions. LAPFF considered current disclosures insufficient, limiting shareholders ability to assess the degree of carbon asset risk. The resolution was supported by over 50% of shareholders.

- Chevron Corporation

Recommended a vote in favour of a request for Chevron to publish a report on how it would transition to a low carbon business model. The vote was set in the context of the growing pressure for companies and economies to decrease carbon dependency and investors increasingly wanting to understand how Companies are planning to transition to a low carbon business model. The resolution garnered 8% support.

- General Motors

Advised a vote in favour of a shareholder proposal requesting General Motors to publish a report on greenhouse gas emissions and corporate average fuel economy standards. LAPFF argued the proposal would enable shareholders to more clearly understand how the company's fleet emissions will change as well as the company's approach to emissions reduction.

- WPP

Recommended opposing the remuneration report, owing to concerns over the quantum of pay to the former CEO, (set to receive almost £20 million in pay-outs after stepping down as CEO in April 2018). Nearly 30% of shareholders voted against the remuneration report.

- Ryanair

Recommended a vote against Ryanair's annual report and the Chair, 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 the Chair himself, who has been on the Board for over twenty years.

The below table highlights where votes cast by the Fund's equity managers differed to the LAPFF recommendation. As part of our monitoring process managers are expected to provide a rationale for any vote cast contrary to LAPFF recommendations. This year only one of the Fund's underlying equity managers held stocks where a LAPFF voting alert had been issued. Due to the timing of transition of assets to Brunel, none of the below stocks were held by Avon in Brunel portfolios at the time of each respective company meeting.

Company	Resolution	Outcome For	LAPFF	Manager
Rio Tinto	SH Amend company's constitution	10.7%	F	X
	SH Approve public policy advocacy on climate change	18%	=	X
Royal Dutch Shell	SH Request Shell to set and publish targets for Greenhouse Gas emissions	5.5%	=	X
Anadarko Petroleum	SH Climate Change Risk Analysis.	50%	F	X
Chevron Corporation	SH Report on Transition to a Low Carbon Business Model	8%	F	X
General Motors Company	SH Report on greenhouse gas emissions and CAFE standards		F	X
WPP Plc	Approve the Remuneration Report	30%	X	F
Ryanair	Accept Financial Statements and Reports		X	F

Oppose (X)

Abstain (=)

For (F)

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.

- Rio Tinto (Multiple SH resolutions)

With respect to the call for an amendment to the company's constitution the manager believes these issues are more properly addressed through uniform government regulation and see existing company policy on climate change as already reflecting industry best practice.

- Royal Dutch Shell (SH set and publish targets for Greenhouse Gas emissions)

The manager expressed concerns with the binding nature of this resolution to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C when uncertainties remain around public policies, societal trends and the energy landscape. The manager found the alignment of the company's stated net carbon footprint ambition with society's progress and Shell's choice of measurement and reporting to be both

reasonable and appropriate at this stage whilst providing the company flexibility to adapt its business strategy appropriately.

- Anadarko Petroleum (SH Climate Change Risk Analysis)

On engaging with the company directly, the manager decided to support management.

- Chevron Corporation (SH Report on Transition to a Low Carbon Business Model)

Manager cites that the company already has policies in place to address this issue and that based on sustained and direct dialogue with the company on a range of issues, decided to support management.

- General Motors (SH Report on greenhouse gas emissions and CAFE standards)

The manager does not believe this change is warranted at this company, at this time.

- WPP (Approve the Remuneration Report)

Manager sees significant improvements in the remuneration even if the quantum remains high, including previous amendments made to the Long-Term Incentive plan for Directors and a reduction in pension contribution for CEO and new executive appointments.

- Ryanair (Accept Financial Statements and Reports)

Supported management by accepting financial statements but used their vote to voice concerns around the re-election of chairman of the board, citing concerns around succession planning.

7. Environmental and Carbon Analysis

This is the third year that TruCost have undertaken an analysis of the Fund's equity portfolio. The analysis, this year facilitated by Brunel, assesses the Fund's aggregate exposure to carbon, environmental factors, fossil fuels and stranded assets. The analysis is based on data as at December 2018 and covers direct company emissions and first tier direct emissions⁴

- (i) **Carbon exposure:** Under the carbon/revenues methodology⁵ our equity portfolio is 28% more carbon efficient than the benchmark⁶, broadly unchanged from the analysis undertaken in March 2018, when the lower exposure was attributed to the low carbon passive fund. The aggregate portfolio disclosure rates remained stable compared to previous analyses; 82.5% of the companies included in this year's analysis disclose GHG data (either fully or partially). The apportioned carbon emissions for the portfolio are 457,157 tCO₂e, 19% lower than those for the benchmark. These results are due to a strong positive sector allocation (18.2%) and positive stock selection (9.3%). The two sectors that contribute most positively to the carbon efficiency of the portfolio are the Fund's relative underweight positions in Utilities and Energy.
- (ii) **Environmental footprint:** Measures the environmental risks and opportunities not captured by standard carbon analysis and quantifies GHG emissions, water, waste, land

⁴ Direct = Scope 1 emissions plus CO₂e emissions from 4 additional sources; First Tier Indirect = Scope 2 plus partial Scope 3 emissions

⁵ Compares the total GHG emissions of each holding relative to either revenues generated.

⁶ Proxy benchmark made up of 25% FTSE AS; 60% MSCI World ex UK; 15% MSCI Emerging Markets index

and water pollutants and air pollutants. Under TruCost's methodology⁷, the portfolio is 21% more environmentally efficient than the benchmark.

- (iii) **Stranded assets:** Assets that may suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities are referred to as 'stranded assets'. Based on the value of holdings the portfolio is less exposed to extractive industries and fossil fuel reserves in comparison to the benchmark by 3.2% and 3.8%, respectively.
- (iv) **Energy generation mix:** 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 (15.03% versus 31.92%) and more energy from renewable sources (25.0% versus 17.7%).

8. 2019/20 RI Priorities

The Fund's 2019/20 engagement priorities will be informed by our internal policy, Brunel's policy and its strategic partnerships with the likes of Hermes and the investment management community.

There is expected to be a large degree of alignment with Brunel's six priority themes. The additional resources available to Brunel mean they can dedicate time to emerging environmental and societal themes too than the Fund can independently with LAPFF support.

The main priorities for the Fund are:

- (a) **Climate change including pollution, waste and plastics**
- (b) **Human capital and diversity**
- (c) **Cyber security especially in respect of access and governance**
- (d) **Cost and tax transparency**

Emerging themes that Brunel and Hermes will develop over the next few years also include:

- (a) **Sustainable protein sources:** including the role that meat production plays in anti-microbial resistance (Natural resource stewardship)
- (b) **Statements of company business purpose:** ensuring that all companies have a business purpose that takes account of the impact on relevant stakeholders (Business purpose and strategy)
- (c) **Artificial Intelligence,** automation and data risk management (Risk management)

Finally, we support efforts to focus improving regional and sector disclosure levels by targeting engagement with companies that currently provide little in the way of disclosure (i.e. lagging their peers). Brunel will be instrumental in determining the best engagement approaches to use to achieve the greatest impact.

9. List of Appendices to Report

Appendix 1: Avon RI Policy

Appendix 2: Brunel RI Policy

Appendix 3: Table of Key Manager Affiliations and Memberships

⁷ TruCost assigns an environmental cost to each resource and pollutant, based on TruCost's academic panel and environmental economics literature

**Bath & North East
Somerset Council**



Avon Pension Fund

Responsible Investment Policy

November 2016



Avon Pension Fund

Responsible Investment Policy

Introduction and Purpose

The Avon Pension Fund ('Fund') is a long-term investor. Our aim is to deliver financially sustainable returns to meet the future pension benefits of our members.

We have 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.

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

In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed. This policy sets out the Fund's approach to RI and details the actions the Fund, and its external providers, take on behalf of the Fund's members and other stakeholders, to protect the Fund from ESG and reputational risks.

The Fund's Approach to RI

As a long-term investor, the Fund recognises that it should manage ESG risks that can be both long-term and short-term in nature. In addition, the Fund seeks to identify investment opportunities aligned with its long-term objectives. The Fund supports the principles underlying the UN Principles for Responsible Investing (PRI). The Fund's RI Policy seeks to improve compliance with these principles.

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 decades 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 poses a long-term financial risk**.

Implementation

The Fund seeks to **integrate RI across its investment decision-making process for the entire portfolio**. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective. Additional details of the Fund's strategic investment approach can be found at <http://www.avonpensionfund.org.uk/finance-and-investments>

- The Fund considers ESG issues when setting its **investment principles and objectives**.
- ESG issues are considered when setting the Fund's **strategic asset allocation**. As part of its strategic investment review process, the Fund considers:
 - The impact of ESG issues on each asset class.
 - The materiality of ESG risks within each asset class or approach to investing, recognising the differing characteristics of asset classes.
 - Whether there are any strategic ESG-related opportunities that would generate value.
 - Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the risks within the Fund
- The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage ESG risks is the most appropriate approach. The Fund recognises that approaches that exclude or positively select investments may be appropriate for particular mandates. The Fund actively seeks to identify positive ESG-related opportunities that do not detract from risk-adjusted returns.

Working with the Fund's Investment Advisors and Investment Managers

In setting and implementing its investment strategy, the Fund takes advice from professional investment advisors.

- The Fund actively considers RI capabilities and advice when selecting and monitoring its investment advisors.
- The Fund **expects its investment advisors to proactively consider and integrate ESG issues** when providing investment advice to the Fund.

The Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund.

- The Fund **actively considers ESG integration and active ownership when selecting and monitoring investment managers**.
- When **appointing external investment managers**, the Fund:
 - Includes in tenders an assessment of 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.
- When **monitoring external investment managers**, the Fund:
 - Requires its investment managers to provide a statement setting out the extent to which they take ESG considerations into account in their investment processes.

- Actively monitors the decisions of its investment managers' regarding ESG issues that have a material impact on the value of the Fund's assets.
- Actively monitors the active ownership activities of its investment managers.
- The Fund encourages its external investment advisors and investment managers to be signatories, and demonstrate commitment, to the PRI.

Active Ownership (Voting and Engagement)

The Fund recognises that it has **responsibilities as a shareholder**, as well as rights, and is an **active owner**. The Fund seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

- 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 is a **signatory to the UK Stewardship Code** (Code) and has outlined its approach to stewardship, including voting and engagement, in its [Statement of Commitment to the Code](#). The UK Financial Reporting Council (FRC) has classified the Fund as a Tier 1 asset owner signatory, which recognises that the Fund provides a good quality and transparent description of its approach to stewardship.
- The Fund delegates voting and engagement to its investment managers and regularly **monitors how its investment managers undertake voting and engagement activities** in comparison to relevant codes of practice.

Collaboration

The Fund recognises that **collaboration with other investors is a powerful tool to influence** the behaviour of companies, policy makers and other industry stakeholders. The Fund seeks to work with and support the initiatives of other bodies with similar goals.

- The Fund takes an **active role in the Local Authority Pension Fund Forum (LAPFF)** to effectively exercise its influence through collaboration.
- The Fund aims to be flexible in its collaborative initiatives, responding to invitations to collaborate on a case-by-case basis.
- The Fund regularly reviews its participation in collaborative initiatives, including the benefits of participation.

Example: Collaboration in Practice – 'Aiming for A'

Through its participation in LAPFF, the Fund co-filed shareholder resolutions on climate change resilience at Rio Tinto in 2016 and supported similar resolutions at BP and Shell in 2015 as well as Glencore and Anglo American in 2016 as part of the 'Aiming for A' initiative.

The votes had virtually unanimous shareholder support as the companies committed to provide increased disclosure on how they are tackling climate change at a strategic level.

Reporting and Stakeholder Engagement

The Fund recognises that **transparency and disclosure** is an important aspect of being a responsible investor.

- The Fund requires transparency and disclosure from its investment managers, including reporting on engagement progress and success.
- The Fund publishes an annual RI report, outlining the activities it has taken over the prior 12 months, including reporting on its voting and engagement. The Fund's most recent report can be found at <http://www.avonpensionfund.org.uk/finance-and-investments>

Our Strategic RI Priorities

The Fund has considered its strategic RI priorities on the basis that the integration of ESG issues into the Fund's investment processes and ownership practices can positively impact financial performance. The Fund has identified the following as strategic (3-5 year) priorities from an RI perspective:

- **Proactively engage on strategic ESG risks:** 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.
- **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.
- **Identify sustainable investment opportunities:** consider the case for sustainable opportunities, in-line with the Fund's investment objectives.
- **Improve public disclosure and reporting to members:** 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.

Our Commitment

We acknowledge that the Fund's approach to RI will need to continually evolve, both due to the changing landscape with respect to ESG issues as well as broader industry developments. We are committed to making ongoing improvements to the Fund's approach and the processes that underpin the delivery of this policy to ensure it remains relevant.

This Policy will be reviewed as part of any strategic review of the Fund's investment objectives and management of risk, or as required in response to changing regulations or broader governance issues.

Approved by the Avon Pension Fund Committee on 24 November 2016 and due to be reviewed in 2020 .

Brunel Pension Partnership Ltd

Policy Statement



TO INTEGRATE



TO COLLABORATE



TO BE TRANSPARENT

Approved by the Board of Brunel Pension Partnership Ltd. Last updated 06 June 2019.

Brunel's Responsible Investment Policy

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.

Brunel Pension Partnership was formed in July 2017 and will oversee the investment of the pension assets (around £30bn/\$40bn) of ten¹ Local Government Pension Scheme funds in the UK. We use the name '**Brunel**' to refer to the FCA authorised and regulated company.

Brunel's organisational values

- We believe in making **long-term sustainable investments** supported by robust and **transparent** processes
- We are here to **protect the interests of our Clients and their beneficiaries**
- In collaboration with all our stakeholders we are **forging better futures by investing for a world worth living in**

These values are underpinned by a set of investment principles that were agreed collaboratively across the Partnership (see right).

Although **Responsible Investment (RI)** and **Responsible Stewardship** are singled out separately, all the principles are intertwined with each other.

Brunel has a comprehensive Responsible Investment Strategy. The RI Policy summarises the key elements of that strategy.

The purpose of the policy is to provide

- Clarity on how Brunel will deliver on some of its investment principles for all stakeholders, most particularly the nearly 700,000 beneficiaries of Brunel Pension Partnership Funds
- Support for our Clients to enhance their ability to articulate how they will fulfil their specific Investment Strategy Statement disclosure requirements²
- A framework under which we will publish supporting guidelines, position statements and annual implementation and engagement plans, proxy voting policy and voting records.

Brunel Pension Partnership Investment Principles

- Long-term investors
- Responsible investors
- Best practice governance
- Decisions informed through experts and knowledgeable officers and committees
- Evidence and research at the heart of investments
- Leadership and innovation
- Right risk for right return
- Full risk evaluation
- Responsible stewardship
- Cost effective solutions
- Transparent and accountable
- Collaboration

The full wording is available on Brunel's website:
www.brunelpensionpartnership.org

¹ Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

² MHCLG (formerly DCLG) guidance for administering authorities in the formulation, publication and maintenance of their investment strategy statement, as required by [regulation 7 of the LGPS Investment Regulations 2016](#) (July 2017).

Responsible Investment at Brunel

Brunel is a signatory of the UN-backed [Principles for Responsible Investment](#) (PRI) and aligns its practices and processes to their [six principles](#) and definition of RI³.

Our approach is informed by our investment beliefs, and our Clients' policies and priorities together with regulations and statutory guidance. The scope includes all our **own operations** (buildings, travel, people, and so on), as well as **portfolio implementation** and **responsible stewardship**. This ensures our own practices align with our expectation of the companies and assets in which we invest, that this approach is seamlessly embedded in everyday activities and that it enables everyone to contribute to **forging better futures by investing for a world worth living in**.

As responsible investors, we recognise that every company or asset we invest in operates interdependently with the economy, civil society and the physical environment. Considering whether these interdependencies create **financially material risks or opportunities** for the investments is a core part of responsible investment. But this approach goes wider than just looking at individual investments – it applies to the beliefs and principles of the investor themselves and then using these beliefs and principles to guide the investor's strategic thinking and embedding it in all that we do. It is important to emphasise that Brunel's purpose of doing this is to **better manage risk** and **generate sustainable, long-term returns**. All actions are predicated on fulfilling our core legal obligations – our '**fiduciary duty**' – to the Client Funds and their beneficiaries.

Responsible investment (RI) is central to how Brunel **fulfils its fiduciary duty**. Brunel adheres to the highest standards of business ethics and integrity but is **not an ethical investor**⁴, as the term is usually used. We expect appointed managers to weigh up Environmental, Social and Governance (ESG) risks and opportunities as part of their wider evaluation of investment risk and return objectives as opposed to treating them as a stand-alone concern.

Thought leadership, skills and knowledge

We aspire to be thought leaders and to actively contribute to the development of the investment industry more broadly. A programme of personal and professional development, workshops and training across our Board, team and Clients ensures that "decisions are informed through experts and knowledgeable officers and committees."⁵

We are committed to having a strong, central core of expertise that has the breadth and depth of knowledge to manage assets and provide scrutiny of the skills and knowledge of our appointed asset managers and specialist service providers. Our website provides overviews of the whole team, summarising their [skills and knowledge](#).

Long-term partnerships

Brunel is a long-term investor and looks to establish long term partnerships with asset managers and service providers who share our values. Whilst not legally binding, the Brunel Management Accord sets out shared expectations of the relationship with a focus on good communication and partnership working.

The [Accord](#) is available on our website.

³ **Responsible investment** is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns ([Principles for Responsible Investment](#)).

⁴ **Ethical investment** is an investment approach determined by an investor's specific views, usually based on a set of values. These values can take precedence over financial considerations.

⁵ See investment principles on skills and knowledge.

Responsible Stewardship at Brunel

Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.⁶

Brunel believes in being a **good steward in all asset classes**. For example, stewardship opportunities in private markets can be particularly effective as capital (and by extension influence) is concentrated, providing opportunities to support management in embedding robust governance and working practices.

Our [Stewardship Policy](#) sets out our overall approach and will build over time to articulate specific detail for each asset class. The document contains details of our engagement and voting position on a wide range of issues, including;

- Sustainability, Climate Change and Sustainable Development Goals (SDGs)
- Human and Natural Capital
- Company Boards
 - Conduct and Culture
 - Board Composition and Effectiveness
- Executive Remuneration
- Audit
- Protection of Shareholder and Bondholder Rights (including dual share class and share buy-backs)

Engagement

Being an active, responsible owner is essential to Brunel's ability to identify risks and opportunities in its investment portfolios. Brunel will set engagement objectives linked to the six priority themes identified from page seven. **Clients will receive quarterly engagement updates relating to both Brunel and its appointed asset managers' activities.** Summary information will be publicly available.

Voting

As part of owning publicly listed companies Brunel, on behalf of its Clients, will have the opportunity to vote at company meetings (AGM/ EGMs⁷). Brunel has a single voting policy for all assets managed by Brunel in segregated accounts, articulated in our [Stewardship Policy](#).

Whilst we have centralised our voting activity, so we have one voice, our voting process activity involves our underlying asset managers and encourages them to share their insights into the companies they hold. Brunel will actively seek, where aligned with our own policy, to support its asset manager in the escalation of its own engagement and voting activity.

Implementation is supported by the appointment of an engagement and voting service provider. Assets will continue to operate under the current arrangements determined by Brunel Client Funds until they are transitioned into the new portfolios.

Brunel will publish its voting policy and provide online voting records quarterly.

Brunel may on occasions publish how it intends to vote ahead of a company AGM (pre-declare). We will normally do this as part of an escalation of engagement or as part of a wider collaborative engagement.

⁶ Source FRC, Stewardship Code Consultation, 2019.

⁷ AGM – Annual General Meeting. EGM – Extraordinary General Meetings.

Where we hold securities that are subject to a law suit (individual or class action), Brunel will decide, considering the merits and complexities of such action, to participate in such litigation on a case by case basis.

Brunel has developed a stock lending policy which embeds our commitment to be a responsible investor. Specifically, where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence.

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 on Brunel's approach are available on our [website](#).

Our approach

Responsible Investment focused on three pillars

- **To integrate** – More efficient and effective to ensure an investment-driven focus
- **To collaborate** – Enhanced scale from collaboration amplifies impact and is more likely to lead to desired outcomes
- **To be transparent** – Builds trust by doing, and being seen to do, what we expect of others and leading by example

The matrix below brings to life the practical steps Brunel will take to implement responsible investment and responsible stewardship.

RESPONSIBLE INVESTMENT IMPLEMENTATION MATRIX			
			
	To INTEGRATE	To COLLABORATE	To BE TRANSPARENT
OWN OPERATIONS	• Board commitment • In all we do • Staff objectives	• Contributing locally and globally • Diversity ambassadors	• Best practice own reporting including climate change, diversity and tax
PORTFOLIO IMPLEMENTATION	• All asset classes globally through asset managers' plans • Fully integrated into manager selection (see the 6 Ps below) • Portfolio options	• Innovating investment solutions • Cross pool collaboration • ESG risk metrics and tools	• Impact reporting • Positive case studies • Carbon and environmental footprints
RESPONSIBLE STEWARDSHIP	• Single voice • Active engagement	• Annual engagement plan • See Partnerships and Affiliations	• Proxy Voting Policy and records • Pre-declaration on selective votes

Brunel has a comprehensive suite of policies covering operational aspects of our business. These include policies ranging from manager monitoring, tax and securities lending to those relating to human resources and procurement of goods and services. Our commitment to be a responsible investor is fully integrated and consistent across all these areas.

Responsibility for managing specific ESG risks, including climate risk, as they affect Brunel and our Clients, are being explicitly incorporated into the role specifications of our Board, executives and other key personnel.

Priority themes

Whilst all financially material risks will form part of the risk assessment of the underlying portfolios, Brunel has identified six priority themes where the potential financial impact cuts across countries, sectors, portfolios and asset classes. The six themes are informed by an overall assessment of risk and Clients' own policy priorities and are consistent with those identified by the Local Authority Pension Fund Forum. Brunel will use these themes to focus its engagement programme and partnerships.

The six themes are summarised below, but Brunel will publish more detailed position statements on each area, outlining aims, objectives and, where applicable, targets.

1. **UK policy framework.** Brunel will support policy makers in the development of a robust framework that promotes sustainable economic growth. The principal objectives include: contributing to the **UK Corporate Governance Code** and related company law, **UK Stewardship Code** (FRC), work of **The Pensions Regulator**, [Green Finance Initiative](#), **Global Social Impact Investment Steering Group** and **MHCLG** (the government department with responsibility for the Local Government Pension Schemes or LGPS).
2. **Climate change.** Brunel believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to our own business operations, portfolios and Client partner funds, unless action is taken to mitigate these risks.

Our framework for assessing the impacts of climate change encompasses **adaptation** and **physical risks** (the risks posed by the consequences of climatic change) as well as those risks and opportunities arising from the **transition to a low carbon economy** (risks from addressing the root causes of climate change).

Brunel is a member of the [Institutional Investors Group on Climate Change \(IIGCC\)](#), [PRI](#) and a supporter of the [Transition Pathway Initiative \(TPI\)](#) which will support our ability to apply best practice due diligence and engage with the companies in which we invest. Brunel advocates strongly for improved transparency and will disclose in line with the recommendations of the [Task Force on Climate-related Financial Disclosure \(TCFD\)](#), including the publication of annual carbon footprints and fossil fuel exposure, alongside the development of other carbon metrics.

Brunel does not consider a top-down approach to divestment to be an appropriate strategy for its Clients. By integrating climate change into our risk management process, using carbon footprinting, fossil fuel exposure and challenging managers on physical risks, we seek to reduce unrewarded climate and carbon risk. This results in selective divestment based on investment risk, supporting our commitment to **decarbonising our listed portfolios**.

For more information, please see our [position statement on Climate Change](#).

3. **Cost and tax transparency.** Brunel is a signatory of the [LGPS Code of Transparency](#) and requires all appropriate managers to be signatories. Tax is complex, but it is also the way corporations contribute to the economies in which they operate. We believe there is the potential for financial consequences for companies whose tax practices are deemed inappropriate by policy makers, regulators and wider society. We believe openness about the approach taken is a key step to building understanding and trust. Brunel will publish its own approach to tax transparency and engage with companies to disclose their approach.
4. **Human capital & diversity.** Implementation of this theme will overlap significantly with manager selection and monitoring, working with the [Diversity Project](#). The proposed updates to the **UK Corporate Governance Code** place a welcome focus on culture, workforce engagement and diversity. Our engagement programme will aim to follow up on the implementation of the spirit of the new Code once published. We are members of [The 30% Club](#) and will support its aim and objectives through engagement and voting.
5. **Supply chain management.** This theme focuses on specific 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 animal welfare, climate risk, modern slavery, water quality and availability and the reduction of single-use plastics as part of our wider commitment to enhanced sustainability.
6. **Cyber security (IT security and misuse).** This theme covers risks relating to data security and privacy. The primary activities will be engagement with specific companies and to support research and initiatives to promote corporate awareness and action on cyber security.

Example of RI in action: Integration into manager selection

Asset class, geography and risk objectives will have a bearing on which RI and ESG risks will be most relevant to focus on when making an appointment. Whilst the examples below are not our manager selection criteria, they do illustrate the sort of things we consider when selecting managers:

- **Philosophy** (investment, corporate culture, Board-level leadership)
- **Policies** (commitment, policy framework, pricing and transparency)
- **People** (numbers, retention, inclusion, diversity in all senses e.g. gender, cognitive, etc)
- **Processes** (investment process, performance, reporting, stewardship)
- **Participation** (thought-leadership, innovation, contribution to investment industry)
- **Partnership** (in it together, cultural fit)

Integrating RI into **mandate design** and **risk appraisal** process prior to launching a search for a manager is therefore critical in ensuring that we focus on the right things. More information about the selection and monitoring of managers is on our [website](#).

Reporting on progress

Brunel demands high standards of transparency from the companies and organisations it works with, so places a high priority on being transparent itself and providing high standards of reporting and communication.

As outlined above, we plan to publish position statements on each priority theme, an annual engagement plan, voting records and updates on engagement activity. Together with our PRI Transparency Report (available 2020), we will produce an annual progress report. We publish the public Engagement Plan (updated annually) and quarterly progress reports by our engagement and voting provider, Hermes EOS. Further detail is provided to Client partner funds.

Brunel is also committed to reporting on the positive impacts of the investments it makes. The [Sustainable Development Goals](#) (SDGs), provide a useful framework to translate the positive outcomes of the investments we make to real world issues.

