Bath & North East Somerset Council

Avon Pension Fund Committee

Date: **Friday, 26th June, 2020**
Time: **2.00 pm**
Venue: **Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil**

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), Charles Gerrish (Academies), William Liew (HFE Employers), Shirley Marsh-Hughes (Independent Member), Pauline Gordon (Independent Member), John Finch (Independent Member) and Wendy Weston (Trade Unions)

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

Mark Durnford
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
Telephone: 01225 394458
Web-site - http://www.bathnes.gov.uk
E-mail: Democratic_Services@bathnes.gov.uk

NOTES:

1. Inspection of Papers: Papers are available for inspection as follows:
Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

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.Broadcasting of Meetings:- The Council will broadcast the images and sounds live via the internet https://www.youtube.com/bathnescouncil The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Participation at Meetings: The Council has a scheme to enable the public to make their views known at meetings. They may submit a written statement relevant to what the meeting has power to do. They may also submit a petition on behalf of a group. Advance notice is required not less than two working days before the meeting.

This means that for meetings held on Wednesdays, a copy of the written statement must be received by Democratic Services by 5.00pm the previous Monday. Further details of the scheme can be found at:
https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

5. Supplementary information for meetings: Additional information and Protocols and procedures relating to meetings
https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Avon Pension Fund Committee - Friday, 26th June, 2020

at 2.00 pm in the Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil

A G E N D A

1. WELCOME & INTRODUCTIONS

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 - 6TH DECEMBER 2019 (Pages 5 - 12)

8. FUND GOVERNANCE FRAMEWORK (Pages 13 - 40)

   This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

9. SERVICE PLAN AND BUDGET 2020 - 23 (Pages 41 - 72)

   The purpose of this report is to present to Committee the 3 Year Service Plan and

Budget for the period 1 April 2020 to 31 March 2023.

10. INVESTMENT PERFORMANCE AND STRATEGY MONITORING (Pages 73 - 152)

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.

11. INVESTMENT STRATEGY STATEMENT (Pages 153 - 178)

The Regulations state that the administering authority must consult on the ISS as appropriate. The Pension Board will review the draft ISS for compliance with the regulations and a wider consultation will be done with scheme employers.

12. PENSION FUND ADMINISTRATION (Pages 179 - 190)

The purpose of this report is to inform the Committee of the performance for Fund Administration for the period up to 31st May 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23rd March 2020.

13. PENSION FUND BUDGET AND CASH FLOW MONITORING (Pages 191 - 200)

The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the year to 31 March 2020.

14. TREASURY MANAGEMENT POLICY (Pages 201 - 208)

The Committee are asked to approve the Treasury Management policy each year.

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 6th December, 2019, 2.00 pm

Bath and North East Somerset Councillors: Bruce Shearn (Chair), 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), Shirley Marsh-Hughes (Independent Member) and Pauline Gordon (Independent Member)

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

Advisors: Steve Turner (Mercer), Richard Fanshawe (Brunel Pension Partnership), Catherine Dix (Brunel Pension Partnership) and Gillian de Candole (Brunel Pension Partnership)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

35 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

36 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Shaun Stephenson-McGall, John Finch, John Goddard and Wendy Weston.

37 DECLARATIONS OF INTEREST

There were none.

38 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

40 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

41 MINUTES: 27 SEPTEMBER 2019

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

42 PRESENTATION ON PRIVATE DEBT

The Investments Manager reminded Members that at the Strategic Review workshop on 7 November possible private market allocations had been discussed, and questions had been raised about the form that a portfolio might take. It was agreed that Brunel should be invited to give a presentation to the Committee about their intentions for such a portfolio. The proposal was that participating clients would commit allocations, which would be invested over a period in funds that Brunel would select on their behalf.

Before receiving the presentation 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 duration 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.

RESOLVED to note the presentation on Private Debt from Brunel.

43 UPDATE ON LEGISLATION

The Pensions Manager presented the report.

McCloud

The Employment Tribunal has begun considering the case in relation to the Judges and Firefighters' pension scheme. It is possible that the remedy will not have to be applied to the LGPS before 21/22. The LGA advised that funds should contact employers asking them to provide details of part-time members and service rates back to 2014, information needed in connection with the CARE scheme. This of course will create extra work for the Administration team. Resources are being managed in anticipation of this. It is hoped that that an estimate of the extra work can be made to the Committee at the March meeting. A significant problem is that some employers are being asked for information which they no longer hold because of changes in the interim period. This has been noted by LGA, who have reported to MHCLG that some information may not be available. The Cost Cap exercise will be rerun once a remedy for McCloud has been agreed.

In reply to a question from a Member, the Pensions Manager said that the Fund would be seeking McCloud –related information back to 2014 from employers in the new year. This information would be mandated as a reporting requirement for employers in the future

Public Sector Exit Payments Cap

There is still no information about when regulations are likely to be brought forward, though April 2020 is a possible date.