We have committed to enhance our ability to make meaningful disclosures linked to these global priorities and encourage companies to evaluate their fitness for the future, through benchmarks such as [Future Fit](#).

We aim to use [our website](#) as the primary route for additional information and further insights to our approach into responsible investment and the risk management of ESG factors.



Policy development, accountability, review and compliance

The Brunel Board approves and is collectively accountable for Brunel's Responsible Investment Strategy and Policy, but operational accountability on a day to day basis is held by the **Chief Responsible Investment Officer**.

The **Chief Executive Officer** is responsible for ensuring effective implementation across the whole organisation, ensuring Brunel's own operations meet or exceed best practice standards. Our CEO is also a designated Diversity Ambassador.

The **Chief Investment Officer** is responsible for ensuring the integration into the portfolio construction, implementation and overall investment decision making. All members of the **investment team** have explicit responsibility for the implementation of responsible investment within their respective roles.

Whilst the strategy and policy are designed for the long term (5+ years), they are reviewed by the Board annually. This annual review is informed by active stakeholder engagement.

The strategy and policy have been developed in conjunction with key stakeholders, including the **Brunel Oversight Board**, **Brunel Client Group** and **Client RI Working Group**, membership of which includes representatives from the administering authorities it serves and Brunel staff.

Progress and compliance is monitored by all the groups outlined above. Any significant breaches will be reported to **Audit, Risk and Compliance Committee**. Severe breaches can lead to disciplinary action or termination of contracts (where the breach is committed by an asset manager or other service provider).

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.

Disclaimer

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Past performance is not a guide to future performance.

Appendix 1

Partnerships and affiliations	
30% Club	Aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations.
A4S – Accounting for Sustainability	The Prince's Accounting for Sustainability Project was established by HRH The Prince of Wales in 2004 to promote improvements in reporting and transparency.
British Private Equity & Venture Capital Association (BVCA)	Industry body and public policy advocate for the private equity and venture capital industry in the UK.
The Diversity Project	A group of leaders in the investment and savings profession who are working to accelerate progress towards an inclusive culture within our industry.
Future-Fit Business Benchmark	Not-for-profit organisation with the aim of encouraging and equipping business leaders and investors to take action in response to today's biggest societal challenges, from climate change to inequality.
The Green Finance Initiative	Launched in January 2016 by the City of London in partnership with the government to promote the UK as a global centre for green finance.
Institutional Investor Group on Climate Change (IIGCC)	A forum for collaboration by institutional investors on the investor implications of climate change.
Local Authority Pension Fund Forum (LAPFF)	The UK's largest collaborative forum for collective engagement, covering £200bn in collective assets under management.
Pensions for Purpose	Collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment.
Sustainable Accounting Standards Board (SASB) SASB Alliance Member	SASB standards focus on financially material issues with a mission to help businesses around the world report on the sustainability topics that matter most to their investors.
ShareAction	Charity that promotes Responsible Investment and gives savers a voice in the investment system.
The Transition Pathway Initiative	Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies.
Principles for Responsible Investment	United Nations-supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors. Brunel was the first LGPS Pool to join.
The TCFD (The Task Force on Climate-related Financial Disclosures)	Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
UKSIF (The UK Sustainable Investment and Finance Association)	Membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK.

Appendix 3: Table of Key Manager Affiliations

	Tier 1 FRC Stewardship Code Status	UN PRI Signatory	ClimateAction 100+ Signatory	Recognised TPI Supporter	IIGCC Member	TCFD Supporter	SASB Alliance Organizational Member
Brunel	✓	✓	✓	✓	✓	✓	✓
- LGIM	✓	✓	✓	✓	✓	✓	✓
- Ballie Gifford	✓	✓	✗	✗	✓	✗	✗
- Invesco	✓	✓	✗	✗	✗	✓	✗
- ASI	✓	✓	✓	✓	✓	✗	✗
BlackRock	✓	✓	✗	✗	✓	✓	✓
Genesis	✗	✓	✗	✗	✗	✗	✗
Unigestion	✗	✓	✓	✗	✗	✗	✗
Ruffer	✓	✓	✓	✓	✓	✓	✗
Schroders	✓	✓	✓	✓	✗	✓	✓
Loomis	✓	✓	✗	✗	✗	✗	✗
IFM	n/a	✓	✓	✗	✗	✗	✓
Partners	n/a	✓	✗	✗	✗	✗	✗
JPM	✓	✓	✗	✗	✓	✗	✗
Jupiter	✓	✓	✗	✗	✓	✓	✗
Pyrford	✓	✓	✓	✗	✗	✗	✗

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 SEPTEMBER 2019	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 2 September 2019		
EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 2 September 2019		

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 June 2019 Committee meeting, on 2 September 2019. The draft minutes of this meeting provide a record of the Panel's debate before reaching any decisions or recommendations.
- 1.3 Recommendations made in respect of the Annual Review of Risk Management Strategies are included in Item 14.

2 RECOMMENDATION

- 2.1 **Notes the minutes of the Investment Panel meeting on 2 September at Appendix 1 and Exempt Appendix 2.**

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 There were no recommendations or decisions made by the Panel other than those covered in Item 14: Annual Review of Risk Management Framework.

5 INVESTMENT PANEL DELEGATION

- 5.1 The activity was undertaken under 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 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

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	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, 2nd September, 2019, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Pauline Gordon, Shirley Marsh and Councillor Bruce Shearn

Advisors: Steve Turner (Mercer) and Ross Palmer (Mercer)

Also in attendance: Donna Parham (Interim Director - Finance), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager) and Carolyn Morgan (Governance and Risk Advisor)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 27 FEBRUARY 2019

The public and exempt minutes of the meeting of 27 February 2019 were approved as a correct record and signed by the Chair.

8 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Investment Manager presented the report.

She said that transition was on track. The Emerging Markets transition was now under way. The manager selection for the Global High Alpha Equity was nearing its conclusion, and it was expected that information would be received next week about

what that portfolio would look like. Work on the passive Global Sustainable Equities portfolio had begun. Avon is very interested in this portfolio, because the existing mandate with Jupiter should map into it very well. It is hoped that the scoping paper for it will be received within the next few weeks, and that by the time of the Strategic Review it will be sufficiently developed for a judgement to be made as to whether it is a potential solution for Avon. Brunel continues to draw down for Secured Income and Renewable Infrastructure.

A Member noted that paragraph 6.1 of the covering report stated that the Fund's strategic allocation to Low Carbon Equities and renewable energy addressed the financial risk to the Fund's assets from climate change rather than a strategy to address the risk itself. Officers agreed to amend the wording.

Before discussing the exempt appendices to this report, the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded for the remainder of this item and that the reporting of this part of the meeting should be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Act as amended.

After the discussion had been completed, the Panel returned to open session and **RESOLVED:**

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

9 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2019

The Assistant Investments Manager presented the covering report.

Mr Turner presented the Mercer Performance Monitoring Report. He said that one area where Brexit was having an impact was the sterling exchange rate. He suggested that there was no reason for the Fund to change its currency hedging policy at the moment, as this would be equivalent to taking a bet on the outcome of Brexit and guessing whether it will be hard or soft, which is impossible to know.

The Chair asked whether it was normal for bond and equity markets to move in opposite directions. Mr Turner replied that the signals from the equity and bond markets had been completely different over the past ten years. There is a strange situation at the moment where the more bond yields fall, the more attractive equities appear. However, if bond yields were to fall sharply and quickly, this would impact on sentiment in the equity market, so there was still a rationale for the Fund to maintain equity protection.

RESOLVED:

1. to note information as set out in the reports;
2. that there were no issues to be notified to the Committee.

10 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

The Assistant Investments Manager introduced this item. He reminded Members that while the Committee had delegated monitoring of the operation of the Risk Management Framework to the Panel, it is the Committee which determines risk management strategies.

Before discussing the Mercer Risk Management Framework Overview the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded for the remainder of this item and that the reporting of this part of the meeting should 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.

Mr Ross and Mr Turner presented the Mercer Risk Management Framework Overview.

After discussion the Panel **RESOLVED**:

1. to note Mercer's report reviewing the strategies and collateral position;
2. to recommend to the Committee that the existing trigger framework for the LDI strategy should be maintained;
3. to note Mercer's recommendation to put in place another static EPS for the short term (12-18 months) once the current strategy begins to roll off, before evolving the strategy into a longer-term dynamic approach. The Committee is asked to consider these recommendations following the second Investment Strategy Review on 7 November 2019 and, if in agreement, delegate implementation of the new static EPS to the Investment Panel and Officers.

11 WORKPLAN

The Investment Manager presented the report. She said the workplan included Panel meeting dates for 2020 and 2021 and invited Members to let her know if any of these caused problems; the Panel had only five members and it was important that meetings were well attended. Dates had been chosen to allow Mercer time to prepare reports and to fit in with Committee meetings.

RESOLVED to note the Panel workplan for inclusion in Committee papers.

The meeting ended at 3.57 pm

Chair(person)

Date Confirmed and Signed

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:	27 SEPTEMBER 2019
TITLE:	ANNUAL REVIEW OF RISK MANAGEMENT FRAMEWORK
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Mercer Report: Annual Review of Risk Management Framework	

1 THE ISSUE

- 1.1 The Risk Management Framework encompasses three strategies, the Liability Driven Investment Strategy (LDI), Equity Protection Strategy (EPS) and the Buy-and-Maintain Corporate Bond (CB) portfolio as well as a passively managed equity fund for collateral management purposes. These strategies are linked to the funding strategy, designed to de-risk the Fund by placing less reliance on growth assets and to simultaneously protect the Fund's funding position.
- 1.2 The Committee reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to either strategy to ensure they meet the strategic objectives. The annual review also considers any financial implications on the portfolio, specifically an increase in the collateral requirements.
- 1.3 Monitoring of the framework has been delegated to the Investment Panel. The Panel monitors the collateral adequacy of the pooled vehicle that contains the strategies, the performance of the strategies and of the manager, Blackrock.
- 1.4 At its meeting on 2 September 2019, the Panel reviewed whether the current trigger levels for hedging in the LDI strategy remain appropriate given market conditions and the funding level. In addition they considered how the EPS should be implemented in the event it is rolled over at expiry.
- 1.5 Mercer will present their report at the meeting (Exempt Appendix 1).

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1 **Agree the following delegations given the government's announcement regarding RPI:**
 - i. **That the Panel reconsider the LDI trigger framework at the next Investment Panel meeting**
 - ii. **If market conditions dictate, that Officers take appropriate action to protect the Fund's position in the meantime.**

- 2.2 Agree the Panel's recommendation, subject to full consideration at the November Strategy review workshop, to put in place another static EPS for 12-18 months when the current strategy rolls off.**
- 2.3 Delegate implementation of a new static hedge to Officers and the Investment Panel.**
- 2.4 Delegate the decision whether to use dynamic hedging in the equity protection strategy to the Investment Panel.**
- 2.5 Note Mercer's report reviewing the strategies and collateral position.**

3 FINANCIAL IMPLICATIONS

- 3.1 These strategies have been implemented to provide greater certainty that the Funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

4 ANNUAL REVIEW OF LDI STRATEGY

- 4.1 The LDI strategy seeks to hedge the Fund's exposure to real interest rates, in order to increase the certainty that the real returns assumed in the funding plan will be achieved.
- 4.2 The aim is to lock in attractive real yields ('trigger points'). As the real yield is determined by nominal interest rates and inflation expectations - which move independently of one another - it is important to keep these under review for appropriateness as each can be hedged independently. The current objective is to hedge up to 70% of the assets as market conditions allow and there is a trigger framework in place, reflecting the market conditions when set, to achieve this hedge ratio.
- 4.3 This strategy utilises unfunded hedging instruments meaning there is limited or no initial outlay of capital to put the hedging in place. However, these instruments fluctuate in value (mark to market) through their life to maturity and must be supported by collateral, in the form of assets that can be sold to meet mark to market requirements. The collateral held by the Fund must be monitored to ensure there is enough to support the strategy.

4.4 Review of the Trigger Framework:

The Panel reviewed the trigger framework at its meeting on 2 September. The recommendation of the Panel was to maintain the current trigger framework in light of the long term nature of the strategy and the view that interest rates should start to rise over time.

- 4.5 However on 4 September 2019 the Treasury announced its intention to phase out RPI as measure of inflation by 2030, in preference to CPI measures. As inflation instruments all reference RPI rather the CPI, this has altered the pricing of inflation in the market. As this development was expected at some point (the government has adopted CPI as its preferred inflation measure in recent years) it is not clear how much of this adjustment is already priced into inflation expectations in the long-term.
- 4.6 Following advice from Mercers, the trigger framework was suspended by the Fund to ensure the current inflation triggers are not breached which could result in inflation being hedged at unfavourable levels. The risk is that the levels do not have

to be adjusted and the Fund misses out on hedging more of the liabilities. However, this risk is less significant than the risk of hedging at an unfavourable level.

- 4.7 Mercers will advise the Fund in due course as to the revised trigger levels and the impact on the Fund of the inflation hedging already in place. As this is a market driven issue, it is proposed that Committee delegate the resetting of the trigger framework to the Panel at its next meeting in November, as advised by Mercers. However, in the meantime it is recommended Officers are delegated power to protect the Fund's position should market conditions dictate.
- 4.8 Between annual reviews, the strategy is monitored closely so that options to increase the interest rate hedge or lower the interest rate trigger levels are reviewed when the funding level improves or if the hedge ratio differential between interest rates and inflation reaches the maximum currently permitted.

5 ANNUAL REVIEW OF EQUITY PROTECTION STRATEGY

- 5.1 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. 60% 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'.
- 5.2 The strategy sits within the pooled vehicle (QIF or Qualified Investment Fund) established for the LDI strategy. To reduce the risk of the Fund having to sell assets at short notice to meet its obligations under the collateral agreements, units of a passively managed pooled equity fund are held within the QIF which will be sold to meet collateral calls as they arise. Should this happen, derivatives will be used to replicate the equity assets sold in order that the strategic allocation to equities is maintained.
- 5.3 The current structure is a static hedge, whereby the level of protection is fixed at the market level on implementation. With this approach timing risk arises as the value is determined by the market level at inception and expiry. An alternate approach is a dynamic hedge which averages in protection at different market levels and therefore reduces timing risk. The static hedge is less costly and quicker to implement compared to a dynamic hedge.
- 5.4 The Panel considered how a new strategy should be implemented if the decision is taken to roll over the current strategy on expiry in early 2020, and **recommend that a new static strategy should be implemented over a 12-18 time frame.** During this time, the Panel will then consider whether a dynamic hedging strategy should be implemented. Mercer advises that the EPS should become a long-term component of the overall investment strategy and a dynamic open-ended structure will give better protection to equity market risk. However, a dynamic structure is more complex to implement and monitor so time is needed to do the necessary Panel training and implementation work.
- 5.5 The decision whether to retain the EPS within the wider investment strategy will need to be taken by Committee during the Investment Strategy Review (following the November review workshop), when the allocation to equities will be considered. Subject to the Committee agreeing to continue with an EPS, **implementation of the new static EPS should be delegated to the Investment Panel and Officers.**
- 5.6 Subject to a hedge being retained **it is recommended that the Panel are asked to decide whether dynamic hedging should be implemented.**

- 5.7 Mercer and Officers monitor the strategy and report quarterly to Panel. However, decisions to restructure due to changes in market levels may have to be taken between Panel meetings as they will be market timing driven. As a result Committee has previously delegated **the decision to restructure due to market conditions to Officers in consultation with the Chair of the Panel, acting on advice from Mercer.**

6 ANNUAL REVIEW OF CORPORATE BOND BUY-AND-MAINTAIN STRATEGY

- 6.1 Historically the liabilities that are funded on a corporate bond basis were invested in a passively managed corporate bond fund by Blackrock. With the asset pot at a large enough size to merit a bespoke strategy, Blackrock were instructed to implement a buy-and-maintain corporate bond portfolio as part of a bespoke cash flow matching strategy for the Fund's low-risk liability bucket.
- 6.2 This strategy was implemented in early 2019 and sits within the QIF so that it is hedged against inflation.
- 6.3 An annual review along with an in-depth review will be undertaken after each valuation or when a large liability falls into scope for the low-risk bucket upon termination. There were no recommendations about this strategy from Panel.

7 RISK MANAGEMENT

- 7.1 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. 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.

8 CLIMATE CHANGE

- 8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

- 9.1 None.

10 CONSULTATION

- 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 (Tel: 01225 395306)
Background papers	Investment Panel Papers and minutes
Please contact the report author if you need to access this report in an alternative format	

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1416/19

Meeting / Decision: Avon Pension Fund Investment Committee
--

Date: 27 September 2019

Author: Liz Woodyard

Report Title: Annual Review of Risk Management Framework
--

Exempt Appendix 1: Mercer Report

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 exempt appendix 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 appendix contains 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 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 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.

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	27 SEPTEMBER 2019
TITLE:	INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 June 2019)
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 June 2019.
- 1.3 This quarter the performance of the Fund's risk management strategies, namely its LDI and Equity protection strategies, are reported as part of Item 14 – Annual Review of Risk Management Strategies.
- 1.4 Section 9 sets out the Cost Transparency Disclosure that is included in the Fund's annual report from 2018/19.

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 2019 triennial valuation. 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 estimated funding level has increased by c.2% over the second quarter of 2019 from 96% to 98%.
 - (2) This improvement resulted from the positive return on the Fund's assets, which outweighed the increase in the present value of the liabilities over the quarter.

5 INVESTMENT PERFORMANCE

A – Fund Performance

- 5.1 The Fund's assets increased by £127m (c.2.6%) over the quarter ending 30 June 2019 giving a value for the Fund of £4,946m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and manager. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to the benchmark is summarised below. The Fund's currency hedge detracted -0.8% over the quarter.

Table 1: Fund Investment Returns (Periods to 30 June 2019)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	2.6%	5.5%	8.4%
Avon Pension Fund (excl. currency hedging)	3.4%	6.5%	8.9%
Strategic benchmark (no currency hedging)	2.5%	7.0%	8.7%
<i>(Currency hedge impact)</i>	<i>(-0.8%)</i>	<i>(-1.0%)</i>	<i>(-0.5%)</i>

- 5.2 **Fund Investment Return:** Global equity markets rebounded from sharp falls in May to end the second quarter of the year on a positive note, largely on the back of strong gains in June. Overseas equities were the largest contributor to Fund performance over the quarter. US interest rate policy and US-China political rhetoric continues to drive market sentiment. Emerging Markets also recovered from a sharp sell-off during May to end the quarter in positive territory. Developed market government bond yields fell over the quarter which supported credit markets. The premium offered by corporate bonds over government bonds, which reflects the higher level of risk of these assets, narrowed which translated into positive returns for the Fund's Multi Asset Credit mandate. Among the Fund's holdings in alternative asset classes Infrastructure was the standout performer with several of the underlying assets receiving valuation uplifts. Amongst currencies, Sterling weakened against the US Dollar, the Euro and the Yen by 2.3%, 3.7% and 4.9%, respectively.

5.3 Fund Performance, exclusive of currency hedging and LDI, was 3.8% over the quarter versus a Benchmark return of 2.8% The relative 0.9% over the quarter is attributed to;

- (1) **Asset Allocation:** Asset allocation contributed **0.2%** over the quarter, driven by an overweight in developed overseas equities versus the strategic benchmark.

In addition there was a large negative swing in the value of the equity protection strategy (c. £29m) which detracted **-0.6%**.

- (2) **Manager Performance:** Active manager impact over the quarter was **1.3%**, driven primarily by the Fund's property and multi asset credit managers.

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 -0.8% over the quarter and detracted -1.0% over the year.

B – Investment Manager Performance

5.5 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.

5.6 Absolute returns over the quarter were broadly positive across the Fund's investment managers with the strongest performance coming from the global equity managers. The Fund's DGF managers generated positive absolute returns over the quarter. On a relative basis the majority of active equity managers outperformed their respective benchmarks. On a 1 year and 3 year basis the majority of active funds underperformed their benchmarks despite generating positive absolute returns. The UK SRI mandate posted a negative absolute return over the year and on a relative basis the nil weighting to oil & gas had little impact with underperformance attributed to stock selection in Industrials and Basic Materials sectors. The Infrastructure mandate outperformed on a 1 and 3 year basis. Detailed analysis of investment manager performance can be found at Appendix 2.

6 INVESTMENT STRATEGY

6.1 Asset Class Returns: Developed market equity returns over the last 3 years were 14.2% p.a., materially ahead of the assumed strategic return of 8.1% p.a. on the same basis. At the end of June the 3 year return from emerging market equities was 12.5%; again well ahead of the assumed 3 year return of 8.7%. Index-Linked Gilts remain considerably above the assumed strategic return. Over the three-year period index-linked gilts returned 6.0% p.a. versus an assumed return of 2.2%. Similarly, property and infrastructure are ahead of their assumed strategic returns on a 3 year basis. Hedge fund returns remain below the strategic return of 5.1% due in part to low cash rates.

6.2 Private Markets Commitments to Brunel Portfolios: The Fund has an allocation of 2.5% to Renewable Energy (on a look through basis) which is managed by Brunel. The drawdown of the committed capital started in Dec 2018 and further investments were made to two funds in 2Q19, both of which have a primary focus on proven renewable energy technology, encompassing:

onshore wind, solar PV, hydro and electricity storage assets. The additional funds are seen as largely complementary to the existing funds (which focus on sustainable and social infrastructure such as mass transport and hospitals as well as renewable energy) in terms of regional diversification and projected fund lifespans. Over 2Q19 one capital call occurred for the Brunel core infrastructure fund. No capital calls took place with respect to the Fund's Secure Income portfolio.

- 6.3 **Corporate Bond Portfolio:** During April/May 2019 the Fund's LDI manager was instructed to implement a buy-and-maintain corporate bond portfolio as part of a bespoke cash flow matching strategy. This strategy was created to cash flow match the 'low-risk' bucket of liabilities that are valued on a corporate bond basis, in order to reduce funding risk in respect of these liabilities and will be inflation hedged. Performance will be monitored as part of the routine risk report Mercer presents to Panel each quarter.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

- 7.1 As at 30 June 2019 all asset allocations were within the control ranges for rebalancing based on the strategic benchmark.

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 STEWARDSHIP UPDATE

- 8.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	1230
Resolutions voted:	18145
Votes For:	16322
Votes Against:	1319
Abstained:	193
Withheld* vote:	311

** 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.

8.3 Brunel Responsible Investment & Stewardship Activity: Over the quarter, Hermes (Brunel's appointed voting and engagement provider), have engaged with 55 companies held by Avon in the Brunel segregated portfolios on a range of 113 ESG issues. Environmental topics have featured in 22.1% of engagements, 60% of which relate directly to climate change. Social topics featured in 23% of engagements, where diversity and human rights featured prominently. Of the 43.4% of Governance related engagements the majority of discussions revolved around executive remuneration. Additionally, Brunel supported a call for dissent initiated by The New York State Common Retirement Fund following the SEC's decision to block a ClimateAction100+ led shareholder resolution calling for ExxonMobil to set GHG targets. Brunel utilised their voting policy to withhold support for re-election of all ExxonMobil directors and to vote in favour of an independent chair, climate change board committee and for a report on lobbying. The vote was directed across all passive equity holdings (Exxon is not held in any Brunel active equity mandates). Whilst these resolutions did not win majority support they gained strong support with 40% of investors voting in favour of an independent chair and 37% in favour of disclosure of lobbying activity.

9 COST TRANSPARENCY DISCLOSURE

- 9.1 LGPS funds are required to disclose their investment management costs in their annual report in line with the Code of Transparency ('The Code') framework from 2018/19. Our 2018/19 annual report discloses these costs in line with CIPFA guidance.
- 9.2 The Code provides greater transparency of the total fees and costs for each investment mandate. This is particularly significant where we invest via pooled fund where the costs are usually charged to the underlying assets (indirect costs). The Fund includes estimated *annual management fees* for all pooled investments in its Statement of Accounts but other fees and transaction costs are not included. The value of assets and performance data is stated after all costs and therefore the fuller cost disclosure does not affect investment performance or the value of assets.
- 9.3 Standardised disclosure templates have been provided by those managers that have signed up to the Code. These were only issued in May 2019 which means that for 2018-19 the Fund has not received data from all its managers, particularly for the alternative and private market mandates as the templates were not developed in time. Brunel has signed up to the Code and expects all managers they appoint for their portfolios to also be signatories.
- 9.4 Where full disclosure has not been provided only the base management and performance fees have been included. 70% of the managers provided full disclosure including the Fund's five segregated mandates and nine pooled fund managers. Cost reporting for private markets assets does not extend beyond management fees but all of the Fund's private market managers have stated their intention to submit data for next year.
- 9.5 Overall the annual management fees are c. 41 bps, rising to 53 bps including performance fees. Transaction costs add another 12.5 bps to overall costs. The actual costs are determined by the strategies implemented. The Fund has a number of risk management strategies that add an extra layer of costs as they 'overlay' the underlying assets. In addition a significant proportion of assets are invested in alternative investment strategies and private markets which are more expensive than investing in listed assets.

9.6 The table below summarises the costs in line with CIPFA guidance for annual reporting for the year ending 31 March 2019:

	Direct costs £'000	Indirect costs £'000	Total £'000	Bps
Management fees	4,155	15,342	19,497	40.9
Performance fees	5,765	-	5,765	12.1
Indirect & other fees	470	677	1,147	2.4
Total fees	10,390	16,019	26,408	55.4
Asset pool shared costs	1,017	-	1,017	2.1
Transaction costs				
Transaction taxes	590	373	963	2.0
Broker Commission	259	1,408	1,668	3.5
Implicit costs	442	1,331	1,773	3.7
Entry/exit charges	-	51	51	0.1
Indirect transaction costs	1,099	448	1,546	3.2
Other transaction costs	-	(35)	(35)	(0.1)
Total transaction costs	2,389	3,577	5,966	12.5
Total Fees & Costs	13,796	19,595	33,392	70.0

9.7 Direct costs are those costs that are directly invoiced to the Fund or incurred by the segregated mandates and recorded in the custody account. Indirect costs are those charged to the underlying investments, mainly in pooled mandates. The fee rates in basis points (bps) shown in the table are the fees and costs expressed as a percentage of the value of the assets.

9.8 Performance fees in the year of £5.7 million were paid to the Fund's infrastructure and global property managers.

9.9 The Asset Pool shared costs represent the Brunel fees for managing and operating the pool and also includes consultancy costs associated with administering the Brunel client and oversight arrangements. The investment fees and costs paid on the Brunel portfolios are included in each category.

9.10 Transaction costs include broker commissions, transactions taxes, implicit costs, indirect transaction costs and other transaction costs. The costs associated with the transition of assets to Brunel are not included in this analysis. The negative 'Other Transaction costs' is due to anti-dilution levy charged within one of the funds we invest in, which was to the advantage of existing investors.

10 RISK MANAGEMENT

10.1 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. 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.

11 CLIMATE CHANGE

11.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee

12 OTHER OPTIONS CONSIDERED

12.1 None.

13 CONSULTATION

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	

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AVON PENSION FUND VALUATION - 30 JUNE 2019

	Brunel Portfolios	Passive Multi-Asset	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	Multi	BlackRock	BlackRock	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	JP Morgan	Pyrford	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities																		
UK	193.1			186.0													379.2	7.7%
Emerging Markets					123.3	113.8											237.1	4.8%
Global Developed Markets			469.1	11.7			409.1										889.9	18.0%
Global Low Carbon	556.9																556.9	11.3%
Equity Derivatives ¹			-41.4												22.5		-18.9	-0.4%
Total Overseas	556.9		427.7	11.7	123.3	113.8	409.1										1642.5	33.7%
Total Equities	750.0		427.7	197.7	123.3	113.8	409.1								22.5		2044.2	41.3%
Exchange-Traded Funds		75.3															75.3	1.5%
DGFs									221.0	387.9							608.9	12.3%
Hedge Funds								239.8									239.8	4.8%
MAC											424.0						424.0	8.6%
Property												223.7	214.9				438.6	8.9%
Infrastructure														352.1			352.1	7.1%
Renewable Infrastructure	10.6																10.6	0.2%
Secured Income	16.9																16.9	0.3%
LDI Assets & Bonds																		
LDI Assets			553.2														553.2	11.2%
Corporate Bonds			119.1														119.1	2.4%
Total Bonds			672.3														672.3	13.6%
Cash				14.0			6.3					18.5				52.2	91.0	1.8%
FX Hedging															-29.0		-29.0	-0.6%
TOTAL	777.6	75.3	1100.0	211.7	123.3	113.8	415.4	239.8	221.0	387.9	424.0	242.1	214.9	352.1	-6.4	52.2	4946.3	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 JUNE 2019

SEPTEMBER 2019

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IMPORTANT NOTICES

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Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

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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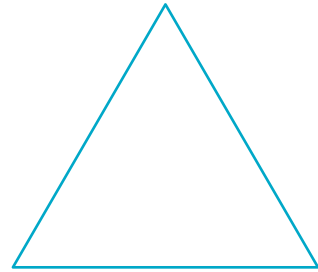
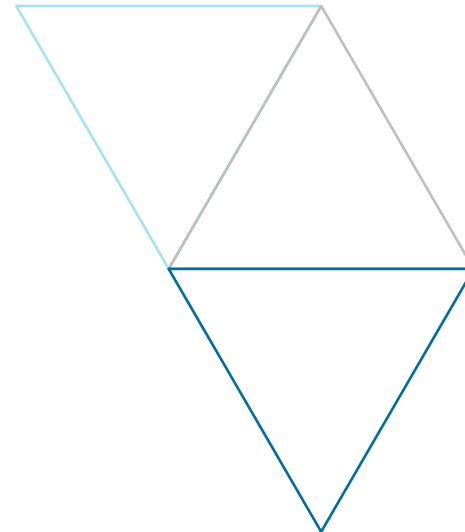
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SECTION 1

EXECUTIVE SUMMARY

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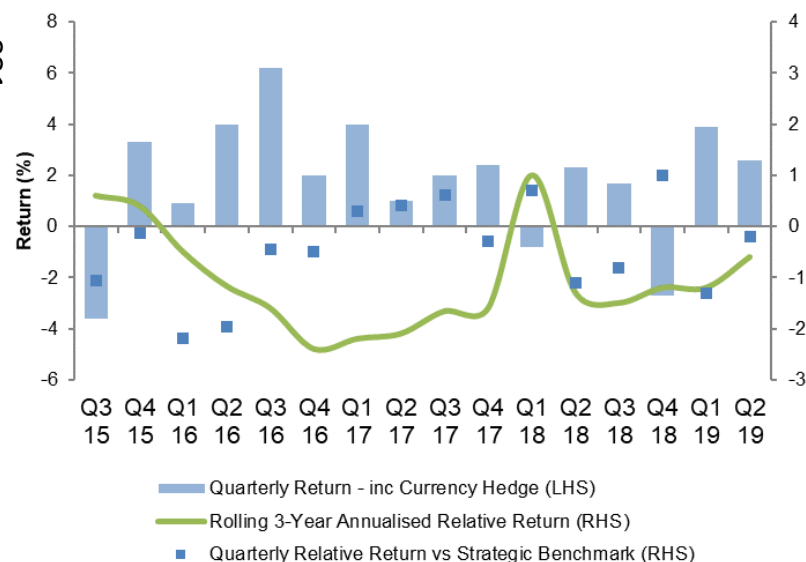


EXECUTIVE SUMMARY

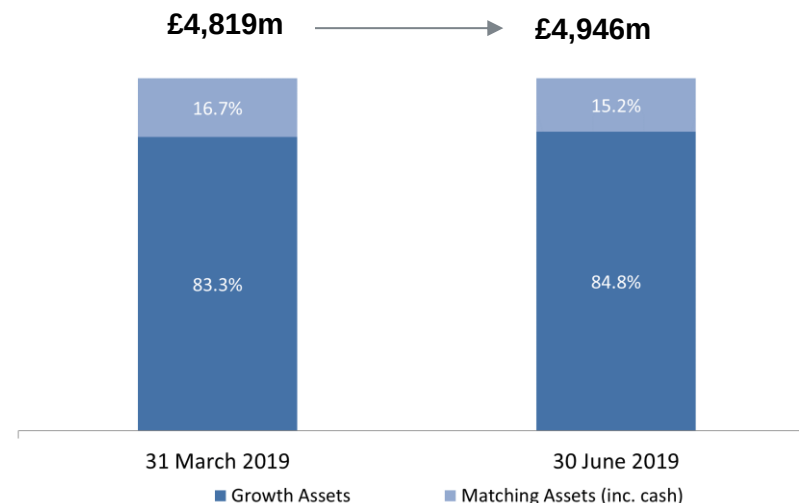
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund	2.6	5.5	8.4
Total Fund (ex currency hedge)	3.4	6.5	8.9
Strategic Benchmark (ex currency hedge)	2.5	7.0	8.7
Relative	+0.1	-1.5	-0.3

Excess Return Chart

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Asset Allocation



Commentary

Over the quarter, total Fund assets increased from £4,819m to £4,946m. This increase was driven primarily by positive returns from overseas equities and infrastructure.

At the end of the quarter, all asset classes were within the agreed tolerance ranges.

The Fund outperformed the Strategic Benchmark over the quarter, however underperformed over the one year and three year periods. Since Sterling depreciated over all these horizons, the currency hedging mandate has detracted value.

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel of the Avon Pension Fund (“the Fund”), to assess the performance and risks of the investment managers of the Fund.

Funding Level

- The estimated funding level increased by c.2% over the second quarter to c.98% as the assets increased by a greater extent than the liabilities.

Fund Performance

- The value of the Fund’s assets increased by £127m over the second quarter of 2019, to £4,946m as at 30 June 2019. This increase was driven primarily by positive returns from overseas equities and infrastructure.

Strategy

- Global (developed) equity returns over the last three years were 14.2% 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). Developed market equities had another strong performing quarter. The overall macro environment remains supportive of moderate but solid global growth and low inflation in the medium term. The recent dovish turn in monetary policy, including expected rate cuts in the US and potential easing measures in the Eurozone was deemed a positive development for equity investors.
- Emerging market equities have returned 12.5% 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. Valuations remain attractive relative to broad market equities and close to or only marginally above their respective long-term averages, although valuation metrics deteriorated moderately by most measures. Even though the macro outlook for emerging markets has softened a bit, it remains fairly benign and could improve considerably should the trade dispute ultimately be settled.
- UK government bond returns over the three-year period remain higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 3.1% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 6.0% p.a. versus an assumed return of 2.15% p.a. Gilt yields decreased over the quarter, and as a result gilt returns were positive over the period.
- UK corporate bonds returned 4.0% p.a. over the three-year period, above the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 6.6% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns were flat over the quarter, and 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 years.
- The Fund’s currency hedging policy was negative overall for Fund performance, since Sterling depreciated against major foreign currencies over the quarter.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were on the whole positive, with the strongest performance coming from the global equity managers. The Fund's fund of hedge funds, infrastructure and multi-asset credit mandates were strong performers over the period and the two Diversified Growth Fund ("DGF") also generated positive returns.
- Absolute returns over the year to 30 June 2019 were broadly positive across the Fund's investment managers with all of the managers (aside from one of the DGF managers and the UK equity manager) delivering positive returns over the period.
- In terms of relative performance, the majority of the active equity managers outperformed their benchmarks over the quarter, although the defensive active emerging market equity manager and UK equity manager underperformed their benchmarks.
- The majority of the Fund's active managers have underperformed on a relative basis over the year to 30 June 2019. However, the infrastructure and global sustainable equity mandates have generated strong relative returns over the one-year period.

Over the three-year period, all mandates with a three-year track record produced positive absolute returns. The majority of active funds underperformed their benchmarks over the period, with only the infrastructure and UK property mandates generating positive relative returns.

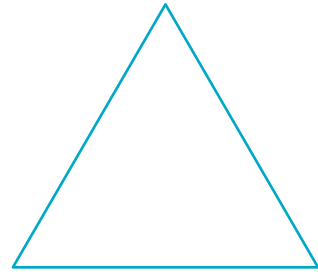
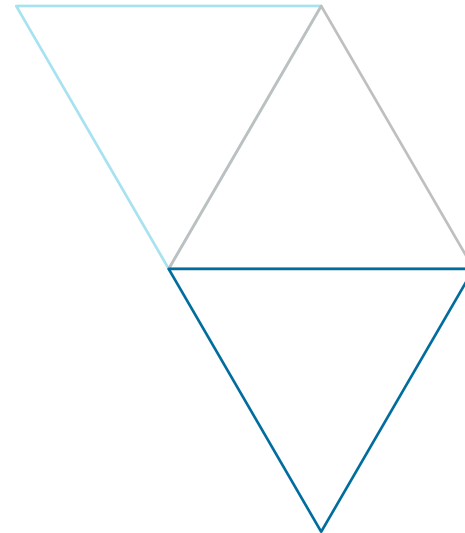
Key Points for Consideration

- In April/May 2019, the bespoke buy-and-maintain corporate bond strategy was implemented with BlackRock, replacing the legacy passive corporate bond holding, in order to better match the Fund's low-risk liability bucket. The strategy is now held within the Fund's QIF, alongside the other risk management mandates (LDI and equity protection). As part of the implementation process, £30m was switched from the LDI mandate to increase the allocation to corporate bonds, given the increase in scope of the low-risk liability bucket previously agreed by the Committee.

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

The global economy continued to slow down even though a recession is still deemed unlikely for this year. Capital expenditure and manufacturing are weak while services are holding up and labour markets remain strong. Trade tensions between the US and China resurfaced over the quarter as the expected trade settlement did not materialize and further tariffs were levied on China instead. This had a negative impact on business confidence.

In the UK, GDP expanded by 1.8% over the year to Q1, the strongest pace of expansion since mid-2017 probably due to stockpiling ahead of the original Brexit date. CPI inflation fell to 2.0% at the end of May, and the Bank of England kept short-dated interest rates at 0.75% and offered a more dovish outlook.

Within global equity markets, the US economy grew by 3.2% over the year to Q1 but this is expected to have slowed to 2.5% over the year to Q2. The Federal Reserve's more dovish stance has calmed markets to an extent. A strong labour market and rising real wages have boosted consumption leading to an overall stable albeit slightly softer economic environment. Eurozone growth expectations have weakened with manufacturing PMIs indicating a contraction, and Japanese growth expectations have also slowed.

Emerging markets started to see a slightly more favourable environment as US monetary policy started to turn more dovish. However, GDP growth in larger countries such as Brazil, China and India continued to slow and current account balances deteriorated. The uncertainty over trade is taking a toll on the region and especially China.

Bond Market Review

Nominal yields were again down across the curve over the quarter.

The Over 15 Year Gilt Index generated a return of 2.0%, though this underperformed the broader global bond market over the quarter.

Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 2.0% as a result.

Credit spreads fell over the quarter as investors maintained allocations to risky assets. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.2% p.a., and UK credit assets delivered a return of 2.0% over the quarter.

Currency Market Review

Over the second quarter of 2019, Sterling weakened against the US Dollar, the Euro and the Yen (by 2.3%, 3.7% and 4.9%, respectively).

Commodity Market Review

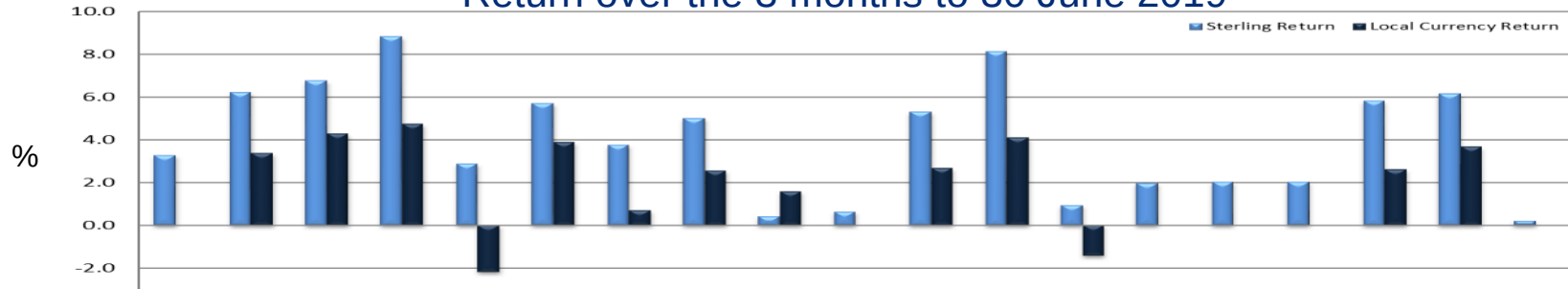
Commodity performance was overall negative over the quarter. Precious metals returned 8.3% as gold rallied amid inflation concerns after central banks turned dovish again. Energy was down as America's role as marginal energy producer offset renewed instability in the Middle East following attacks on oil tankers believed to have been instigated by Iran and subsequent tightening of sanctions. Industrials metals fell amid global growth fears while agricultural commodities were up.

Source: Thomson Reuters Datastream.

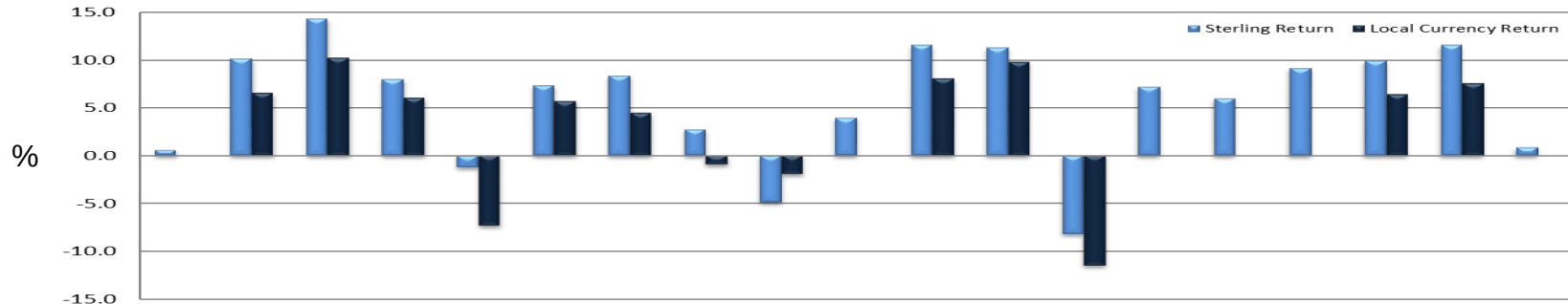
MARKET BACKGROUND

INDEX PERFORMANCE

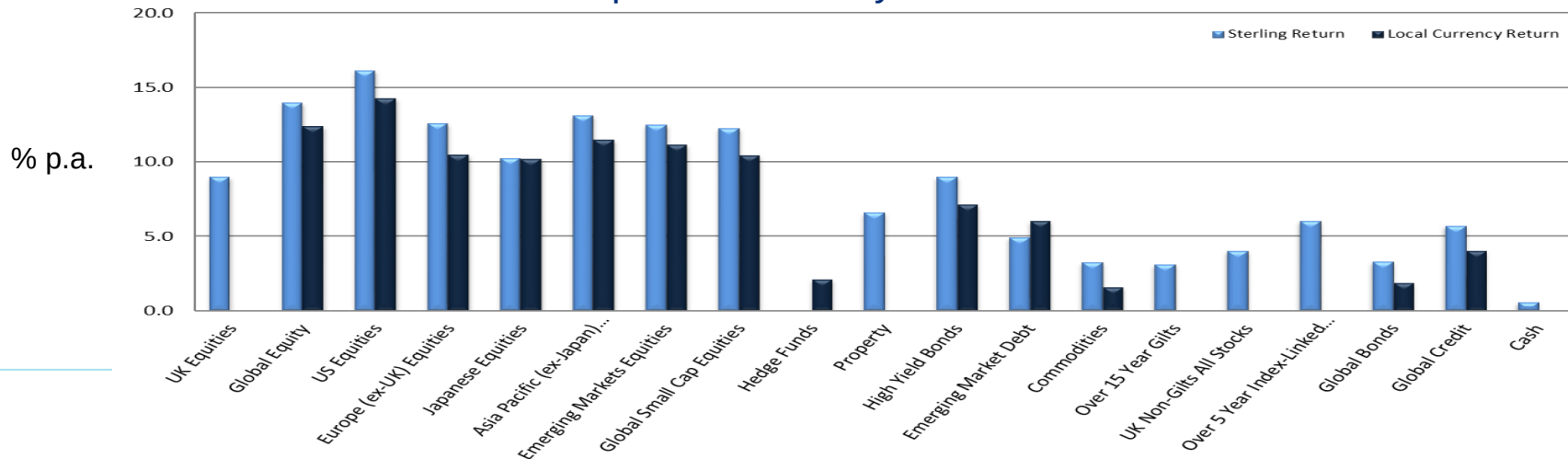
Return over the 3 months to 30 June 2019



Return over the 12 months to 30 June 2019



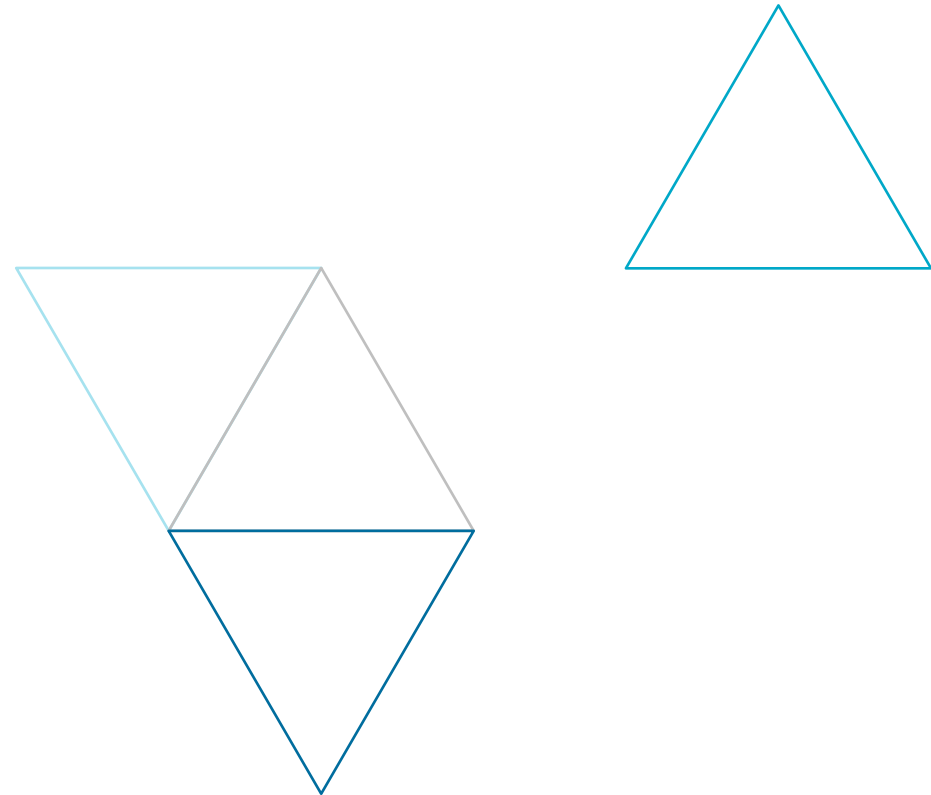
Return p.a. over the 3 years to 30 June 2019



SECTION 3

STRATEGIC CONSIDERATIONS

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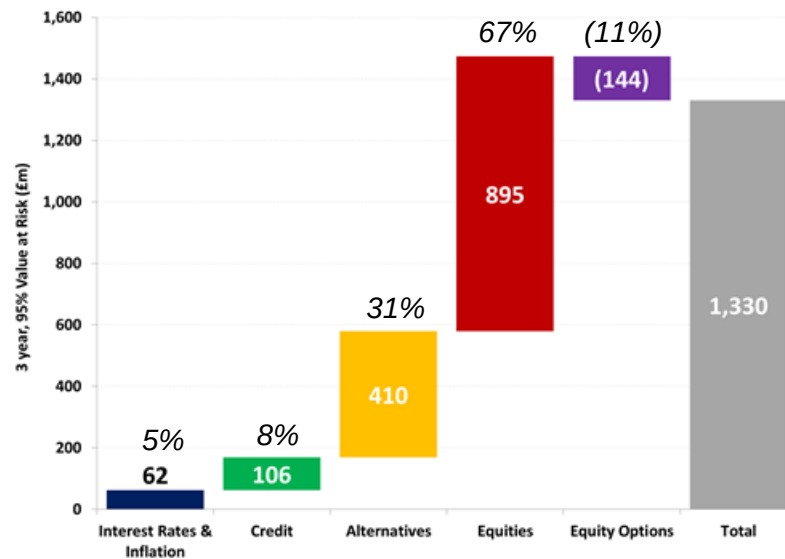
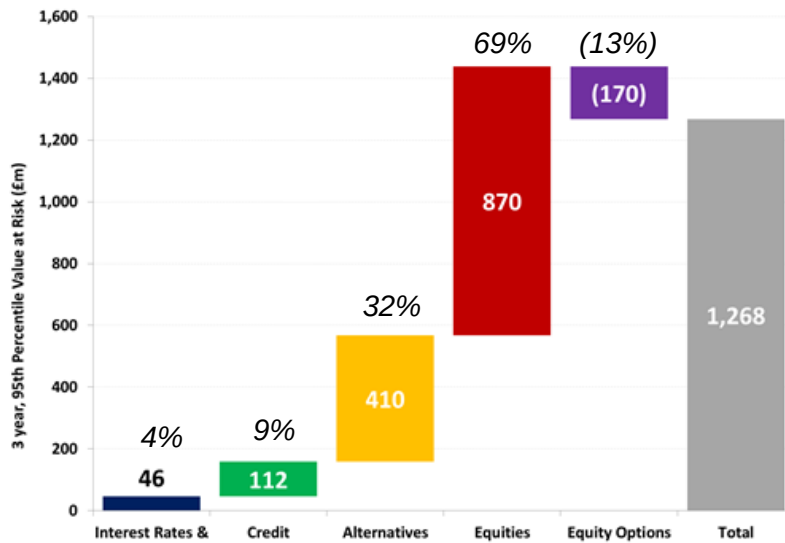
STRATEGIC CONSIDERATIONS

RISK DECOMPOSITION

31 March 2019

Page 238

30 June 2019



- 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 June 2019, 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 **£1.3bn** on top of the current deficit of **£0.1bn**, creating a deficit of at least **c.£1.4bn**.
- 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 increased by c.£62m over the quarter**. This is largely attributable to the continued rise in equity markets over the period, resulting in a higher total asset value, as well as a higher proportion of total assets being held in equities at quarter end.

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	14.2	Remains ahead of the assumed strategic return. This fell slightly from 15.0% p.a. last quarter, as the latest quarter's return of 6.5% was slightly lower than the return of Q2 2016, which fell out of the 3 year return.
Emerging Market Equities (FTSE AW Emerging)	8.70	12.5	The three year return from emerging market equities has decreased from 14.5% p.a. last quarter, as the return of 3.8% over Q2 2019 was materially lower than the return for the quarter that fell out of the period (9.5%). 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 attractive return over the long term but with lower volatility than equities – 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	3.1	UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages. Over the last quarter, returns were positive for nominal gilts and index linked gilts as yields fell. Corporate bond returns are above the assumed strategic returns.
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	6.0	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.0	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	0.0	Hedge fund returns were flat again over the quarter and 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	6.6	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 0.6% over the second quarter of 2019.
Infrastructure (S&P Global Infrastructure)	6.95	10.6	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 – Q3 2019

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive

Mercer's current DAA position/view

Position/view last time (if changed)

Equities



Growth Fixed Income & Property (Core)



Protective Assets

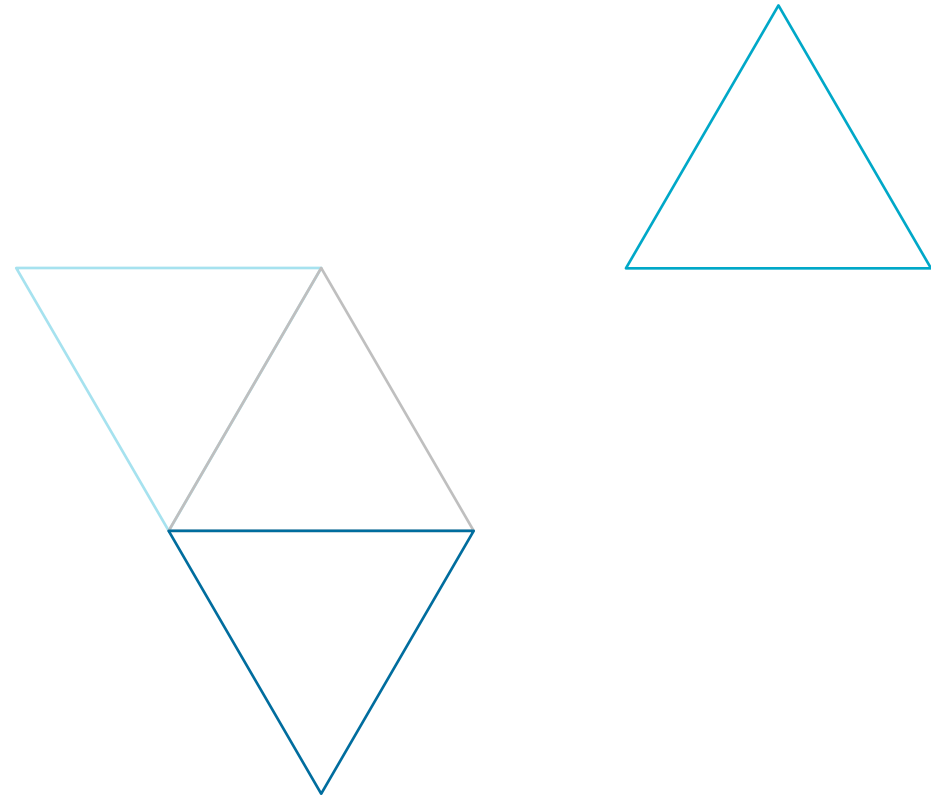


The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

SECTION 4

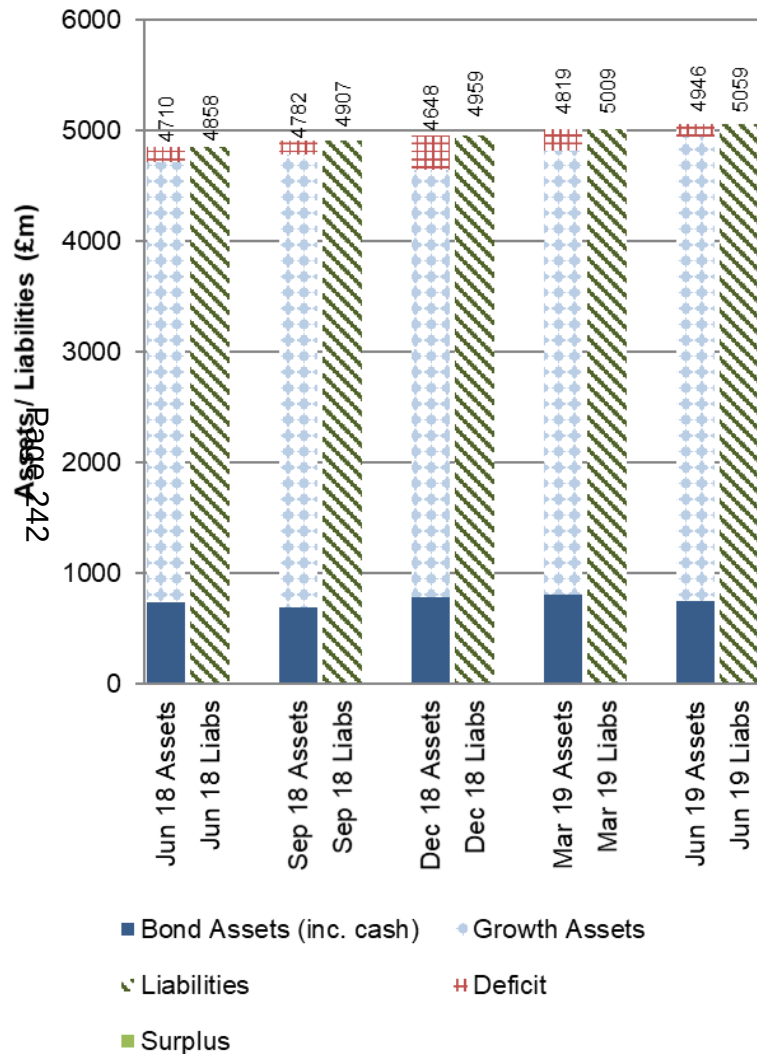
CONSIDERATION OF FUNDING LEVEL

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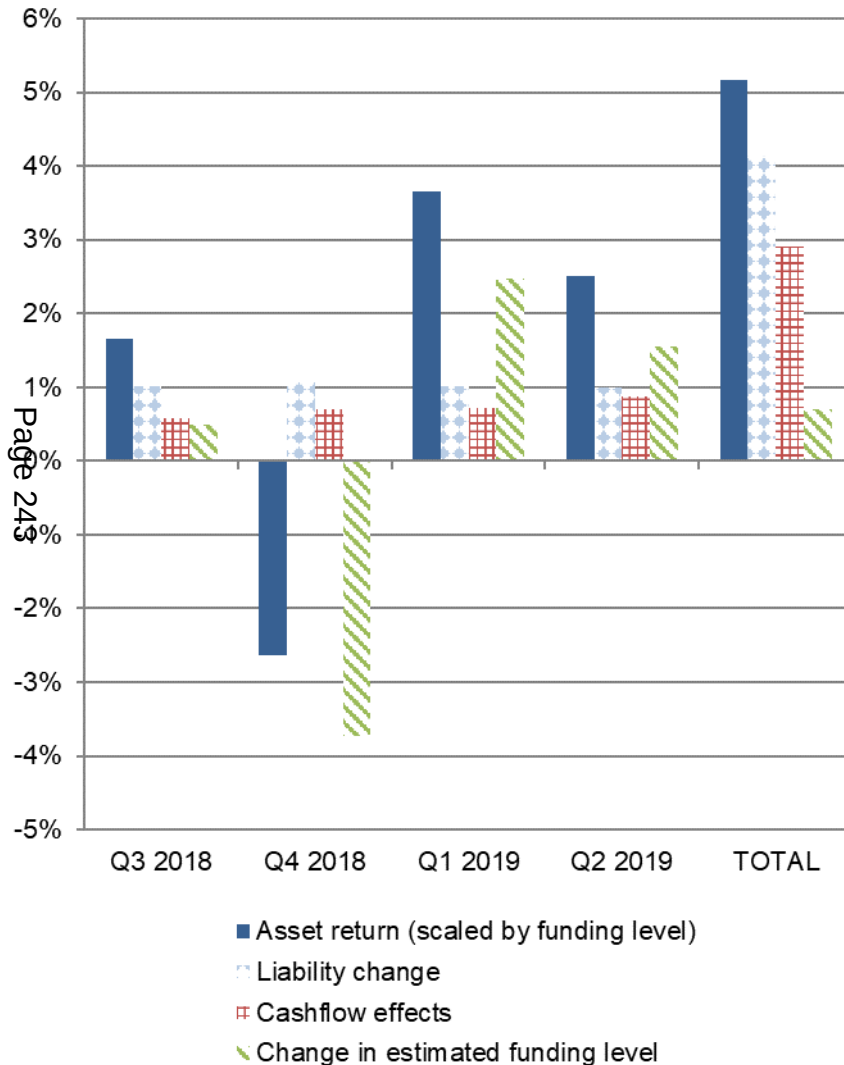
CONSIDERATION OF FUNDING LEVEL

ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level increased by c.2% over the second quarter of 2019 from 96% to 98%, all else being equal.
- This improvement resulted from the positive return on the Fund's assets, which outweighed 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

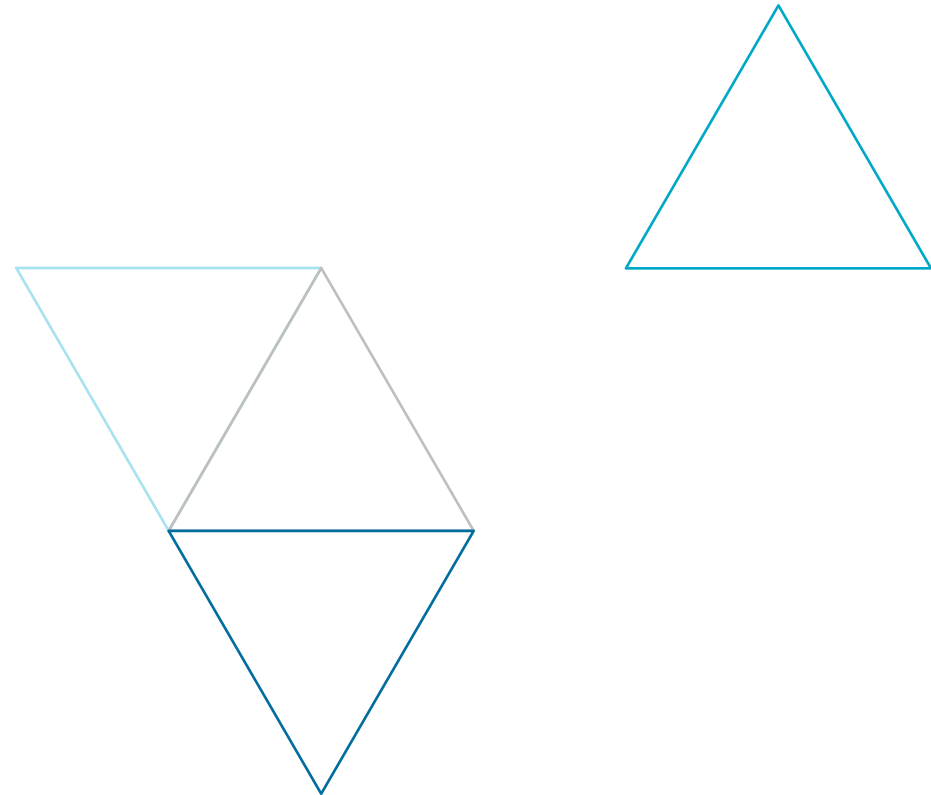


- The Fund's assets returned 2.6% over the quarter which, when allowing for the funding position, increased the funding level by 2.5%.
- The Fund's estimated liabilities increased by 1.0% over the quarter.
- Over this quarter, the 'cashflow effect' from contributions was positive but small.
- Overall, the combined effect has increased the estimated funding level, from 96% to 98%.
- Over the one-year period, the estimated funding level has increased by c.1%

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	1,744,532	1,847,732	36.2	37.4	34.0	29	-	39	+3.4
Emerging Market Equities	228,531	237,109	4.7	4.8	6.0	3	-	9	-1.2
Diversified Growth Funds	597,717	608,926	12.4	12.3	15.0	10	-	20	-2.7
Fund of Hedge Funds	232,127	239,766	4.8	4.8	5.0	0	-	7.5	-0.2
Property	458,157	474,133	9.5	9.6	10.0	5	-	15	-0.4
Infrastructure	342,723	362,675	7.1	7.3	5.0	0	-	7.5	+2.3
Multi-Asset Credit	410,444	424,019	8.5	8.6	11.0	6	-	16	-2.4
Corporate Bonds	86,168	119,134	1.8	2.4	2.0	No set range			+0.4
LDI*	568,083	511,798	11.8	10.3	12.0	No set range			-1.7
Cash (including currency instruments)	150,553	121,101	3.1	2.4	-	0	-	5	+2.4
Total	4,819,035	4,946,392	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 £127m due to positive returns from overseas equities and infrastructure in particular. 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 (%)
BlackRock	Global Equities	440,339		469,102	9.1	9.5
BlackRock	Corporate Bonds	86,168	+30,000	119,134	1.8	2.4
BlackRock	LDI*	568,083	-30,000	511,798	11.8	10.3
BlackRock	Cash	71,639		75,328	1.5	1.5
Brunei	Global Low Carbon Equities	520,926		556,894	10.8	11.3
Brunei	UK Equities	187,270		193,138	3.9	3.9
Jupiter	UK Equities	194,848		200,068	4.0	4.0
Jupiter	Global Sustainable Equities	10,740		11,679	0.2	0.2
Schroder	Global Equities	390,103		416,537	8.1	8.4
Genesis	Emerging Market Equities	117,600		123,271	2.4	2.5
Unigestion	Emerging Market Equities	110,931		113,837	2.3	2.3

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	218,582		221,023	4.5	4.5
Ruffer	DGF	379,136		387,902	7.9	7.8
JP Morgan	Fund of Hedge Funds	232,127		239,766	4.8	4.8
Schroder	UK Property	240,276		242,250	5.0	4.9
Parsons	Property	201,187		214,950	4.2	4.3
Brunel	Secured Income	16,695		16,933	0.3	0.3
IFM	Infrastructure	331,571		352,075	6.9	7.1
Brunel	Infrastructure	11,152		10,600	0.2	0.2
Loomis Sayles	Multi-Asset Credit	410,444		424,019	8.5	8.6
Record Currency Management	Currency Hedging	29,631		-6,405	0.6	-0.1
Internal Cash	Cash	49,283		52,178	1.0	1.1
Total		4,819,035		4,946,392	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

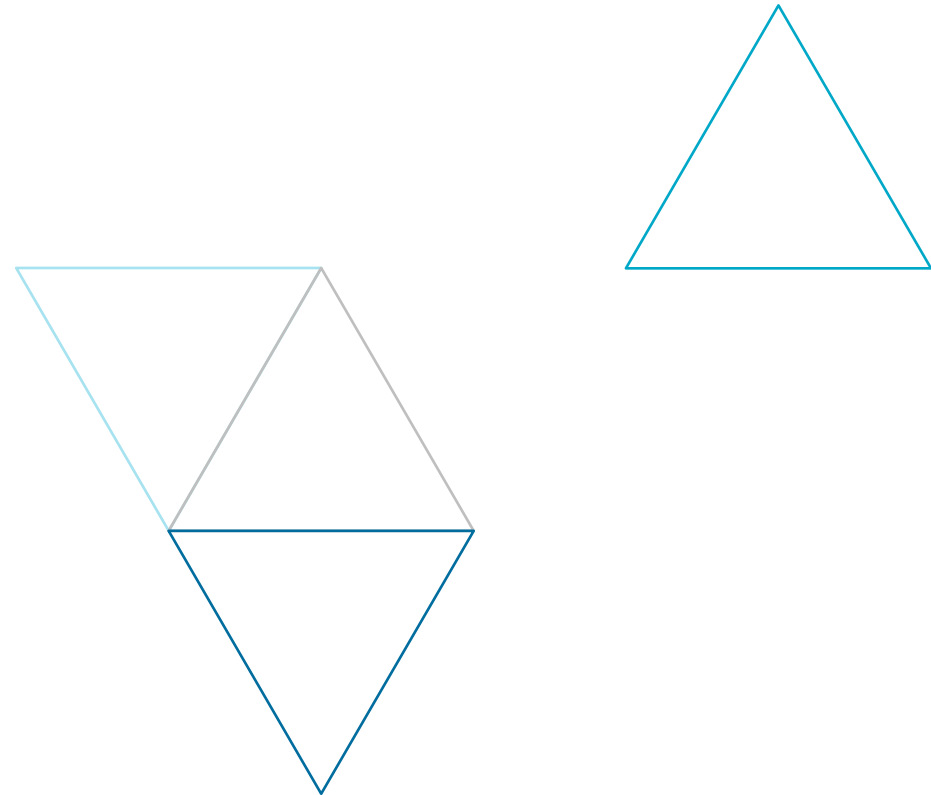
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

SECTION 6

PERFORMANCE

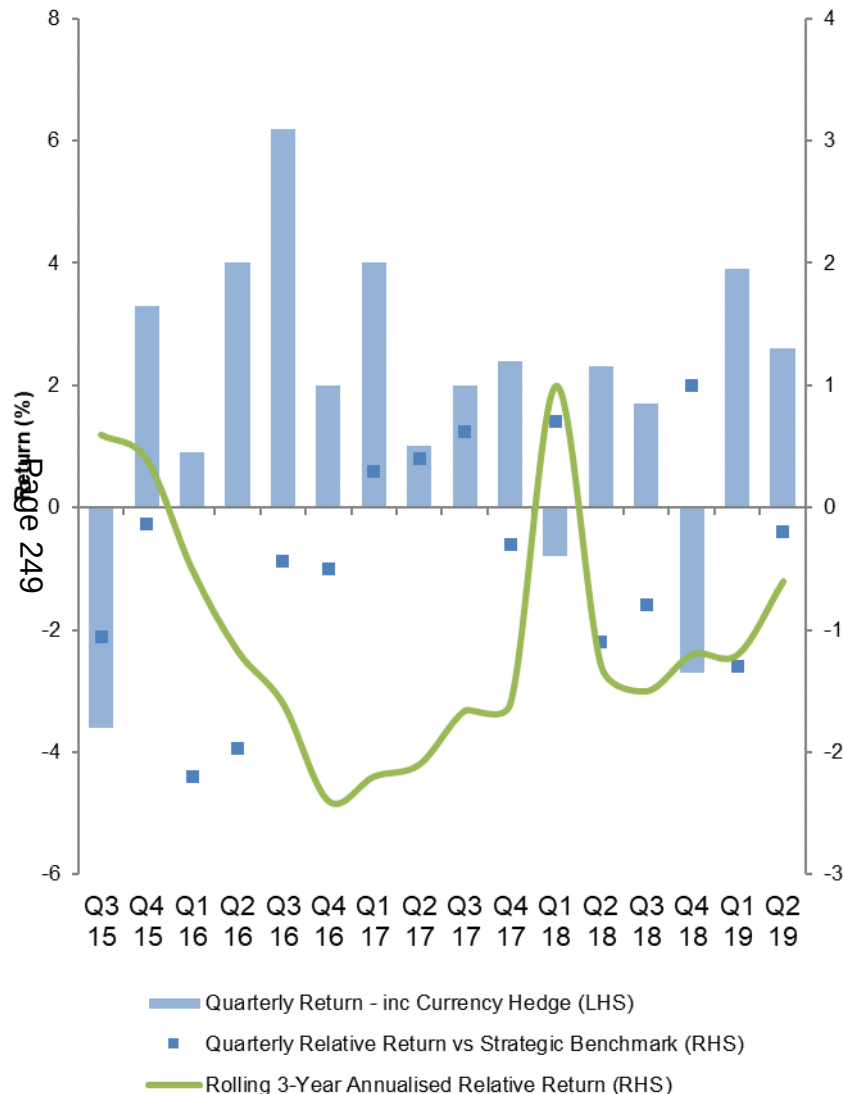
SUMMARY

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PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE

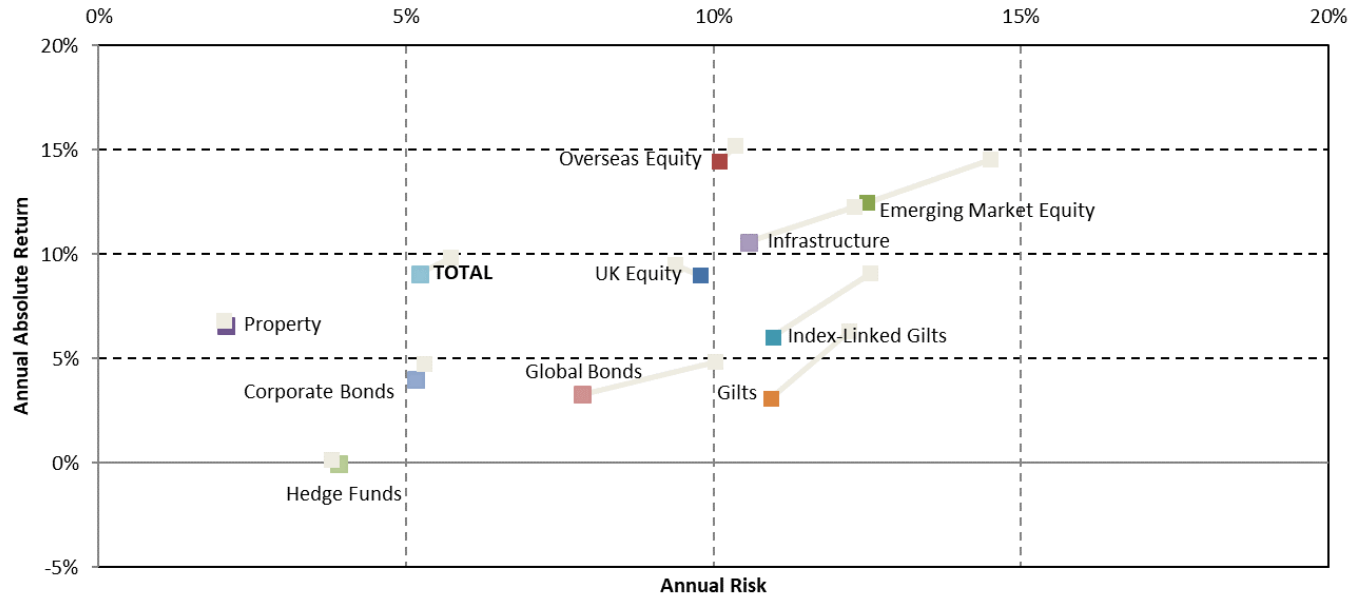


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund	2.6	5.5	8.4
Total Fund (ex currency hedge)	3.4	6.5	8.9
Strategic Benchmark (ex currency hedge)	2.5	7.0	8.7
Relative	+0.1	-1.5	-0.3

- Over the quarter, the Fund outperformed the Strategic Benchmark by 0.1%. The Fund underperformed the Strategic Benchmark over the year by 1.5% and by 0.3% over the three year period.
- Since Sterling has depreciated over each of the periods in question, the Fund's currency hedging mandate has detracted value.

MANAGER MONITORING RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 30 June 2019

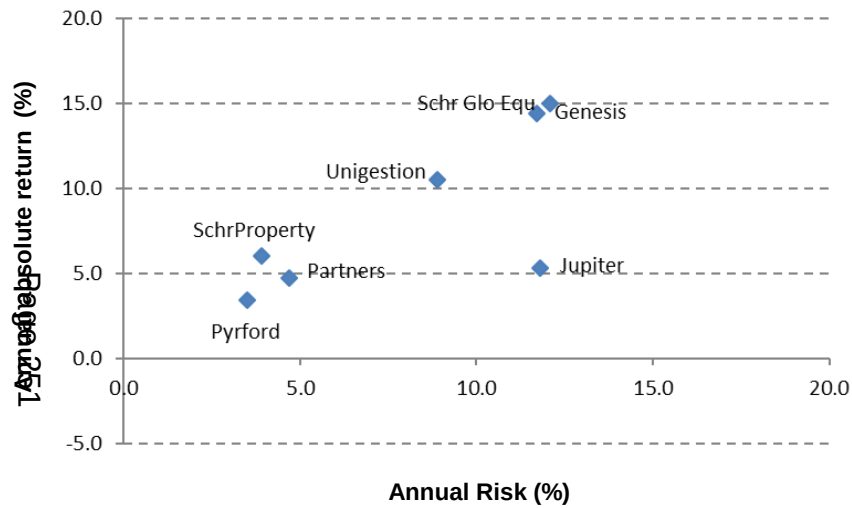


Comments

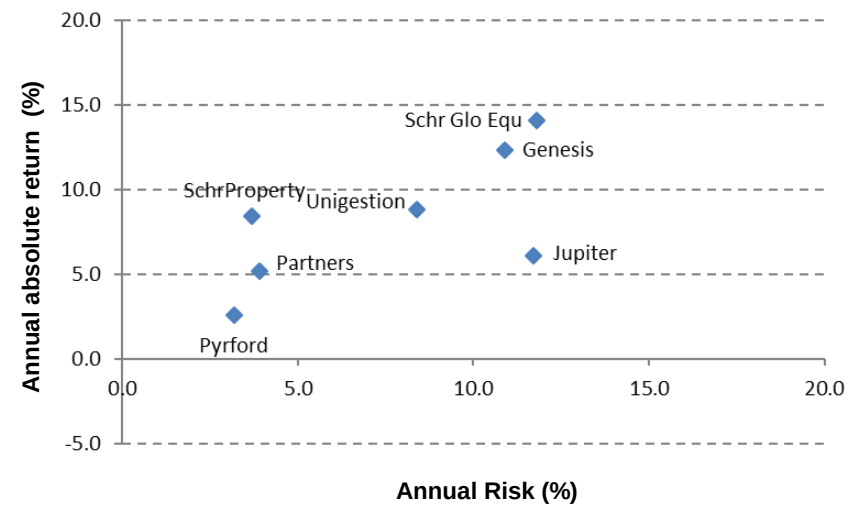
- This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2019, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.
- All asset classes saw decreases in observed returns over the three-year period, with notable falls coming from emerging market equity, infrastructure and gilts.
- Associated volatilities also fell across most asset classes, with notable declines coming from the same asset classes

MANAGER MONITORING RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 March 2019



3 year Risk vs 3 year Return to 30 June 2019



Comments

- The property mandates saw their three-year return increasing modestly over the quarter, while most of the equity and DGF mandates saw their three-year return fall slightly (with the exception of Jupiter).

MANAGER MONITORING

MANAGER PERFORMANCE TO 30 JUNE 2019

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.)		
BlackRock Equities	6.8	6.6	+0.1	14.4	13.7	+0.6	15.2	14.9	+0.2	-	N/A
BlackRock Corporate Bonds	2.1	2.1	0.0	8.6	8.7	-0.1	5.3	5.3	0.0	-	N/A
BlackRock LDI	0.7	0.7	0.0	8.7	8.7	0.0	6.8	6.8	0.0	-	N/A
BlackRock Cash ETF	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel UK Equity	3.1	3.3	-0.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Passive Low Carbon Equity	6.9	6.9	0.0	9.1	9.3	-0.2	N/A	N/A	N/A	-	N/A
Jupiter UK Equity	2.6	3.3	-0.7	-1.7	0.6	-2.3	6.1	9.0	-2.7	+2	Target not met
Jupiter Global Sustainable Equity	8.6	6.3	+2.2	16.6	10.3	+5.7	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	6.6	6.3	+0.3	10.2	10.3	-0.1	14.1	14.1	0.0	+4	Target not met
Generis	4.8	3.1	+1.6	8.8	5.4	+3.2	12.3	12.9	-0.5	-	Target not met
Unigestion	2.5	3.0	-0.5	4.5	5.0	-0.5	8.8	12.5	-3.3	+2-4	Target not met
Pyrford	1.0	2.8	-1.8	2.7	8.1	-5.0	2.6	8.4	-5.4	-	Target not met
Ruffer	2.1	1.4	+0.7	-1.5	5.9	-7.0	N/A	N/A	N/A	-	N/A
JP Morgan	2.0	1.5	+0.5	3.7	5.6	-1.7	5.0	4.7	+0.4	-	Target met
Schroder Property	0.7	0.6	+0.1	3.4	3.4	0.0	6.4	6.3	+0.1	+1	Target not met
Partners Property*	1.6	2.5	-0.9	4.2	10.0	-5.3	5.2	10.0	-4.4	-	Target not met
Brunel Secured Income	1.4	0.8	+0.6	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
IFM	3.7	1.5	+2.1	15.1	5.3	+9.3	14.1	4.3	+9.4	-	N/A
Brunel Infrastructure	6.5	0.8	+5.7	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Loomis Sayles	3.2	1.2	+2.0	5.8	4.9	+0.9	N/A	N/A	N/A	-	N/A

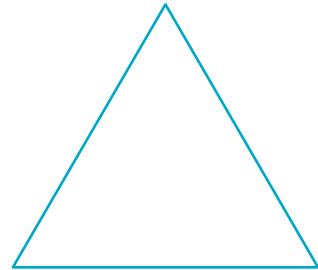
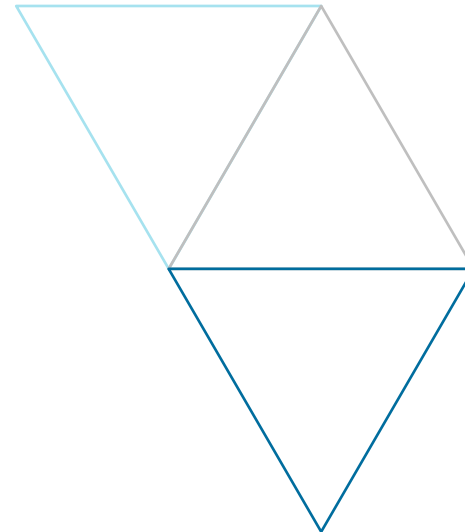
- Source: Investment Managers, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan and Partners, whose performance is shown as IRR in local currency terms, as well as IFM, whose performance is shown in TWR in USD 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 31 March 2019 as this is the latest date that this is available to.

APPENDIX 1

SUMMARY OF MANDATES

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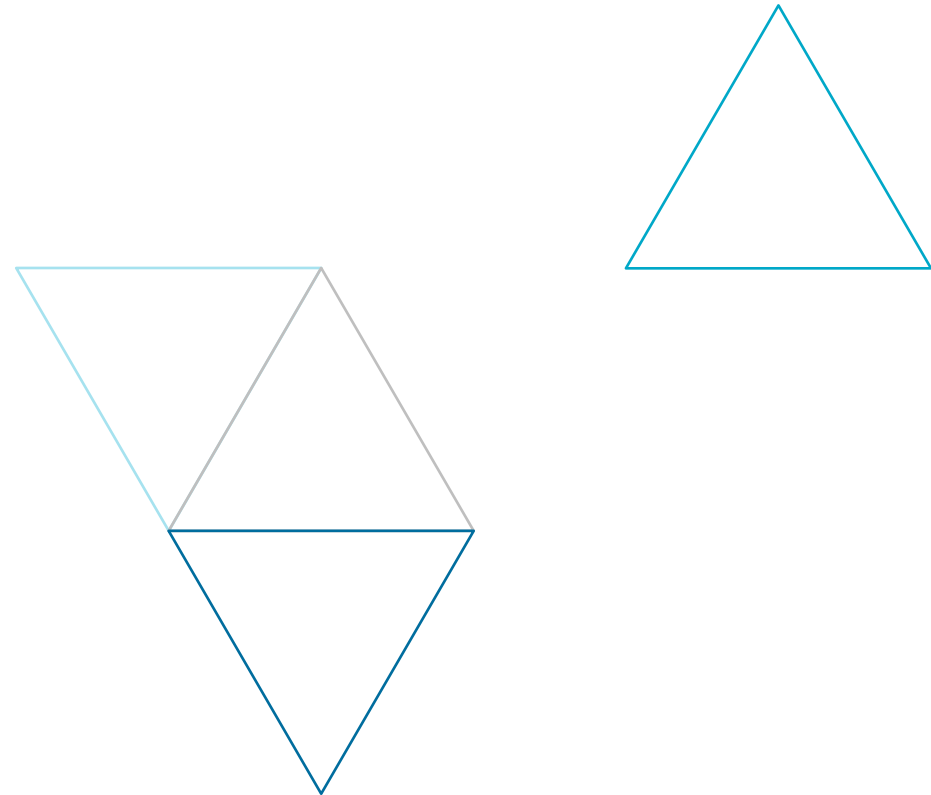
SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
Brunel	Passive Global Low Carbon Equities	MSCI World Low Carbon	-
BlackRock	Passive Global Equities	MSCI World	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Brunel	Active UK Equities	FTSE All Share	+2%
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.	-
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)	-
Brunel	Secured Income	CPI	+2%
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Infrastructure	CPI	+4%
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

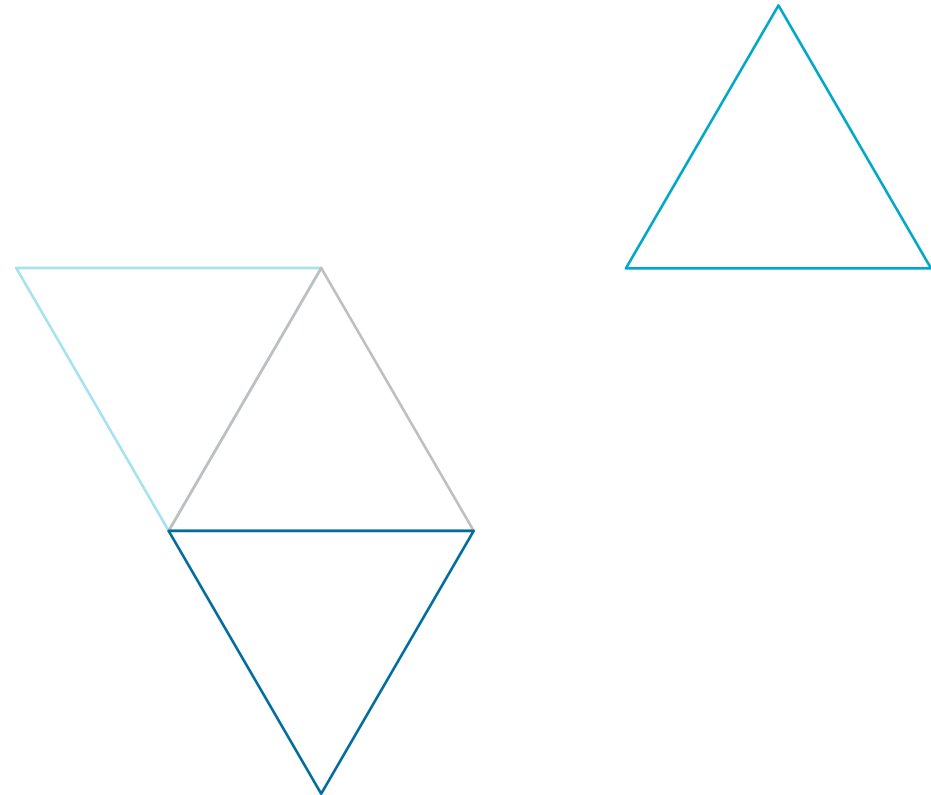
Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
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
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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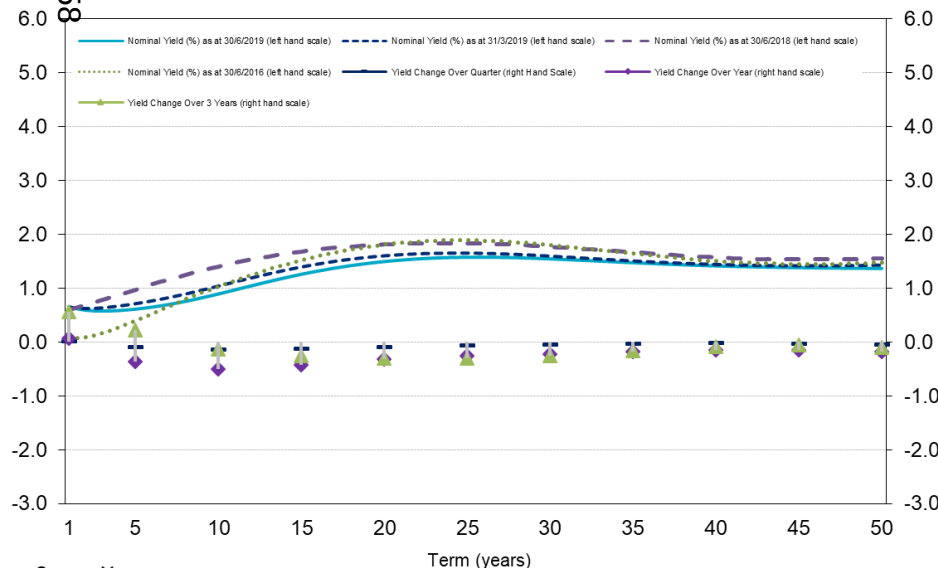
CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Jun 2019	31 Mar 2019	30 Jun 2018	30 Jun 2017
UK Equities	4.13	4.22	3.64	3.61
Over 15 Year Gilts	1.40	1.48	1.67	1.80
Over 5 Year Index-Linked Gilts	-1.89	-1.85	-1.58	-1.57
Sterling Non Gilts	2.16	2.34	2.50	2.24

- Nominal yields were again down across the curve over the quarter.
- The Over 15 Year Gilt Index generated a return of 2.0%, though this underperformed the broader global bond market over the quarter.
- Real yields also fell across the curve over the quarter. The Over 5 Year Index-Linked Gilts Index also returned 2.0% as a result.
- Credit spreads fell over the quarter as investors maintained allocations to risky assets. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.2% p.a., and UK credit assets delivered a return of 2.0% over the quarter.

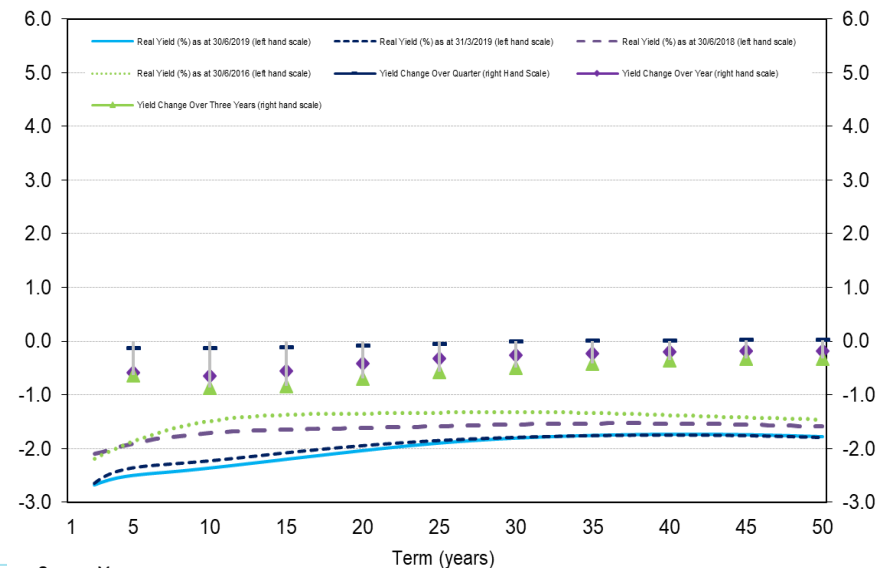
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Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY



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Quarterly
Engagement
report

April-June
2019

Local
Authority
Pension
Fund
Forum

Tailings dams, Persimmon, Centrica, BP, ArcelorMittal, Imperial Brands

TAILINGS DAMS

Investors call for action after Brazilian mining disaster

LAPFF uses community engagement to link stakeholder input to investor value

Objective: Improve responsibility and accountability within the mining sector

Achieved: Formation of a database to promote oversight and accountability of tailings dams.

In progress: Sector-wide collection of tailings dam data

The Investor Mining & Tailings Safety Initiative was created following the failure of a tailings dam at the Córrego do Feijão mining facility in Brumadinho, Brazil. The collapse occurred on January 25 and led to the loss of around 300 lives. The initiative, led by a group of investors with combined assets under management of around \$12.5 trillion, is governed through a steering committee chaired by the **Church of England Pensions Board** and the **Swedish Council of Ethics** of the AP Funds. LAPFF has played a significant role in supporting and liaising with the affected communities through this initiative, ensuring that the community voice forms part of ongoing narrative.

LAPFF was also a signatory to a letter that went to 683 companies requesting data on tailings storage facilities for which they are responsible. There is currently not a consolidated global register making assessing the risks associated with tailings storage facilities difficult. However, responses to this disclosure request are now coming in, with 197 companies submitting data so far and 114 companies stating that they do not have tailings dams.

As a result of the disclosure request a number of companies have now posted their tailings dam data. These companies include **Anglo American**, **Glencore** and

“Not only is the human impact of these dam collapses devastating, but we are starting to understand the extent to which failure to ensure dam safety has created risks for our investment portfolios. LAPFF is pleased to be part of the Investor Initiative on Mining and Tailings Safety, both to support safer dams and communities and to help build stronger companies that create better shareholder value for our beneficiaries.”

Councillor Doug McMurdo,
LAPFF Chair

“I’ve been to most of these investor meetings now. Seeing and hearing from community members about the horrific impacts of these dam collapses has been eye-opening and alarming. These disasters are good examples of how community interests, environmental interests and investor interests align in a need for better ESG practices by companies.”

Councillor Rob Chapman,
LAPFF Vice-Chair

Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which is being led by UNEP, PRI and ICM. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L’Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative on 10 June.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and as affected stakeholder liaison. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too. ●

TAILINGS DAMS



▲ The owner of British Columbia's Mount Polley mine confirms it has been served with search warrants as an investigation continues into the failure of a dam and possible Fisheries Act breaches. The dam's collapse in the early hours of Aug. 4 last year sent 24 million cubic metres of wastewater gushing into nearby lakes and streams. Contents from a tailings pond is pictured going down the Hazelton Creek into Quesnel Lake near the town of Likely, B.C. on August, 5, 2014.



▲ Disruption of Samarco dams in Mariana, Minas Gerais, southeastern Brazil, on November 9, 2015. On the fourth day, after breaking two tailings dam, Long Bar is still taken by the mud. The dams are between the municipalities of Mariana and Ouro Preto, about 60 kilometers from Long Bar.

COMPANY ENGAGEMENT



Cllr Chapman with CA100 representation at ArcelorMittal AGM

THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

ArcelorMittal commits to being carbon neutral in Europe by 2050

LAPFF's engagement with the largest global steel company, ArcelorMittal, continued with attendance at the AGM in Luxembourg. Addressing the company chair, Mr Mittal, Cllr Rob Chapman welcomed progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement. This has included exploring industrial-scale use of hydrogen at their Hamburg plant and testing circular and low carbon technologies across a number of sites. Cllr Chapman asked the company that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario and that Mr Mittal consider personally joining the Chairs of Rio Tinto and Royal Dutch Shell in the Energy Transitions Commission (ETC) which focusses on decarbonising hard-to-abate sectors. Mr Mittal responded that the company now plans to join the ETC and that they are looking at scenarios including the 1.5

CONTEXT

After chemicals, steel production is the second largest energy consumer among industrial sectors and the most carbon-intensive sector. Having had a couple of meetings last year and earlier this year with ArcelorMittal representatives, the company had showed some progress, including starting an industrial scale trial of using hydrogen in Hamburg in the electric arc process, initially using 'grey' hydrogen produced from natural gas, but with the potential to use hydrogen generated from renewable sources.

degree scenario. Meeting with Mr Mittal immediately after the AGM, LAPFF, with fellow Climate Action 100+ investors followed up on asking for a review of the companies lobbying and membership of trade associations, and about the adoption of science-based targets. Mr Mittal's clear message on the required transition was the need for a level playing field globally, and for the EU to implement a green border tax adjustment to address climate change whilst securing the competitiveness of European steel mills.

Since the AGM, ArcelorMittal has brought out its Climate Action Report which sets out the company's ambition

to significantly reduce CO₂ emissions globally and be carbon neutral in Europe by 2050.

Attendance at ArcelorMittal's SRI Roadshow provided useful context to their recently issued Climate Action report. Discussions covered developments in their hydrogen technology, partnerships with car companies, liaising with customers on the Steligence' concept for high-performance buildings and construction techniques and the challenges of different regional policy dimensions and how to report on these.

GOVERNANCE RISK

Persimmon headline

In his last engagement as LAPFF chair, Cllr Paul Doughty attended the Persimmon AGM. The company chair, Roger Devlin, apologised for the previous chief executive's pay award. Presentations from the chief executive and chair focused on how the company was seeking to change, including committing to paying the Living Wage and undertaking a review of customer care. Cllr Doughty asked, given the reputational damage the company had suffered and to safeguard against similar problems in the future, whether the board would consider appointing an employee to the board. This had been raised previously in engagement with the company. In response, Mr Devlin stated that he first wanted to see and understand how employee representatives would work in practice and that the company were keeping it under review.

Imperial Brands

Cllr Glyn Caron met with Imperial Brands to discuss the company's 'Next Generation Products' such as vaping. The meeting focused on how the company was diversifying its products away from traditional tobacco products and seeking to reduce harm. The discussion covered issues around the safety of new products, targets for shifting to less harmful products and marketing to children. Cllr Caron also asked about the company's approach to the emerging legal cannabis market.

COMPANY ENGAGEMENT



VOTING ALERTS

LAPFF issued voting alerts ahead of the **Facebook**, **Twitter** and **Alphabet** general meetings. The alerts recommended that members support shareholder proposals that the companies produce reports into the governance and management of inappropriate and illegal user-generated content. The Forum also supported a resolution for the appointment of an employee director at Alphabet (the parent company of Google) following several workforce-related problems.

LAPFF also issued voting alerts ahead of the **General Motors** and **Ford** meetings regarding their lobbying

activities on climate change and whether they were aligned with the Paris Agreement. The shareholder proposals received the backing of a large number of shareholders (29% and 16% respectively). These alerts followed collaborative engagements with the companies on climate change and federal reforms which are set to result in lower and more fragmented emissions standards in the US. There appeared to be progress on this front as the carmakers themselves have recently written to both President Trump and the Governor of California calling on them to resurrect discussions about a unified standard. At this point the White House has rejected the call by the sector. Nevertheless, with the encouragement of investors there remains an opportunity to find separate agreements between the car manufacturers and individual states to lower emissions.

Other climate-related voting alerts were issued in relation to the **BP**, **Rio Tinto**, **Andarko**, **Chevron** and **ExxonMobil** Annual General Meetings. Engagement with BP has been long-term, with ten LAPFF members co-filing the resolution to the company that requested it report on its strategy consistent with the Paris Agreement. Disclosure requested included how the Company evaluates the consistency of each new capex investment in exploration, acquisition or development

of oil and gas resources and reserves. The resolution was the outcome of engagement co-ordinated by the Climate Action 100+ (CA100) investor group. It outlined investor expectations relating to the consequences of the Company's strategy for its future business model and, after garnering support from the BP Board, it passed with 99% shareholder support. LAPFF is also a member of the CA100+ Exxon investor group. The two lead investors, the **New York State Common Retirement Fund** and the **Church Commissioners for England**, together with at least one LAPFF member fund, co-filed a shareholder proposal asking ExxonMobil to disclose short, medium and long-term targets for GHG emissions. In response, Exxon sought and obtained no action relief from SEC staff, and subsequently declined to include the proposal in its proxy materials for the 2019 annual general meeting. Consequently LAPFF recommended that member funds vote against the entire Board based on the company's inadequate approach to climate change. Previous engagement with Exxon concerning carbon emissions has failed to result in an adequate response by the company. This is in contrast to many of its industry peers who have taken active and transparent steps in an attempt to manage the energy transition and in doing so are better placed to protect and preserve value.

COMPANY ENGAGEMENT

Daejan Holdings

A meeting with the chair of Daejan Holdings and other investor representatives of the 30% Club Investor Group explored the approach to gender diversity across the company, including gender pay differentials and the approach to recruitment. Daejan Holdings is the only FTSE 350 company that has never had a woman on the board. Three directors were appointed to the board in 2017, all male. The chair considers that the board appoints on merit and no commitment was made to appointing a female director.

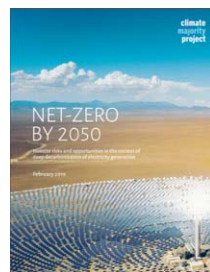
Climate Action 100+

LAPFF participated in a Climate Action 100+ investor meeting with the new chair of Centrica plc, Charles Berry. Taking on the role in February, his background indicates he is likely to take a pro-active stance in ensuring the strategic resilience of the company. His experience includes stints at SSE, Drax and Scottish Power, the latter company announcing late last year that it is set to switch to completely clean energy, replacing coal and gas with wind. He spoke about his focus on strategy, capital allocation and business decisions. The investor ask was articulated as a need for ambition by **Centrica** to show its long-term vision for decarbonisation, particularly of heat, and that it is committed to net-zero. It was considered Centrica could articulate its policy stance more strongly and draw in the concept of the 'Just Transition' in its relationship with employees and when any changes are made to the investment portfolio. These were noted by the chair.

Climate Majority Project

In the first quarter of 2019, as part of its involvement in the Climate Majority Project, LAPFF joined US investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050. Responses have come in from a number of companies including **Entergy Corporation, NextEra, NRG Energy, WEC Energy Group** and **Xcel Energy**. **Entergy's** most recent climate report and two-degree scenario analysis includes the latest carbon emissions reduction goal of

"Decarbonization can also create significant new opportunities for the electric power sector, as electrification of the economy can drive substantial demand growth just as the costs of renewable energy generation and battery storage are plummeting. Investors therefore have both a fiduciary interest and obligation to ensure that the electric utility industry is on track to achieve



netzero carbon emissions by 2050 at the latest"

50 percent reduction in the emission rate by 20130 from a 2000 base. NextEra is the world's largest producer of energy from wind and solar, and set out its target to reduce its own emissions by 65% by 2021, from a 2001 starting point. A response from NRG Energy reiterated the science-based targets set in 2014 for absolute operational emission reductions of 50% by 2030 and 90% by 2050. Customer emission reduction goals were provided in absolute amounts rather than a percentage figure, so it was more difficult to discern how stringent these are in reality. WEC Energy Group reports it will achieve a near term goal of emission reductions of 40% below 2005 levels well ahead of the 2030 target, and its 2050 goal is to reduce emissions by 80%. In 2018, Xcel achieved 38% reductions in carbon emissions associated with electricity provided to customers from a 2005 base, and announced a two-part carbon goal for its electricity business, namely 80% emission reduction by 2030 and carbon-free electricity by 2050.

After a meeting in March, follow-up correspondence to the **Southern Company** asked the company to commit to net-zero emissions by 2050 and to communicate this intention by September 2019 with corresponding details to be disclosed on board oversight responsibilities, the associated transition plan,

executive compensation mechanisms and the alignment of policy spending, trade association and lobbying activities.

Cllr Rob Chapman joined a collaborative call organised by the Climate Majority Project (formerly the 50/50 Climate Project) with US utility company **Dominion Energy**. The meeting focused on setting a net zero emissions target by 2050 and moves by the company to low and no carbon energy production. The discussion also covered board oversight of climate change, aligning executive compensation with a net zero target and alignment of political spending and membership of trade associations with meeting its stated objectives on emissions reduction.

General Motors and Ford

LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies continue to work with California to find solutions to reducing greenhouse gases. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. A bipartisan group of lawmakers has also urged the **US Department of Transportation, the US Environmental Protection Agency, and the California Air Resources Board** to return to good faith negotiating to work toward one national programme on fuel economy.

Chipotle

In January, LAPFF co-signed a letter directed to six of the largest global fast food companies. As part of a collaborative engagement facilitated by Ceres and FAIRR, LAPFF was lead investor in a collaborative meeting with American fast food giant Chipotle Mexican Grill. In a discussion with the company's Chief Corporate Responsibility Officer, Director of Sustainability and Director of Procure-

COMPANY ENGAGEMENT

ment, LAPFF quizzed Chipotle on its approach to managing water risk, board oversight and supply chain management. LAPFF also set out its expectations as an investor, challenging the company's practices in areas in which it was deemed to lag behind industry peers.

SOCIAL RISK

Tailings Dam Initiative

The investor tailings dam initiative which has developed out of the collapse of the Vale tailings dam in Brumadinho, Brazil, in late January is moving quickly. The disclosure request on tailings dams has gone to 680 mining companies, and a number of companies have now posted their tailings dam data on their website. These companies include Anglo American, Glencore and Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and liaising with representatives from the affected communities. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which has had its first meeting. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L'Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative in early June.



Engagement related to the war in Yemen

The Forum has written to nine defence contracting companies identified as having significant weapons sales to Saudi Arabia. These companies are: Boeing, General Dynamics, Raytheon, BAE, Lockheed Martin, Textron, Thales, Airbus and General Electric. LAPFF has asked the companies if they have undertaken human rights impact assessments in respect of their contracts with Saudi Arabia given the country's role in the war in Yemen. An additional request for information went to Boeing in relation to the crashes of the company's 737 MAX aircraft in Indonesia and Ethiopia.

EVENTS

In June, LAPFF attended the first annual Workforce Disclosure Initiative (WDI) conference in London. This included a panel on how better workforce disclosure can benefit companies, investors and the workforce. There were also breakout sessions on board-level gender equality and living wages in low-income countries, both specific areas of interest for the WDI. Overall, delegates seemed engaged and positive about the initiative.

"We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting"

Senator Gerry Horkan

RELIABLE ACCOUNTS

Irish Parliament

In 2012 LAPFF produced 'UK and Irish Banks Capital Losses - Post Mortem' setting out how the accounting framework for listed companies in the UK and Ireland, both under the Financial Reporting Council (FRC) had allowed major banks to keep substantial losses out of their reported net income and mask insolvency. The banking crisis in Ireland led to the country seeking assistance from the International Monetary Fund and liquidity support from the European Central Bank. Cormac Butler, an IFRS expert from Ireland, presented on this topic at the 2012 LAPFF annual conference. He has remained a vocal commentator on reporting standards in Ireland. He and

COMPANY ENGAGEMENT

Tim Bush of PIRC, were asked to appear before a joint committee of the lower and upper houses of the Irish Parliament on 28 May 2019.

John McGuinness TD, chairman of the joint committee, said the Irish public had picked up the €30bn tab for the banking system bailout that they should never have entered into, due to a potentially flawed and illegal accounting model. "We are paying back a debt that we should not be paying back" he said and "we are imposing austerity on people in the pursuit of repayment of that debt that we should not do".

Senator Gerry Horkan, who is a Chartered Accountant said, "We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting that one learns on one's first day. They should have taken the hit when it was realised. If they had, we would not have had all these issues with promissory notes and so on."

Senator Rose Conway-Walsh referred to the impact that the collapse of Carillion in the UK had had on the SME sector in Ireland.

The Committee also asked Tim Bush for views on reform of the accounting profession and competition issues given the recent flurry of enquiries in the UK. Tim Bush suggested that the committee made contact with the BEIS Select Committee in the UK, which the Committee agreed to. The Committee also indicated that it would wish to see Cormac Butler and Tim Bush again.

Local Authority Pension Performance Analytics

At the Local Authority Pension Funds All Party Parliamentary Group meeting in April, Neil Sellstrom of PIRC's Local Authority Pension Performance Analytics (LAPPA) service provided a presentation on LGPS investment performance and varying trends among 63 local authority funds. Cllr Paul Doughty then provided an overview of the new statutory guidance on LGPS asset pooling followed by discussion. The presentation and meeting minutes are available at the APPG website.

FRC

In May, LAPFF submitted a response to the independent review of the FRC. The purpose of the consultation was to gather views on the recommendations made by the review to create a new regulator responsible for audit, corporate reporting and corporate governance. LAPFF made clear that an effective regulator needs an effective purpose and, as the Brydon Review aims to 'reset' the delivery of audits, LAPFF believes this is only achieved by reconnecting with the law. This principle should also drive the model for the setting up and development of the Audit, Reporting and Governance Authority (ARGA).

Media coverage: Audit market reform

LAPFF blames 'defective' accounting rules for 2008 Irish banking crisis – IPE, 7 June 2019

Local authority pension funds back UK audit market reform proposals – IPE, 24 April 2019.

PAPERS AND REPORTS

LAPFF published the first of its kind report into employees on company boards. The new Corporate Governance Code includes a section on board level employee representation, with instructions to have an employee on the board, have a designated non-executive director or a workforce panel. To understand how

companies were approaching this element of the new code LAPFF undertook a survey of the FTSE.

The Forum had a great response rate with over 20% of FTSE 100 completing the survey as well as companies across the FTSE all share. The results in the report highlight that the majority of companies were planning to comply with the requirement (rather than explaining why not) and no respondent viewed the inclusion of board level employee representation in code as a negative step. The vast majority of those who were going to comply were seeking to do so by appointing a designated NED to the board and very few were intending to have a worker director. In this sense the results suggests there was a missed opportunity but from engagements we know the issue remains under review at many companies.

Media coverage: Workers on boards

Should more companies give employees a seat on their boards? – Telegraph, 29 May 2019

Businesses are resisting worker representation on boards – Personnel Today, 3 May 2019

With rich investment managers in charge, shareholder vetos on exec pay are meaningless – Left Foot Forward, 16 May 2019

Corporate Britain drops the ball on worker directors in favour of government cop outs – Independent, 1 May 2019.

Worker directors increasingly prominent in debates on corporate governance reform – Involvement & Participation Association, N/D

Capita appoints two employees to its board – ShareCast, 13 June

Capita set to join club of companies with worker directors on the board – The Times, 6 May

Media coverage: Voting

LAPFF supports majority of Amazon shareholder resolutions – Professional Pensions, 20 May 2019



COMPANY PROGRESS REPORT

62 Company engagements over the quarter

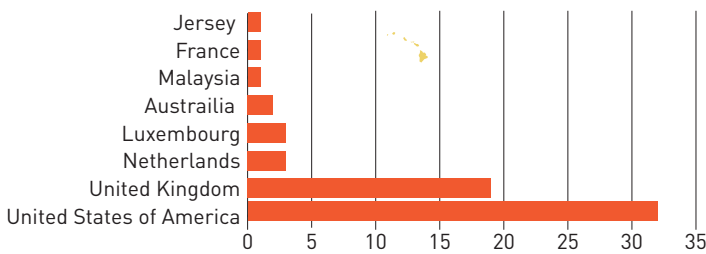
Company/Index	Activity	Topic	Outcome
AMAZON.COM INC. (2)	Alert Issued	Audit Practices	No Improvement
ANADARKO PETROLEUM CORPORATION (2)	Alert Issued/ Sent Letter	Climate Change	No Improvement
ANGLO AMERICAN PLC	Meeting	Governance (General)	Change in Process
ARCELORMITTAL SA (3)	Meeting/AGM	Climate Change	Substantial Improvement
AVEVA GROUP PLC	Sent Letter	Board Composition	Awaiting Response
BHP GROUP PLC (GBR)	Meeting	Human Rights	Small Improvement
BP PLC	Alert Issued	Climate Change	Substantial Improvement
CENTRICA PLC	Meeting	Climate Change	Small Improvement
CHEVRON CORPORATION	Alert Issued	Governance (General)	No Improvement
CHIPOTLE MEXICAN GRILL INC	Meeting	Climate Change	Moderate Improvement
DAEJAN HOLDINGS PLC (2)	Meeting	Board Composition	No Improvement
DOMINION ENERGY INC	Meeting	Climate Change	Change in Process
ENTERGY CORPORATION	Received Letter	Climate Change	Moderate Improvement
EXXON MOBIL CORPORATION	Alert Issued	Climate Change	No Improvement
FDM GROUP (HOLDINGS) PLC	Sent Letter	Board Composition	Awaiting Response
GENERAL MOTORS COMPANY (3)	Received Letter/ Alert Issued	Climate Change	Small Improvement
HSBC HOLDINGS PLC	AGM	Climate Change	No Improvement
IMPERIAL BRANDS PLC	Meeting	Governance (General)	Moderate Improvement
JD WETHERSPOON PLC	Meeting	Board Composition	No Improvement
MICRO FOCUS INTERNATIONAL PLC	Sent Letter	Board Composition	Awaiting Response
NEXTERA ENERGY INC	Received Letter	Climate Change	Small Improvement
NRG ENERGY INC	Received Letter	Climate Change	Moderate Improvement
PERSIMMON PLC	AGM	Board Composition	No Improvement
PLAYTECH PLC	Sent Letter	Board Composition	Awaiting Response
RIO TINTO GROUP (AUS) (3)	Meeting/Alert Issued	Climate Change/Human Rights	Small Improvement
ROYAL DUTCH SHELL PLC (2)	Meeting	Remuneration	Small Improvement
SIME DARBY PLANTATION	Meeting	Environmental Risk	Small Improvement
SOUTHERN COMPANY	Sent Letter	Climate Change	Substantial Improvement
TESCO PLC	Sent Letter	Climate Change	Awaiting Response
THE SAGE GROUP PLC	Sent Letter	Board Composition	Awaiting Response
WEC ENERGY GROUP	Received Letter	Climate Change	Moderate Improvement
XCEL ENERGY INC.	Received Letter	Climate Change	Substantial Improvement

ENGAGEMENT DATA

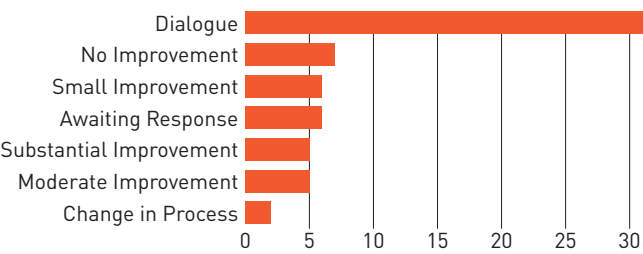
During the quarter LAPFF has also opened or continued dialogue with the following companies:

Airbus se, Alphabet inc, Bae Systems plc, Caterpillar inc., Facebook inc, Ford Motor Company, General Dynamics Corporation, General Electric Company, Glencore plc, Motorola Solutions inc., Raytheon Company, SSE plc, Tesla inc, Textron inc, Thales, The Boeing Company, Twitter inc.

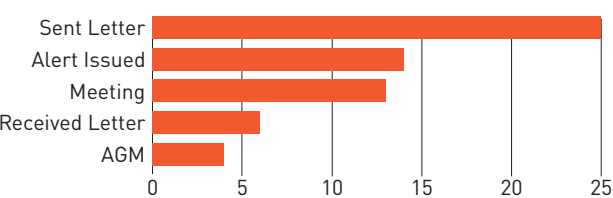
COMPANY DOMICILES



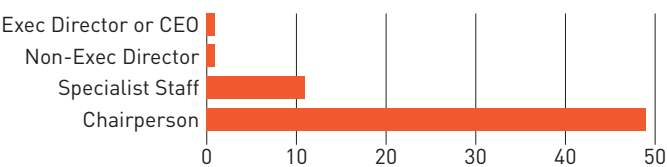
MEETING ENGAGEMENT OUTCOMES



COMPANY ENGAGEMENT ACTIVITIES



POSITIONS ENGAGED



ENGAGEMENT DATA

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS



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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	27 SEPTEMBER 2019
TITLE:	PENSION FUND ADMINISTRATION (1) SUMMARY PERFORMANCE REPORT TO 30th June 2019 (2) PERFORMANCE INDICATORS TO 30th June 2019 (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 June 2019.
- 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 June 2019.
- 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 2019.
- 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.
- 5.5 Performance against SLA targets are reported and show similar results as compared with the last quarter.
- 5.6 Performance against legal statutory deadlines has generally improved against the previous quarter. Further work will target transfer in/out cases which remain below target. Performance reporting now includes measurement against new starters and divorce cases as per new CIPFA guidance.
- 5.8 Admin Case Workload - The level of work outstanding from tasks set up is reported in *Appendix 2; Annex 5 & 6*; by showing what percentage of the work is outstanding. As a snapshot, at 30th June there were 4,694 cases outstanding (a decrease of 685 cases from previous report) of which 41.71% represents actual workable cases, i.e. 1,958 cases.

6 RESOURCE UPDATE

- 6.1 **Member Services** – The new Member Services Manager has been appointed and in post from 27th August. Further recruitment process is underway to fill a vacant Assistant Pensions Officer role.

- 6.2 **Employer Services** – A new Employer Relations Team Leader has been appointed wef 1st July 2019. This position has been filled internally, therefore recruitment is now underway to replace an Employer Relations Senior Pensions Officer. This recruitment is being done in conjunction with temporary maternity cover for another Employer Relations Senior Pensions Officer who will start maternity her leave on 19th September.
- 6.3 **Communications & Marketing** – The vacant Communications & Marketing manager role has also now been filled from 27th July.
- 6.4 Training and mentoring of new staff is ongoing which continues to affect overall performance and output of the team.

7 EMPLOYER PERFORMANCE

- 7.1 Employer Performance - *Appendix 3* highlights employer performance retirements covering the 3 months to 30st June 2019. The drop in B&NES performance is due to a recent data cleansing project of outstanding historic data which included leaver forms. This was carried over the period April to June 2019 and involved the submission of all outstanding historic leaver forms and data queries in preparation of the scheme valuation. This work has supported the ongoing improvement of BANES TPR Data Improvement Plan (see below 8.0), showing another reduction in queries for the third quarter in a row.
- 7.2 During the period from 1st April to 30st June a total of 990 leaver forms were received. The average accuracy rate has remained the same at 76%.
- 7.3 All the Unitary Authorities and larger employers are submitting monthly online returns and compared to the same period last year there has been an overall reduction in leaver forms of a third.
- 7.4 The i-Connect project re-commenced in July 2019 to target the remaining 180 employers to submit monthly data returns. The target is to get all remaining employers and payroll providers using i-Connect by January 2020 (for December 2019 data). 85.4% of the Funds active membership is now updated monthly by i-Connect.

8 TPR DATA IMPROVEMENT PLAN

- 8.1 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 June 2019 is calculated as 94.87%.
- 8.2 This quarter has seen an increase in Red and Amber scores. 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 or amber category. A significant amount of data cleansing has taken place in the first half of the year leading up to the 2019 valuation. All affected employers have been contacted and issued with their TPR queries along with Year End queries and were given

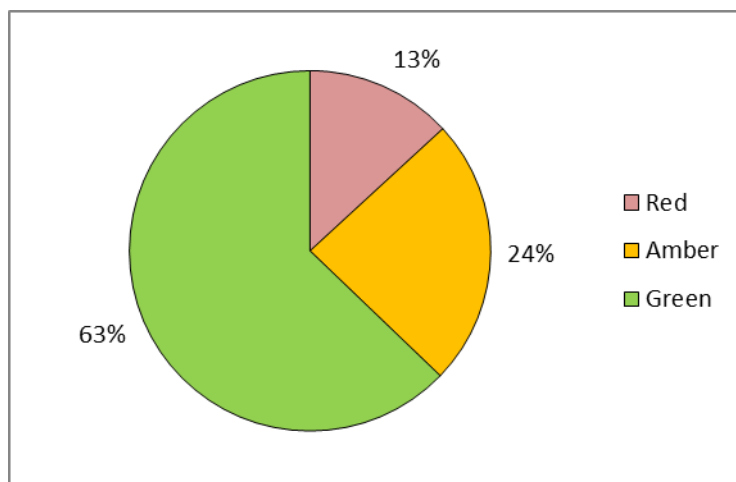
strict deadlines for their data returns in order to meet the tight deadline for the scheme valuation.

8.3 A summary of the RAG rating by employer is shown below. The RAG rating reflects employers with % outstanding data queries against profiled scheme membership: (over 10% = Red, between 0.1% & 10% = Amber and 0% = Green).

No of employers September 2018	No of employers Dec 2018	No of employers March 2019	No of Employers June 2019	Queries	RAG rating
58	43	40	59	10% >	Red
89	72	81	108	0.1 to 10%	Amber
257	321	319	282	0%	Green

Equivalent % rating of whole Fund

June 2019



Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Sept 18	Queries Dec 18	Queries Mar 19	Queries June 19	Member ship	RAG	
BANES	194	136	125	94	2832	3.31%	Amber
Bristol City	159	198	188	292	9131	3.19%	Amber
North Somerset	76	49	50	50	2112	2.37%	Amber
South Gloucestershire	62	71	29	77	6239	0.45%	Amber

8.4 The Pension Committee has previously agreed the Fund's proposal to use a tracing agency to locate both missing and 'gone away' member addresses.

8.5 Results to date are shown in the tables below:

Tracing Stage –Tracing Agency	No cases - June 19	%
Total cases sent to Tracing Company	5,840	
Total case found	3,800	65%
Total Cases not found (consider next stage)	2040	35%

Tracing Stage – Avon Pension Fund	Number of cases – June 19	%
New addresses updated	1,593	41.92%
Letters returned - not at address or gone away	154	4.05%
Member confirmed as deceased	172	4.53%
Letters issued awaiting response	1,881	49.50%
Letters still to be issued	0	0

8.6 Limited progress has been made in the last 3 months as all team resources have been put in to year-end and data cleansing for the scheme valuation. Chasers have been sent to members who have been traced but no reply has been received. We are now considering the next stages of the project.

9 LATE PAYERS

9.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

9.2 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.

9.3 *Appendix 5* reports late payers in the period to 30th June 2019. 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.

10 REGULATORY BREACHES – 5 YEAR REFUND CASES

10.1 The 2013 LGPS regulations require schemes to pay a refund of contributions within 5 years. Failure to complete payment is classified as a regulatory breach and is required to be reported to the pensions committee and local pension board.

10.2 The Fund has identified and noted 15 breaches in the period 1st April to 30th June. Of which 5 cases are reported as gone away/no longer at address held and 10 cases have been contacted but not responded.

10.3 The National Technical Group has previously made a recommendation to the Scheme Advisory Board to remove the requirements to pay a refund of contributions within five years under the 2013 regulations. The SAB have agreed to proceed with this regulatory change and are in the process of making recommendations to MHCLG.

11 YEAR END

11.1 The 2018/19 Year End is in the final stages of completion, all returns have been received from employers and the team are dealing with the final stages of data cleansing with employers. 254 employers submitting their year-end data via i-Connect, the remaining 182 did their return via an excel spreadsheet.

11.2 The scheme data was successfully sent to Mercers the scheme actuary on 30 June 2019 for them to complete the triennial valuation with minimal queries from the actuary.

11.3 The Fund is now undertaking a review of any data submissions which were deemed as either late or of poor quality to determine if employers have triggered any pre-set penalty charges. The requirement for employers to sign up to a 'Data Improvement Plan' and receive training are also included in the review.

12 ANNUAL BENEFIT STATEMENTS

12.1 The Public Service Pensions Act 2013 requires Funds to produce Annual Benefit Statements by 31st August annually.

12.2 For the 2019 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.

12.3 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 10 June, with those for active members being dispatched in three tranches on 5, 12 and 19 August, ahead of the statutory deadline.

12.4 For active members the Fund issued 97.41% of all statements due (see table below).

ABS Production Dashboard

Members @ 31st March 2019	Members with 2019 ABS	% with ABS	Members without 2019 ABS	% without ABS	ABS's to be Re-Run
35157	34245	97.41%	912	2.59%	0

12.5 Work is currently underway to clear the outstanding cases identified and these will be picked up in a supplementary ABS run on 28 October.

12.6 A final summary report will be provided to the Committee in December following the conclusion of the exercise.

13 CUSTOMER FEEDBACK

13.1 Appendix 6 highlights the 59 responses to the online survey for retirees. In summary, 75% of respondents indicated that they were very satisfied (68%) or fairly satisfied (7%) with service they received from the Avon Pension Fund.

13.2 There were 79 results from the online survey, rating each page on the website (a 1 to 5 star rating) during the period. 84.8% of respondents gave the website a 4 or 5 star rating (78.5% giving it 5 stars). Year end

14 IDRP

14.1 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.

15 RISK REGISTER

15.1 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.

15.2 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

15.3 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

15.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in September 2019.

15.5 Several new entries have been made to the register this quarter and include:

- Climate Emergency – there is a risk that the Fund does not meet the Council's commitments to this policy. Actions taken to mitigate the risk include a digital strategy to reduce the Fund's carbon footprint and implementation of a low carbon global equity portfolio.
- Cyber Risk – systems could be compromised by hacking or weak controls resulting in loss or misuse of member data. The Fund operates under BANES corporate policy for cyber security.
- IConnect – the aim is that all employers will transfer data monthly by March 2020. Data is uploaded direct from an employer's payroll direct to the pension database. The risk is that members' records are incorrect as well as the resulting employer liabilities. A control framework is in place to mitigate risk and a data protection impact assessment has been carried out with Information Governance.
- McCloud age discrimination court case - There is a risk that liabilities will increase as a result of extended protections and additional workload will be required to implement any prescribed amendments. The 2019 valuation will estimate the cost and the FSS will state how extra cost will be implemented. A project will be set up to deal with additional workload once known.
- Exit credits – there is a risk of dispute between the exiting employer and the original outsourcing body about who should receive any exit credit payment. A policy has been put in place to clarify how any exit credit will be paid.

15.6 The top 10 risks, including their likelihood, impact and mitigating actions are set out in **Appendix 8**.

15.7 The process for managing the risk register is due to be reviewed and will be brought to Committee in due course for approval.

16 RISK MANAGEMENT

16.1 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.

17 CLIMATE CHANGE

17.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon

Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

18 CONSULTATION

18.1 None appropriate

19 ISSUES TO CONSIDER IN REACHING THE DECISION(S)

19.1 There are no issues to consider not mentioned in this report.

20 ADVICE SOUGHT

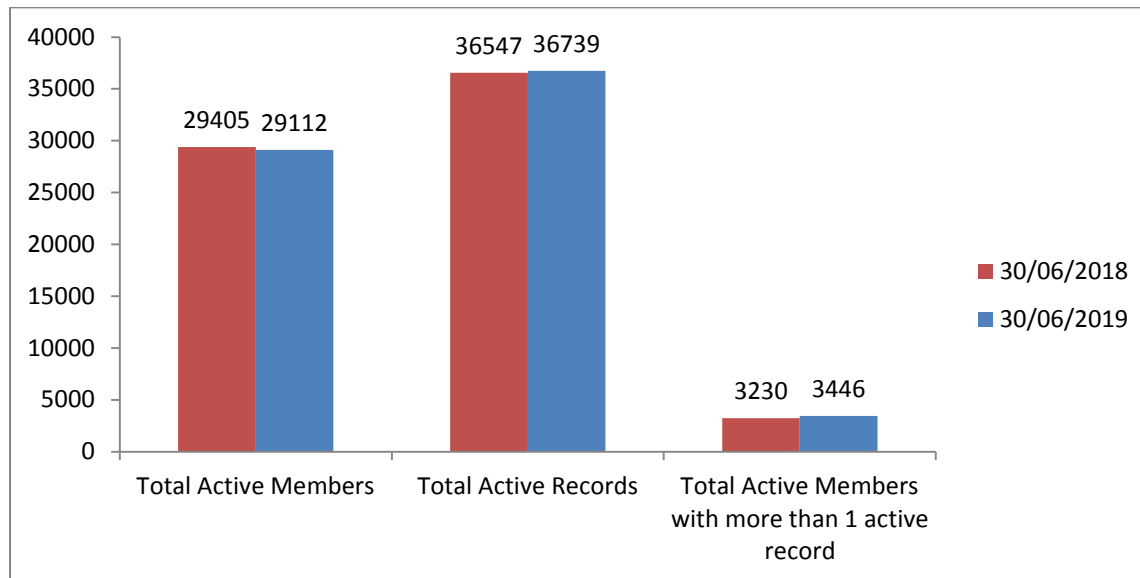
20.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	<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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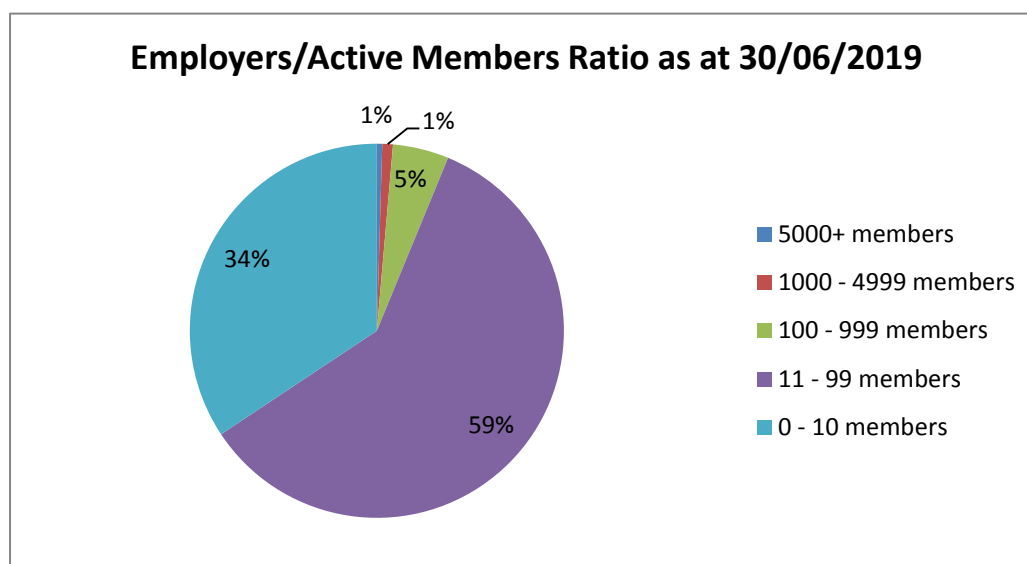
Annex 1

Active membership	30/06/2018	30/06/2019	+/-
Total Active Members	29405	29112	-293
Total Active Records	36547	36739	+192
Total Active Members with more than 1 active record	3230	3446	+216



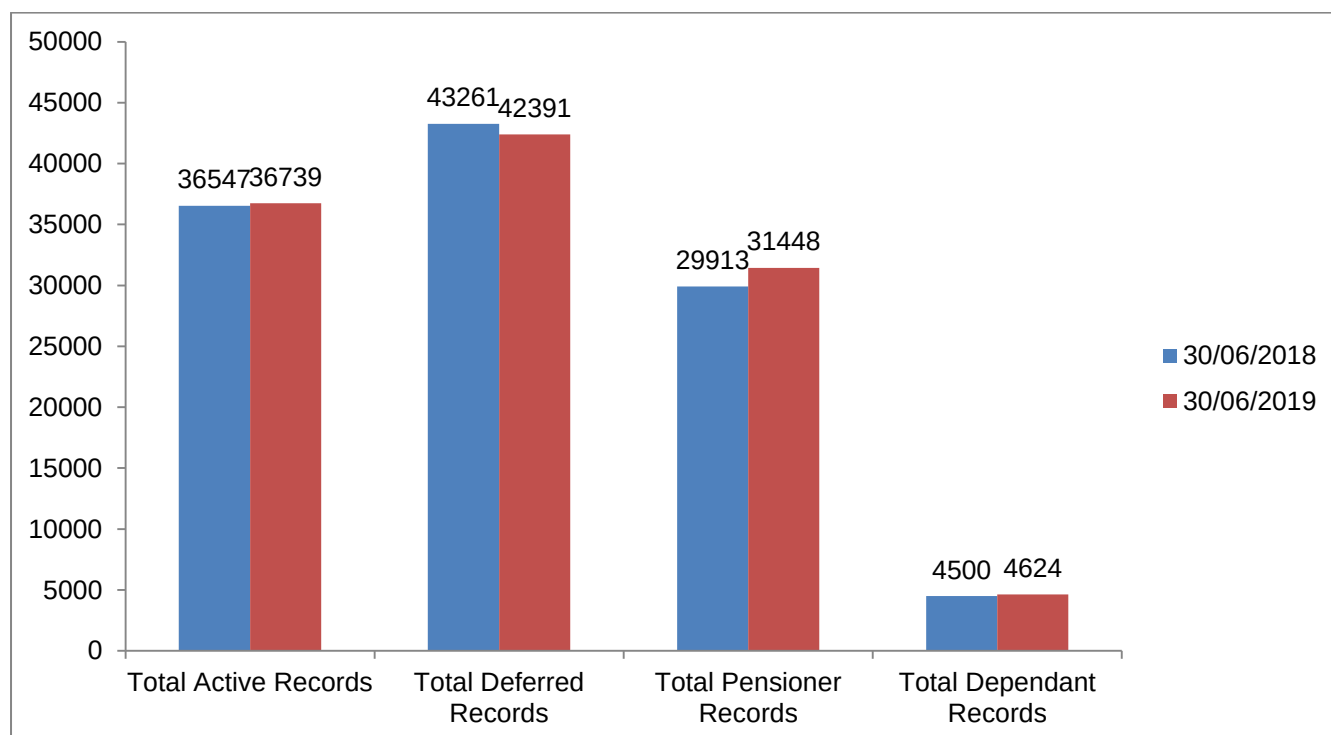
Annex 2

Employers/Active Members Ratio	30/06/2018	30/06/2019	+/-
Number of employers with 5000+ members	2	2	+0
Number of employers with between 1000 and 4999 members	4	4	+0
Number of employers with between 100 and 999 members	21	21	+0
Number of employers with between 11 and 99 members	209	258	+49
Number of employers with between 0 and 10 members	152	149	-3
Total	388	434	+46



Annex 3 – Total number of member records by type

	30/06/2018	30/06/2019	+/-
Total Active Records	36547	36739	+192
Total Deferred Records	43261	42391	-870
Total Pensioner Records	29913	31448	+1535
Total Dependant Records	4500	4624	+124



		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 - 15 days	209	184	88.04%	10	92.82%
	Payment - 15 days	181	167	92.27%	7	96.13%
Retirement (from Deferred)	Quote - 30 days	151	98	64.90%	34	87.42%
	Payment - 15 days	306	271	88.56%	19	94.77%
Deaths	Notification - 5 days	107	107	100.00%	0	100.00%
	Payment - 10 days	89	60	67.42%	10	78.65%
Refund of contributions	Quote - 10 days	541	421	77.82%	80	92.61%
	Payment - 10 days	339	280	82.60%	29	91.15%
Deferreds (early leavers)	30 days	885	786	88.81%	99	100.00%
Transfers In	Quote - 10 days	44	10	22.73%	6	36.36%
	Payment - 10 days	28	4	14.29%	2	21.43%
Transfers Out	Quote - 10 days	78	56	71.79%	5	78.21%
	Payment - 10 days	23	5	21.74%	4	39.13%
Estimates	Member - 15 days	153	97	63.40%	6	67.32%
	Employer - 15 days	115	82	71.30%	9	79.13%
Divorce	Quote - 45 days	28	28	100.00%	0	100.00%
	Actual - 15 days	2	1	50.00%	0	50.00%
Starters	40 days	869	859	98.85%	0	98.85%
		4148	3516	84.76%	320	92.48%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

		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 - 15 days	7	140	36	8	10	7	3	5
	Payment - 15 days	6	128	26	13	7	3	0	4
Retirement (from Deferred)	Quote - 30 days	9	132	8	3	2	0	3	3
	Payment - 15 days	5	230	13	28	19	4	6	6
Deaths	Notification - 5 days	1	107	0	0	0	0	0	0
	Payment - 10 days	11	35	25	10	14	4	1	0
Refund of contributions	Quote - 10 days	10	262	159	80	21	4	5	10
	Payment - 10 days	7	211	69	29	12	7	5	6
Deferreds (early leavers)	30 days	18	295	134	141	61	50	105	99
Transfers In	Quote - 10 days	36	4	6	6	1	5	0	22
	Payment - 10 days	39	3	1	2	1	0	0	21
Transfers Out	Quote - 10 days	15	29	27	5	2	4	7	4
	Payment - 10 days	47	5	0	4	5	0	4	5
Estimates	Member - 15 days	19	28	51	18	6	3	3	44
	Employer - 15 days	11	60	19	3	9	6	3	15
Divorce	Quote - 45 days	17	7	7	4	4	3	0	3
	Actual - 15 days	23	0	1	0	0	0	0	1
Starters	40 days	6	795	0	1	1	42	20	10

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 (Old/New)	Q3 (Old) Jul 18 - Sept 18	Q4 (Old) Oct 18 - Dec 18	Q1 (Old) Jan 19 - Mar 19	Q2 (New) Apr 19 - Jun 19	Trend
Retirement (from Active)	Quote - 5 / 15 days	74.05%	68.08%	69.43%	88.04%	
	Payment - 5 / 15 days	78.88%	77.25%	72.44%	92.27%	
Retirement (from Deferred)	Quote - 30 days	43.05%	71.83%	43.33%	64.90%	
	Payment - 5 / 15 days	78.57%	87.43%	70.44%	88.56%	
Deaths	Notification - 5 days	88.54%	86.60%	86.73%	100.00%	
	Payment - 5 / 10 days	58.73%	45.12%	61.76%	67.42%	
Refund of contributions	Quote - 10 days	59.51%	85.85%	82.22%	77.82%	
	Payment - 10 days	76.81%	90.69%	92.48%	82.60%	
Deferreds (early leavers)	Notification - 20 / 30 days	27.54%	47.04%	65.70%	88.81%	
Transfers In	Quote - 10 days	62.22%	67.16%	35.71%	22.73%	
	Payment - 10 days	35.71%	52.94%	24.24%	14.29%	
Transfers Out	Quote - 10 days	38.54%	46.77%	52.11%	71.79%	
	Payment - 10 days	60.00%	57.89%	15.79%	21.74%	
Estimates	Member - 10/15 days	35.78%	55.90%	64.23%	63.40%	
	Employer - 15 days	N/A	N/A	N/A	71.30%	
Divorce	Quote - 45 days	N/A	N/A	N/A	100.00%	
	Actual - 15 days	N/A	N/A	N/A	50.00%	
Starters	40 days	N/A	N/A	N/A	98.85%	
Total Cases Processed		2443	2696	2776	4148	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

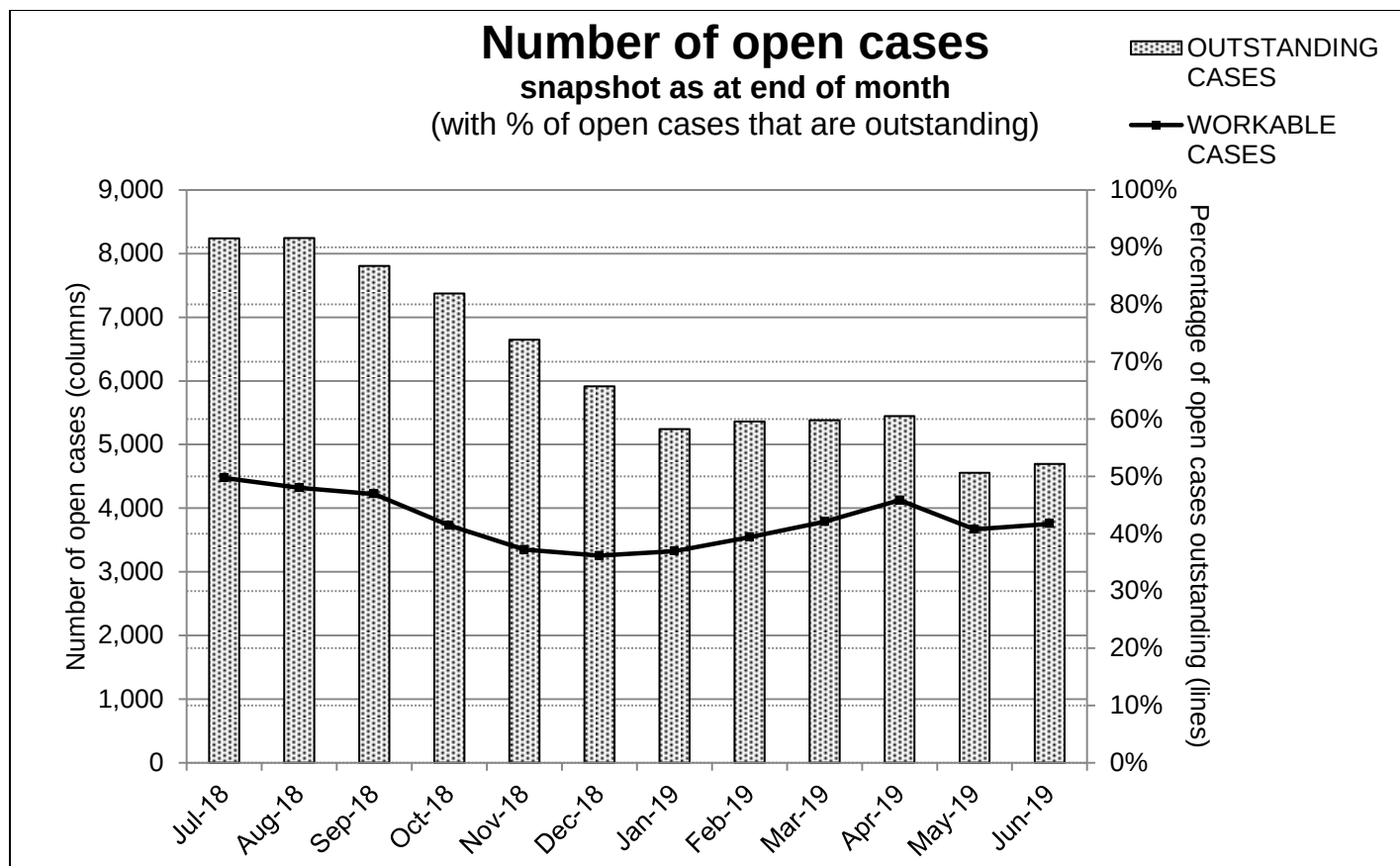
Annex 3

Statutory requirements	Timescale/deadline	3 months to 30/06/19	Notes
Year End data from employer	by 30 June	Yes	All YE data submitted in preparation for ABS run
Issue ABS	by 31 August	0	Deferred ABS issued w/c 17 June Active ABS issued w/c 12 August
Notify scheme changes	within 3 months (deadline 9 April)	Yes	Notification of Amendment Regs to all members via website 20 March 2019. Pensioners - newsletter in April Deferred members - letter in April. Active members – letter in April
Issue Active member newsletter	2 issues per year	1	Issued April 2019 (2 nd issue August 2019)
Issue Deferred member newsletter	1 issue per year	1	Issued June 2019
Issue Pensioner member newsletter	1 issue per year	1	Issued April 2019

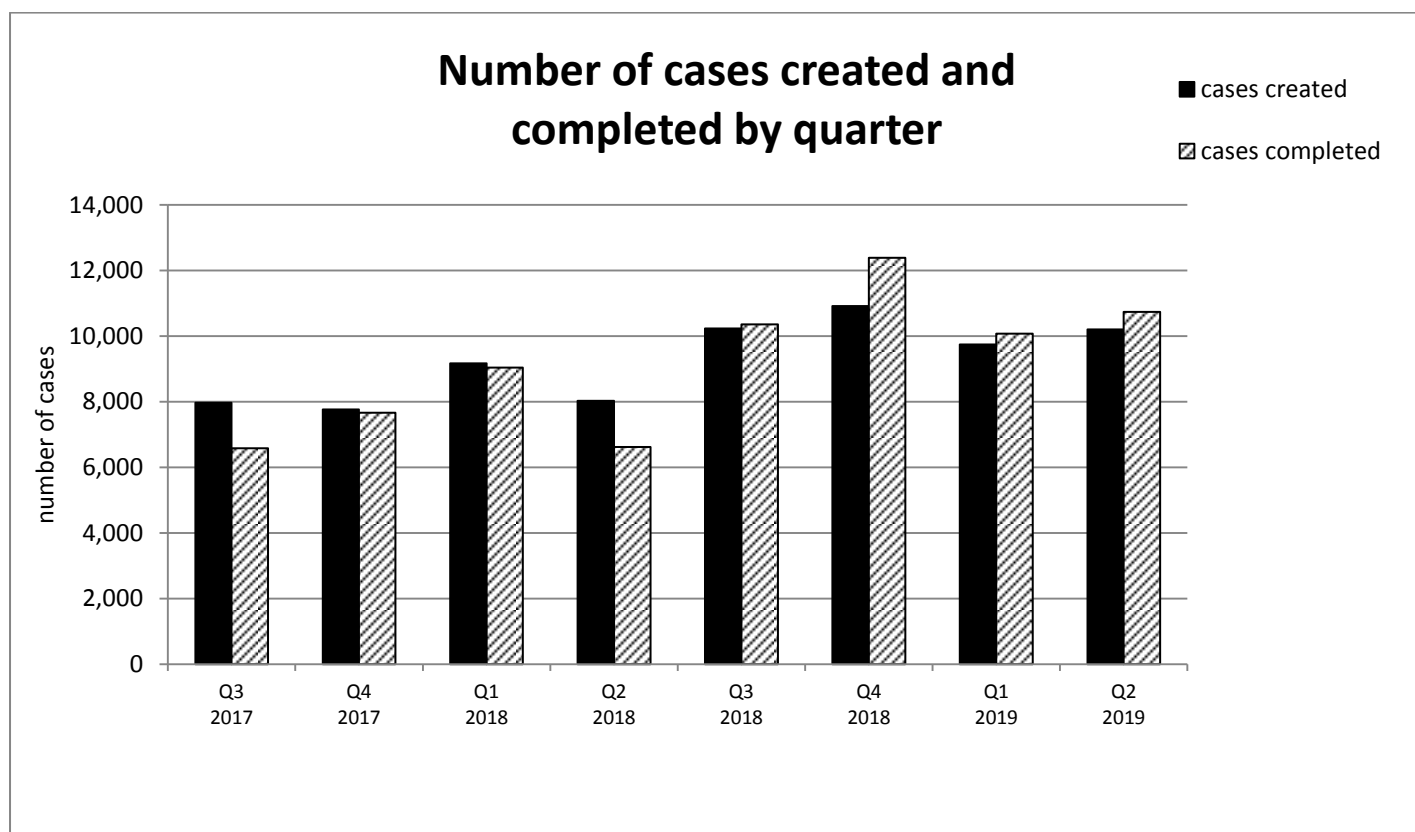
Annex 4

Other performance standards	3 months to 30/06/19	2018/19 target	Notes
Retirements survey - satisfaction %	75%	65%	
% of employers signed up to submit data electronically (ESS/iConnect)	64.8%	70%	
% of active membership covered by ESS/iConnect	96.4%	>90%	
% of all members with electronic access (MSS)	23.8%	No target set	
% of active members with electronic access (MSS)	29.6%	No target set	

Annex 5



Annex 6



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	Requirement	Reporting Start Date	Reporting End Date	Other Information
Retirement (from Active)	15 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	10 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	30 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	15 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.
Divorce Quote	45 working days to provide a letter detailing the cash equivalent transfer value of benefits for divorce purposes	Date of Request from Member or Solicitor	Date Letter is Printed & Sent	
Divorce Actual	15 working days to implement a pension sharing order	Date received court order etc and payment of charges to implement	Date Letter is Printed & Sent	
Starters	40 working days to issue a welcome letter (statutory notice) to a new starter	Date starter notification recieved	Date Letter is Printed & Sent	

Appendix 2b

APF Completed Cases - Performance against Statutory Legal Deadline

		Cases Last Quarter - Apr 19 - Jun 19			
		Measured Against Statutory Legal Requirement			
		Target	Total Processed	Total Processed in Target	Percentage Processed within Target
Retirement (from Active)	Notification of Benefits	46 days	93	82	88.17%
Retirement (from Deferred)	Notification of Benefits	23/46 days	150	146	97.33%
Deaths	Notification of Benefits	46 days	85	85	100.00%
Refund of contributions	Notification of Entitlement	46 days	541	541	100.00%
Deferreds (early leavers)	Notification of Entitlement	46 days	885	885	100.00%
Transfers In	Provision of Quotation	46 days	30	14	46.67%
Transfers Out	Notification of Trf Value	69 days	78	77	98.72%
	Payment of Trf Value	138 days	23	22	95.65%
Estimates	Provision of Quotation	46 days	158	135	85.44%
Divorce	Provision of Quotation	69 days	28	28	100.00%
	Application of Order	92 days	2	2	100.00%
Starters	Statutory Notice Issued	46 days	869	859	98.85%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Comments where performance has fallen below expected target:-

Retirement (from Active) – the majority 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.

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.

Estimates – The majority of these cases were late due to high volumes of work and estimates being a fairly low priority task compared to retirements and deaths etc.

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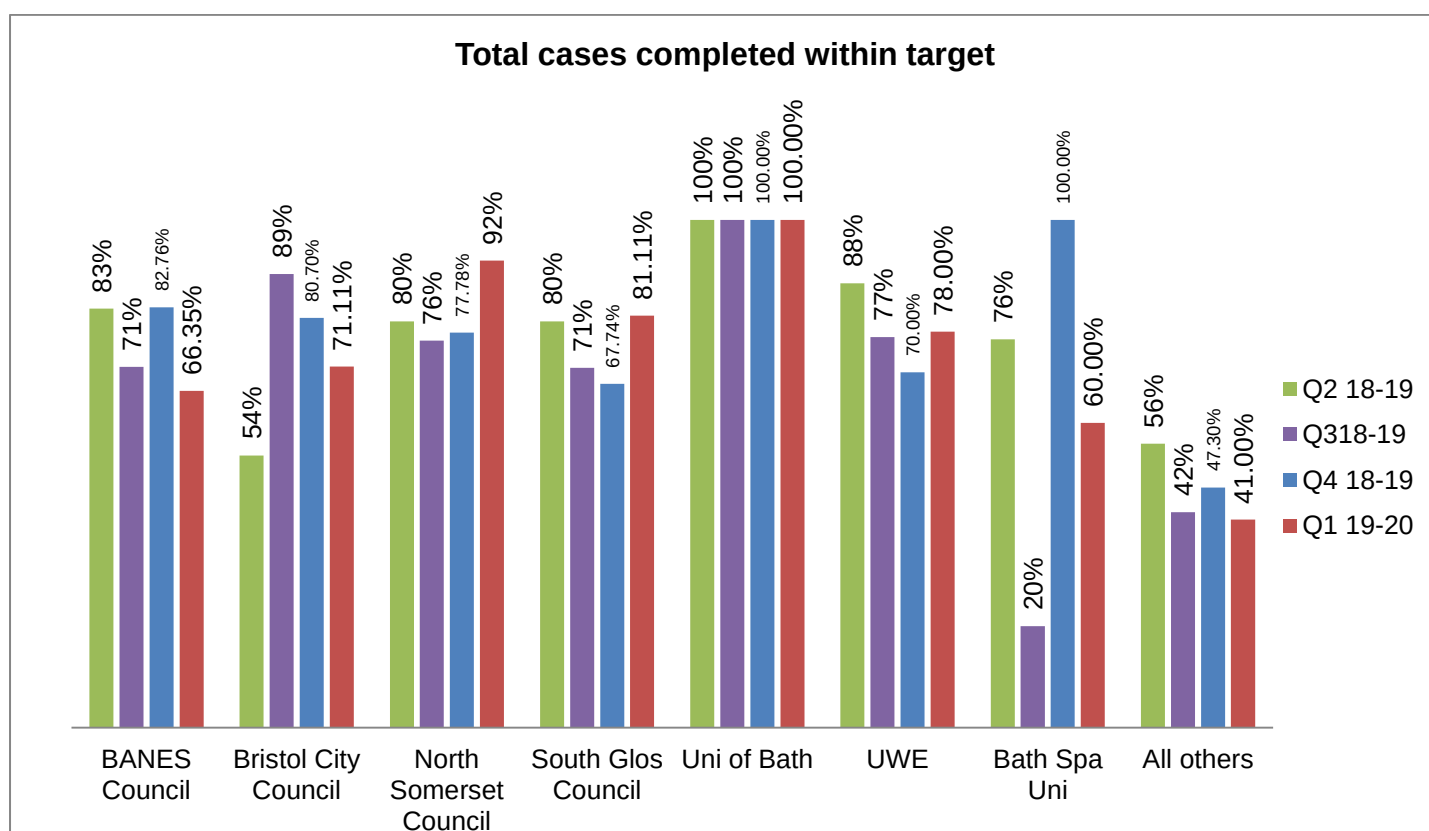
	Requirement	Reporting Start Date	Reporting End Date	Other Information
Retirement (from Active)	Notification of retirement benefits 1 month from the date of retirement if on or after Normal Pension Age or 2 months from the date of retirement if before Normal Pension Age	Retirement Date	Date Retirement 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 is 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
Divorce - Quotations	Provide a cash equivalent transfer value for divorce purposes within 3 months from the date of request.	Date of Request from Member/Solicitor	Date Letter is Printed & Sent	
Divorce - Actuals	Apply a pension sharing order within 4 months of receiving all of the necessary information required to implement	Date Documentation Received	Date Confirmation of Order being Implemented is Printed & Sent	The clock is stopped on the Legal Requirement Reporting for any period where we are waiting for payment of the fees to implement the order from the member.
Starters	Provide new starters with a membership certificate within 2 months from date of starter notification being received	Date of Starter Notification	Date Letter is Printed & Sent	

Completed leaver forms by employers for retirements within SLA targets.

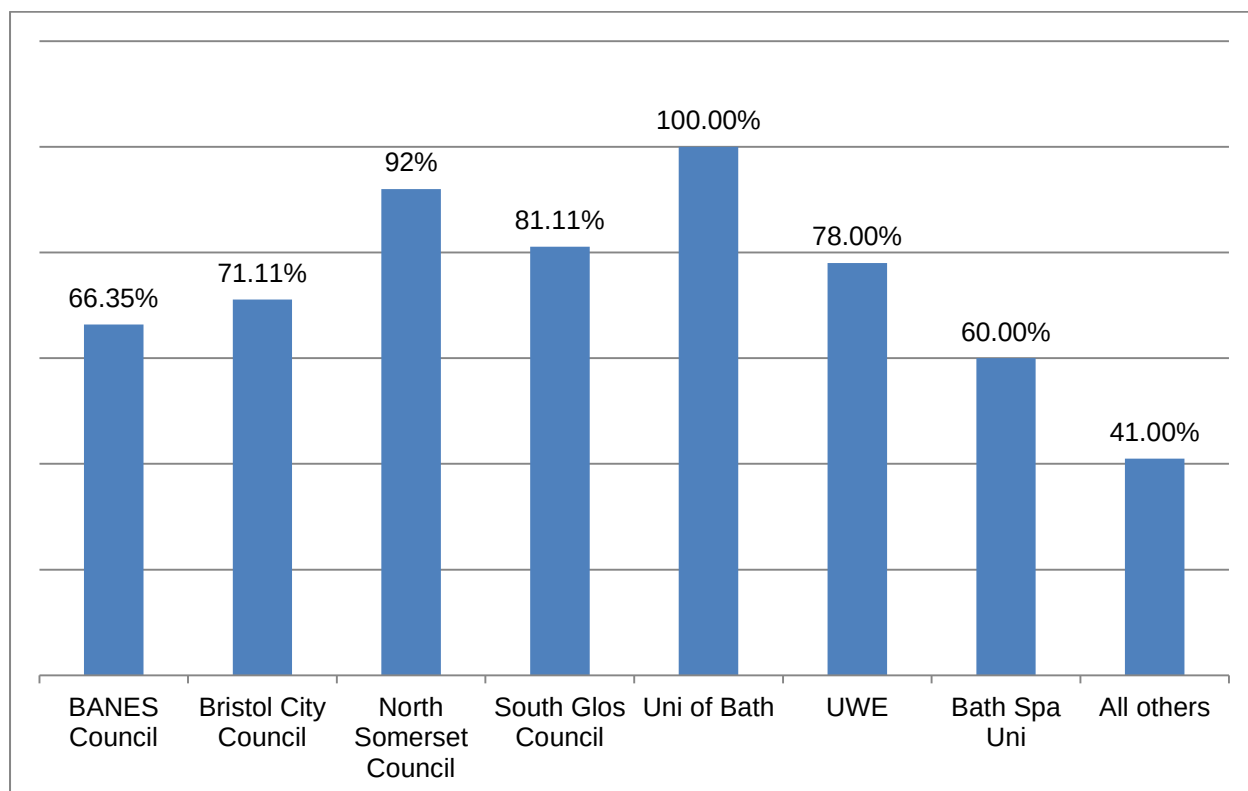
Annex 1 – Total cases - Percentage and number of cases completed within target

	Q2 18-19	Q318-19	Q4 18-19	Q1 19-20
BANES Council	83%	71%	82.76%	66.35%
Bristol City Council	54%	89%	80.70%	71.11%
North Somerset Council	80%	76%	77.78%	92%
South Glos Council	80%	71%	67.74%	81.11%
Uni of Bath	100%	100%	100.00%	100.00%
UWE	88%	77%	70.00%	78.00%
Bath Spa Uni	76%	20%	100.00%	60.00%
All others	56%	42%	47.30%	41.00%



Annex 2 – Breakdown by case type within target

Within target	Retirements		
	Cases	Within	%
BANES Council	25	15	66%
Bristol City Council	45	32	71%
North Somerset Council	12	11	92%
South Glos Council	31	25	81%
Uni of Bath	3	3	100%
UWE	9	7	78%
Bath Spa Uni	5	3	60%
All others	90	37	41%



Annex 1 – TPR Errors by Member Numbers

	March 2019				June 2019				
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	Trend
ACTIVE	36955	271	0.73	99.27	36934	228	0.62	99.38	▼
UNDECIDED	3759	657	17.48	82.52	2933	385	13.13	86.87	▼
DEFERRED	42163	3836	9.1	90.9	42331	4265	10.08	89.92	▲
PENSIONERS	30717	130	0.42	99.58	31082	157	0.51	99.49	▲
DEPENDANTS	4721	68	1.44	98.56	4766	97	2.04	97.96	▲
FROZEN	3816	1135	29.74	70.26	3958	1123	28.37	71.63	▼
TOTALS	122131	6097	4.99%	95.01%	122004	6255	5.13%	94.87%	▲

Annex 2 – Outstanding Queries by Type

	March 2019		June 2019		
	TPR Errors	%	TPR Errors	%	Trend
Age 75 exceeded LGPS eligibility issue	49	0.74%	53	0.78%	▲
CARE pay for 2014-2015 required	5	0.08%	4	0.06%	▼
CARE pay for 2015-2016 required	25	0.38%	10	0.15%	▼
CARE pay for 2016-2017 required	63	0.95%	24	0.36%	▼
CARE pay for 2017-2018 required	122	1.84%	47	0.70%	▼
CARE pay for 2018-2019 required	0	0%	4	0.06%	▲
Casual hours data required	23	0.35%	9	0.13%	▼
Historic refund case	737	11.09%	699	10.35%	▼
Leaver form required	490	7.37%	289	4.28%	▼
Missing data on leaver form - escalation	4	0.06%	2	0.03%	▼
Correct hours format required	0	0%	2	0.03%	▲
Correct Forenames required	10	0.15%	12	0.18%	▲
Correct gender required	0	0%	4	0.06%	▲
Correct NINO required	147	2.21%	158	2.34%	▲
Correct address required	4949	74.45%	5414	80.17%	▲
Correct title required ie Miss or Mr	6	0.09%	6	0.09%	▼
Pay Ref required	9	0.14%	3	0.04%	▼
Date joined fund	1	0.02%	0	0.00%	▼
Data required from a previous employer	7	0.11%	13	0.19%	▲
Grand total	6647	100.00	6753	100.00%	▲

Common Data

Scheme Specific Data

Annex 3 – Outstanding TPR by status

	TPR Errors March 2019	%	TPR Errors June 2019	%
1 ACTIVE	289	100.00%	236	100.00%
CARE pay for 2014-2015 required	3	1.04%	3	1.27%
CARE pay for 2015-2016 required	16	5.54%	6	2.54%
CARE pay for 2016-2017 required	41	14.19%	16	6.78%
CARE pay for 2017-2018 required	91	31.49%	38	16.1%
CARE pay for 2018-2019 required	0	0%	2	0.85%
Casual hours data required	14	4.84%	5	2.12%
Correct Forenames required	0	0%	2	0.85%
Correct gender required	0	0%	3	1.27%
Correct hours format required	0	0%	2	0.85%
Correct address required	108	37.37%	144	61.02%
Correct NINO required	4	1.38%	3	1.27%
Pay Ref required	7	2.42%	1	0.42%
Leaver form required	0	0%	5	2.12%
Data Required from a previous employer	5	1.73%	6	2.54%
2 UNDECIDED	696	100.00%	397	100.00%
Age 75 exceeded LGPS eligibility issue	1	0.14%	3	0.76%
CARE pay for 2014-2015 required	2	0.29%	1	0.25%
CARE pay for 2015-2016 required	9	1.29%	4	1.01%
CARE pay for 2016-2017 required	22	3.16%	8	2.02%
CARE pay for 2017-2018 required	32	4.59%	8	2.02%
CARE pay for 2018-2019 required	0	0%	2	0.5%
Casual hours data required	9	1.29%	3	0.76%
Correct NINO required	2	0.29%	1	0.25%
Correct address required	121	17.36%	68	17.13%
Leaver form required	490	70.3%	284	71.54%
Pay Ref required	2	0.29%	2	0.05%
Missing data on leaver form - escalation	4	0.57%	2	0.5%
Correct gender required	0	0%	1	0.25%
Data Required from a previous employer	2	0.29%	7	1.76%
Historic refund case	0	0%	3	0.76%
Date joined fund required	1	0.14%	0	0%
4 DEFERRED	3868	100.00%	4297	100.00%
Age 75 exceeded LGPS eligibility issue	5	0.13%	7	0.16%
CARE pay for 2017-2018 required	0	0%	1	0.02%
Casual hours data required	0	0%	1	0.02%
Correct address required	3816	98.55%	4240	98.67%
Correct NINO required	47	1.21%	48	1.12%
5 PENSIONERS	131	100.00%	157	100.00%
Correct address required	130	99.24%	156	99.36%

Correct NINO required	1	0.76%	1	0.64%
6 DEPENDANTS	72	100.00%	99	100.00%
Correct address required	24	33.33%	39	39.39%
Correct title required ie Miss or Mr	5	6.94%	5	5.05%
Correct NINO required	43	59.72%	55	55.56%
9 FROZEN	1591	100.00%	1567	100.00%
Age 75 exceeded LGPS eligibility issue	43	2.7%	43	2.74%
Correct Forenames required	10	0.63%	10	0.64%
Correct title required ie Miss or Mr	1	0.06%	1	0.06%
Correct address required	750	47.14%	767	48.95%
Correct NINO required	50	3.14%	50	3.19%
Historic refund case	737	46.32%	696	44.42%
Grand Total	6647	100.00%	6753	100.00%

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APPENDIX

Late Payers to 30th June 2019

Employer	Payroll Month	Days late	Cumulative occasions	Amount £	Significance	Reason / Action
Not reported previously						
Bristol Disability Equality Forum	March	130	1	328.29	Significant days late	Chased several times with employer. Administrator has only recently been replaced and only works 2 hours per week. Co-Chair and Treasurer paid outstanding contributions and August in advance on 30 th August. They have now also set up a standing order so this should now be resolved
Page 30 of 31 April to June:						
Bristol Disability Equality Forum	April	100	2	348.51	Significant days late	As above
Future Stars	April	41	2	99.20	Significant days late	Employer overlooked the payment of their contributions. They have been reminded of the deadline for contributions
Aspens	May	13	5	15 782.10	Significant value and days late	Held up by Aspens Finance as overpaid on a single employer
Bristol Disability Equality Forum	May	69	3	348.51	Significant days late	As above

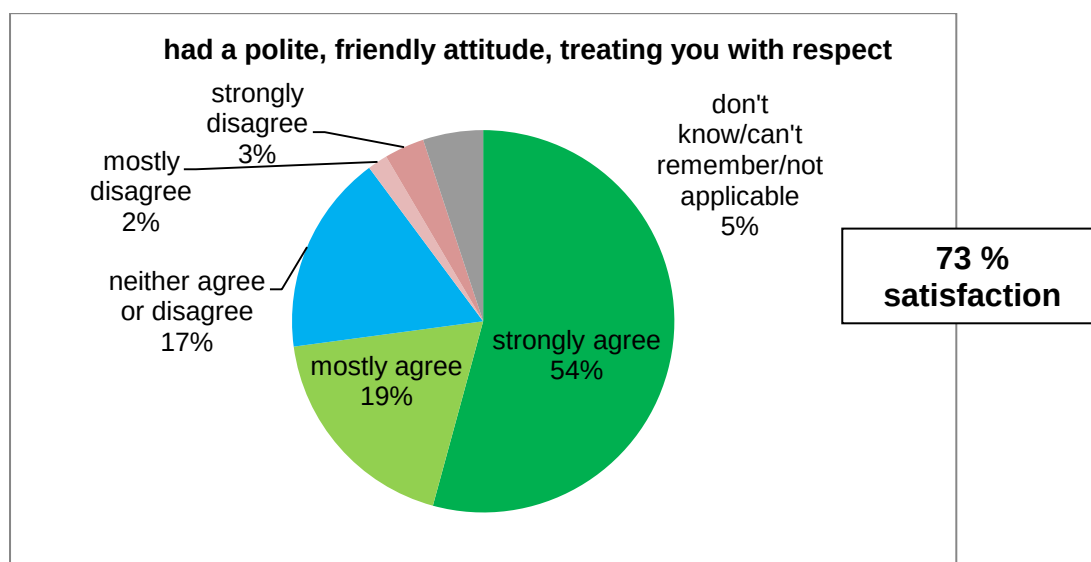
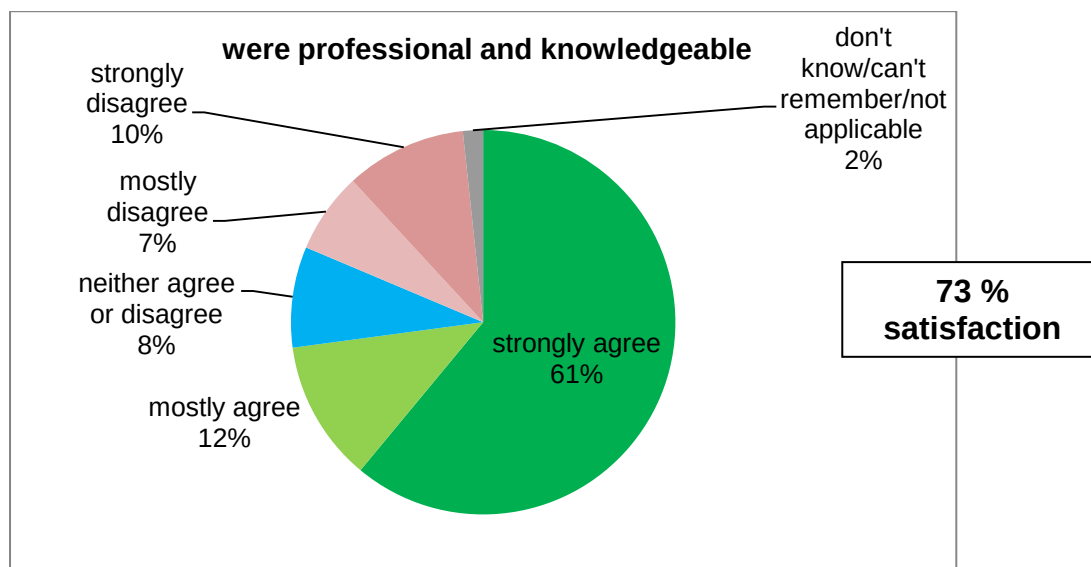
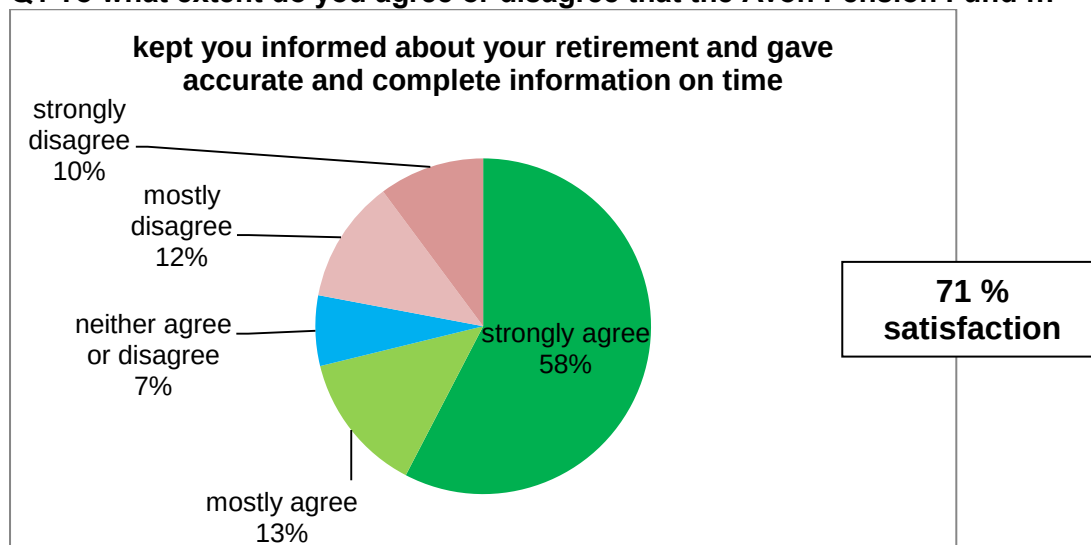
Future Stars	May	10	3	99.20	Significant days late	As above
City of Bristol College	June	11	1	177,560.44	Significant days late and value	Payment not authorised as the relevant member of staff was on leave.
Bristol Disability Equality Forum	June	39	4	348.51	Significant days late	As above
				194,586.47	Over The 3 Months	
Total Contributions in Period (excluding deficit payments)				35,275,857	Late payments value as a % of total = 0.55%. Late Payments received from 4 out of 391 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 the number of cumulative occasions can go down as well as up.						

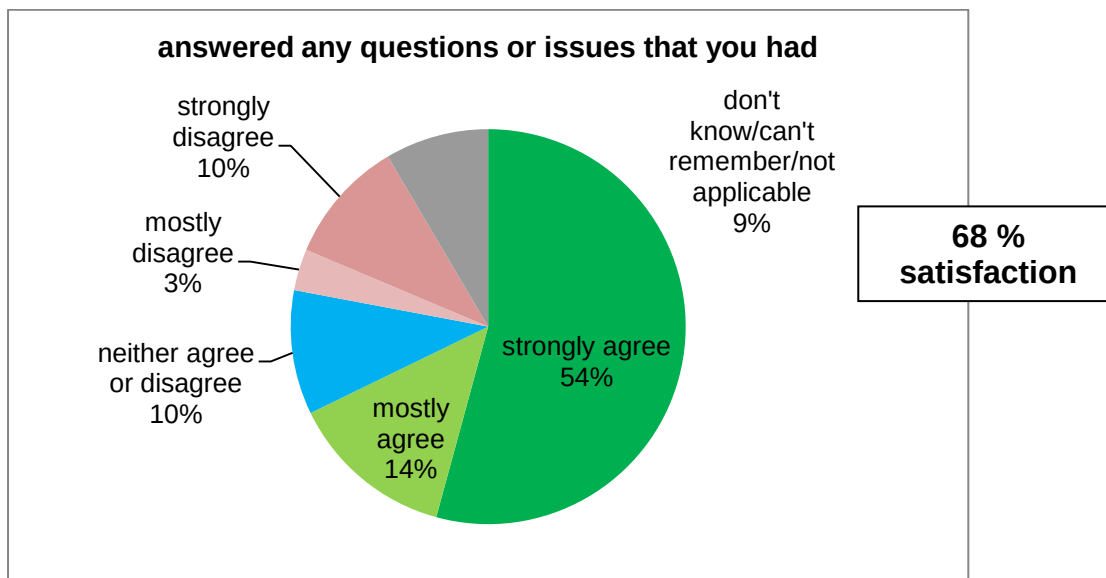
Annex 1

Retirement customer service questionnaire results to 30 June 2019

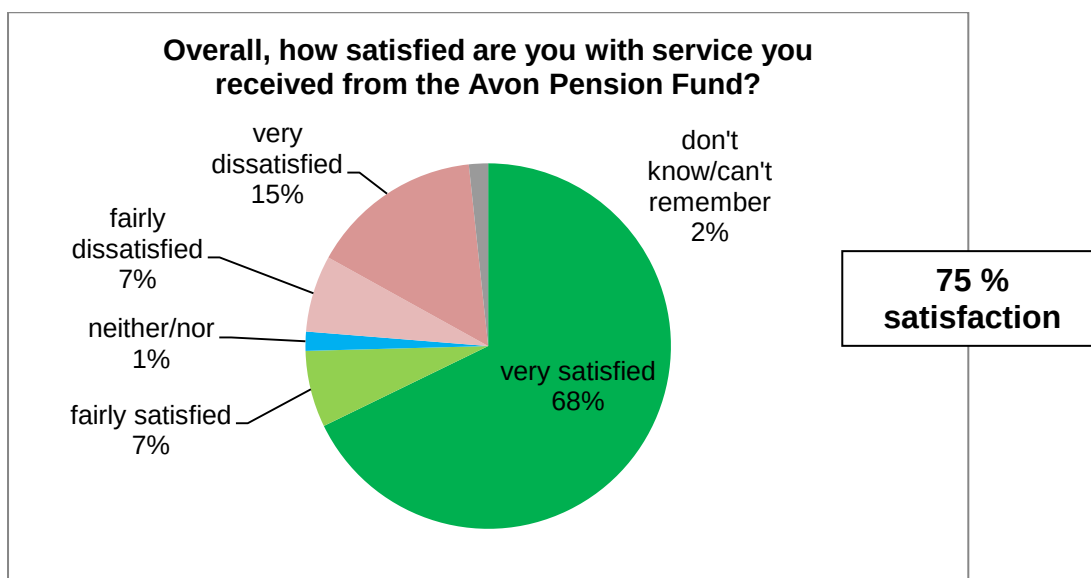
59 responses

Q1 To what extent do you agree or disagree that the Avon Pension Fund ...





Q2 Overall, how satisfied are you with service that you received from the Avon Pension Fund?



Annex 2

Member website survey - Please rate your experience on our website star rating survey for period to 30 June 2019

Number of submissions in period	79	%
5 stars	62	78.5%
4 stars	5	6.3%
3 stars	6	7.6%
2 stars	5	6.3%
1 star	1	1.3%
Comments:		
• Very good easy to find my way around it • Missing on this site is 'contacts' I need to ring someone for help as the website to register for an online access doesn't recognise my details • Well designed and easy to use EXCEPT for no information on the value of the Death Grant for beneficiaries if the Pensioner is over 75 • Clear – thanks		

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
2	III health Tier Level	10/12/2018	EMP	12/02/2019	22/02/2019			Council's Principal Solicitor and Monitoring Officer		Further IRMP review has been requested from the employer
1	Maladministration	12/08/2019	APF	12/10/2019				APF Governance & Risk Manager		
1	Timeliness of Transfer Out of AVC Fund	14/08/2019	APF	14/10/2019				APF Technical & Compliance Advisor		

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Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 05/09/2019

RISK STATUS KEY	
LOW	1 to 6
MEDIUM	7 to 14
HIGH	14 to 25

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE										OVERALL TOTAL	CURRENT OVERALL STATUS	PERIODS AGO			CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK	KEY UPDATES/CHANGES TO ACTIONS DURING PERIOD
						Likelihood					Impact												
						1	2	3	4	5	1	2	3	4	5								
	R28	Risk - The Fund is unable to recruit appropriately skilled staff exacerbated by the creation of Brunel based in Bristol which will manage the fund's assets Implication - This could restrict the Fund's ability to develop and implement the service plan and administer the Fund.	01-Jul-08	All Team Managers	Governance					5					5	25	HIGH	H	H	H	On target	- Complete performance review process with all staff to identify training and professional qualification needs based on service requirements. - Succession planning to build resilience, minimise risk of losing skilled/specialist staff & improve ability to implement temporary cover. - Rebuilding Investment team after losing staff to Brunel and strengthened Governance and Risk Management within the fund. - Strategic priorities are continually risk reviewed. - The 2019/22 Service Plan provides for extra resource to support delivery of strategic training plan.	
	R42	Risk - Increased 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 defines the investment principles and the strategy. - The Fund participates in Brunel to meet the government broad agenda to reduce investment fees and increase efficiency. - Avon, Brunel and the LGPS Cross Pool Collaboration Group actively engages with government on a wide range of issues related to the government's agenda.	
11		Risk - some members face re-election simultaneously leading to lack of knowledge and continuity within the Committee Implications - Until members are fully trained there may be 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 3 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 retain Professional Investor status under MIFID II.	

1	R26	Risk - 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. - Climate change has been identified as a risk to the performance and value of the assets. The strategic policy includes the development of solutions to address this risk. - The Fund adopts a diverse strategy across assets and managers which limit 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). - The Fund implements risk management strategies as appropriate to increase probability that funding plan will be achieved - 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. - Specialist advice is commissioned - As assets have started to transition to Brunel, the responsibility for monitoring and selecting investment managers will transfer to Brunel and The Fund will monitor Brunel's portfolios and capability as the manager.	
4	R55	Risk - Failure to secure and manage personal data held by the Pension Fund in line with Data Protection Regulations (GDPR) Implications – fines and reputational damage if systems and processes are not 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 GDPR online training programme. - Personal data is shared with 3rd parties through secure portals, compliant with B&NES DP policies. - GDPR privacy notices provided to all members. - Memorandum of understanding agreement in place with employers - Project in place to ensure GDPR compliance & identify processes that need to be put in place.	
2	R51	Risk – The Fund will retain incorrect pension liability after the GMP Reconciliation Exercise when it will no longer be possible to transfer liability. Implications – additional costs due to paying pensions based on incorrect liability	10-Aug-15	Technical & Compliance Advisor	Admin Strategy			3						4		12	MEDIUM	M	M	M	On target	- GMP reconciliation project in place. - Additional resource of 1.5 FTE to carry out reconciliation. - Exceptions reported to HMRC - rectification of overpayment cases - progress/action reports provided to Pensions Committee & LPB.	
3	R56	Risk - Significant increase in employers especially if all schools convert to academy status. Implications – the Fund will need additional resources to cope with the extra workload and ensure employers comply with responsibilities under the scheme		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. - Significant focus on developing more efficient automated processes eg Iconnect & ERM	
6	R59	Iconnect relies on employers uploading data from their payroll system directly to the pension database. Risk is member data on records could be incorrect and potential incorrect valuation of employer liabilities	11-Sep-19	Pensions Manager				3					3			9	Medium				On target	Control framework is in place covering user access and password control, data validation & reconciliation, identification of employer training needs. The Fund is currently undergoing a digital programme to onboard all employers to Iconnect. DPIA has been carried out with Information Governance	

28	R54	Risk – a delay in the transition of local fund assets to the Brunel portfolios Implications – any delay could seriously impact the Fund's and pool's ability to deliver savings according to financial case.	01-Jul-16	Pensions Investments Manager	Governance		2						4		8	MEDIUM	M	M	M	On target	• The Brunel governance structure is in place to effectively manage the new relationship. • Expert advice is commissioned as required to assist the transition. • Interim resources in place to support client side of the pool during the transition. • Brunel's transition plan in place and monitored by Client Group. Issues are escalated to Brunel Oversight Board. • Fund specific plan to ensure any decisions / governance required are identified and dealt with accordingly. • Quarterly Committee agenda includes Brunel update report.	
	R60	Banes has declared a climate emergency. The risk is that The Fund does not meet the Council's commitments under this policy. In addition climate change poses a risk to the investment strategy	11-Sep-19	Head of Business, Finance and Pensions			2					3		6	LOW					On target	The Fund is investing in and implementing its digital strategy to reduce its carbon footprint especially in relation to administration and communication. In 2016 The Fund identified the risk of climate change to its asset portfolio and since then has been developing solutions to manage this risk. To date it has implemented a low carbon global equity portfolio, a sustainable equities portfolio and made investments in renewable infrastructure assets	

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	27 September 2019
TITLE:	WORK PLANS
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Investments Work plan Appendix 2 – Administration Work plan Appendix 3 – Committee Work plan Appendix 4 – Investments Panel Work plan Appendix 5 – Training Programme 2019-21	

1 THE ISSUE

- 1.1 Attached to this report are updated work plans 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.
- 1.2 In addition there is a work plan for the Committee and a separate one for the Investment Panel which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.
- 1.3 The provisional training programme for 2019-21 is included as Appendix 5. A training session on investments was held on 2 September for all new members and Panel members.
- 1.4 The work plans are consistent with the Service Plan but also include a number of items of lesser significance which are not in the Service Plan. The work plans are updated quarterly.
- 1.5 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 Committee notes the work plans and training programme for the relevant period.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the work plans is to provide members with an indication of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations. A number of workshops are being arranged for the Strategic Investment Review later in 2019.

4.2 The provisional training programme for 2019-21 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.

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2019	2020	2021	2022	2023
PC workshops: • 3 October • November • 17 December 6 December	28 February (special meeting) 27 March 26 June 25 September 11 December	26 March 25 June 24 September 10 December	25 March 24 June 23 September 16 December	24 March 23 June 22 September 15 December

5.2 Investment panel meetings as currently scheduled:

2019	2020	2021
20 November	6 March 5 June 11 September 20 November	26 February 28 May 10 September 19 November

6 RISK MANAGEMENT

6.1 Forward planning and training plans form part of the risk management framework.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

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	Carolyn Morgan, Governance and Risk Advisor, 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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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	Completed 2Q19 Plan agreed by Committee March 2019
Pooling of investments	Participate in Brunel Pension Partnership as Client Group Representative Manage transition of assets – planning & implementation Prepare plan for transition of legacy private market assets post Strategic review Review team resource and structure as a result of pooling (post transition)	On-going On-going 2019/20 2020
2019 Valuation	Prepare following interim valuation Consider options for further de-risking of investment and funding strategies ahead of valuation Revise and agree Funding Strategy Statement	On-going June 2019 draft Sept 2019 approve
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	2020
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	4Q19
Pensions Board	Training plan	Ongoing
Investment Strategy Statement	Revise periodically after strategy changes	Ongoing
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 Due Q3 2019/20
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live All Other Employers (see strategic projects below; identified in 2018/21 Service Plan). Currently 258/438 (58% active scheme employers submitting monthly data)	Completed Q4 2018/2019 By end March 2020
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 (86% of active membership covered as at 30 June)	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 Completed Commencing Q3 2019/20
Member Aggregation	Aggregation/link option - Appx 3,869 cases (100% cleared at March 2019)	Completed
Reply Due Cases	Develop new process & clear outstanding backlog	On hold due to resource move
2014 Scheme – refund option	Develop & Implement new process to manage increase in workload – impacting from April 2019	In Progress
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	In Progress Due completion March 2020
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent support) concerning pension refund payment. Page 319	Ongoing Completion due end March 2020

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. July 2019 – SAB issued draft conditional data requirements for scoring. Further development on providing guidance notes are in progress with LGA APF have commenced development of reports based on draft SAB requirements	Completed In Progress
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. Final stage – determine pension rectification actions	Ongoing Due Completion 2019/20 Due Q4 2019/20
2018/19 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2019 (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 19 Completed Completed – Completed - Report in December 2019 In Progress
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).[Service Plan refers] 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	Completed
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)	Ongoing Update report at March 2020 Committee

Committee Work plan to March 2020

DECEMBER 2019
PB minutes
Strategic Investment Review for approval
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
Update on Legislation
Work plans
Planned Workshops: Provisional dates for Investment Strategy workshops: October 3 rd ; November 7 th ; December 17 th

MARCH 2020
PB minutes
2019 Actuarial Valuation outcome report & Covenant review
Draft ISS post review for 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
Review of AVC arrangements
Report on Investment Panel Activity
Update on Brunel Pension Partnership
Update on Legislation
Work plans
Planned Special meeting: February 28 th Strategic Investment Review – Revised Strategy

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INVESTMENT PANEL WORKPLAN

Panel meeting	Proposed agenda
20 November 2019	• Review performance • Transition of assets - plan update • Consider future strategy for equity protection and LDI as a result of strategic review workshops • Implementation considerations from strategic review
6 March 2020	• Review performance • Transition of assets - plan update • Implementation considerations from strategic review • Agree Private Market commitments to Brunel portfolios (by 31 March 2020)
5 June 2020	• Review performance • Transition of assets - plan update • Implementation considerations from strategic review
11 September 2020	• Review performance • Transition of assets - plan update
20 November 2020	• Review performance • Transition of assets - plan update

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Appendix 5 - Committee training programme 2019-21

	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 2019 Committee meeting Induction training
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers Induction training
3	Actuarial Valuations	Valuation monitoring 2019 valuation outcome & GAD valuation methodology, plus LGPS Cost Cap Mechanism,	Committee Workshop	Committee reports Workshop 2Q19 & Committee reports
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy (FSS) Covenant assessment process Admission and exit policies and funding basis used	Committee	Valuation & FSS workshop 2Q19 Committee reports
5	Investment strategy	Asset allocation & Investment Strategy Statement Investment strategies e.g. active vs. passive Investment management structure Monitoring managers and performance measurement Fees Strategic Review Brunel: - Asset transition plan - Monitoring of performance and service delivery	Committee Panel Workshops Committee	Quarterly monitoring report Quarterly monitoring report Workshops 3&4Q19, Committee 1Q20 Brunel transition plan monitoring (on-going) Brunel performance monitoring (on-going)

6	Managing liabilities	Monitoring and review of LDI framework Annual review of Risk Management Strategies Review of Low Risk Investment Strategy	Investment Panel Investment Panel & Committee Investment Panel	Panel reports Annually Part of Annual LDI monitoring
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2019/20)

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 Investment review
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee Covenant and Employer reports to Committee FSS & Triennial Valuation Workshops