Good Governance in the LGPS

The SAB has published a second report outlining expectations for LGPS funds. Avon already makes efforts to measure employer performance as well as the performance of the central administration of the Fund. It is likely that standards of employer performance will be mandated for all LGPS funds.

The Head of Business, Finance and Pensions said that the SAB considering introducing statutory guidance for funds, which could specify mandatory training for Members of the Committee. It could also include peer assessments and peer reviews, a mandatory biennial governance review and a nominated responsible officer. The SAB now has a clear direction of travel on governance, so significant changes can be expected. Avon was well placed to deal with this.

Responsible Investment

The SAB has published draft guidance for consultation and the Fund will be submitting a response.

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

44 UPDATE ON POOLING

The Investments Manager presented the report.

She said that transition was still on track. The Emerging Markets portfolio transitioned in October. The transition manager was currently working through the Global High Alpha portfolio. At its last meeting the Investment Panel had received the Brunel quarterly report. Information about Brunel reporting will be given to the March meeting of the Committee, so that Members understand what information the Panel is receiving and how Brunel’s performance is being monitored.

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 during the consideration of the Exempt Appendices to 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 the Committee **RESOLVED** to note:

1. the progress made on pooling of assets;

2. the updated project plan for the transition of assets.

45 INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

Members noted the decision of the Panel about the Equity Protection Strategy, as set out in Exempt Appendix 2, and the review of inflation hedging in the Liability Driven Investment Strategy requested by the Panel, as set out in paragraph 4.2 of the covering report.

A Member asked how much extending protection to emerging markets would cost. The Investments Manager replied that costs for this had not been estimated, but an estimate would be included with the proposal; protection costs would obviously increase because more was being hedged. Mr Turner (Mercer) further commented that the structure used to implement the strategy would be the same as the original protection strategy, and target a zero (or minimal) upfront premium. By protecting a larger equity notional value the opportunity cost would increase where the Fund limits its potential to participate in unlimited upside gains of emerging market equities. Management fees for the strategy had been negotiated lower by Brunel.

RESOLVED to note the minutes of the Investment Panel meeting on 19 November at Appendix 1 and Exempt Appendix 2.

46 REVIEW OF INVESTMENT PERFORMANCE

46 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report.

Mr Turner presented the Mercer investment report. Members noted that the funding level had remained stable. Mr Turner said that as the Brunel report covered more of the current performance of portfolios, the Mercer report would increasingly focus on strategic issues and the monitoring of Brunel.

A Member said that he could not recall seeing the Brunel quarterly report. The Investment Manager responded that at present the Brunel quarterly report and the Mercer report were very similar. Investment information presented to the Panel and the Committee would be reviewed. It was the Committee's responsibility to monitor Brunel overall, while the Panel focused on the individual investment mandates.

A Member asked whether there were sufficient resources to monitor Brunel. The Head of Business, Finance and Pensions replied that there would be recruitment to the Investment team, which would require additional funding. A proposal would be brought to the next meeting of the Committee. The Investment Manager added that Mercer would also be providing more support in the short term.

RESOLVED to note:

1. the information set out in the report;

2. LAPFF Quarterly Engagement Report at Appendix 3

47 PENSION FUND ADMINISTRATION

The Pensions Manager presented the report.

Members noted that performance against KPIs continues to improve. Available staff resource continued to be affected by maternity leave and resignations. Since the last staff restructure in January 2017, full staff resources had only been available for a couple of weeks. Recruitment was continuous. About 4% of employers would receive a penalty charge for poor performance at year end. As in previous years training was offered to employers as an alternative to a penalty charge. One employer was a repeat offender, so would be fined as well as offered training.

He drew attention to the information about the TPR breach contained in Annex 1. Processes had been reviewed and measures had been put in place by the Fund to prevent a recurrence. ICO had responded that no further action is required in addition to the measures taken by the Fund. A meeting had been held with the software supplier about incorporating further controls in the systems used by the Fund. A team is being assembled to deal exclusively with the uploading of employer data; the Committee's approval for the creation of an additional four posts for this team is requested. A costed proposal is contained in Annex 2. The administration budget this year is considerably underspent, so there will be no immediate impact on the budget, though there will be an additional cost of £140,000 in future years. Members noted that this as temporary measure and that the Committee would be consulted before final arrangements were put in place.

After discussion the Committee **RESOLVED** to:

1. note membership data, Fund and Employer performance for the 3 months to 30thSeptember 2019;

2. note progress and reviews of the TPR Data Improvement Plan;

3. approve the additional resource requirements as set out in Annex 2.

48 BUDGET AND CASH FLOW MONITORING

The Investments Manager presented the report.

RESOLVED to note

1. the administration and management expenditure incurred for 7 months to 31 October 2019;

2. the Cash Flow Forecast at 31 October 2019.

49 TERMS OF REFERENCE AMENDMENT

The Governance and Risk Advisor presented the report. She explained that because of a drafting error an incorrect version of the Committee and Panel's terms of reference had been approved by the Council at its Annual General Meeting in May. The error concerned the rule about composition of the Panel's quorum as explained in paragraphs 4.1 and 4.1 of the report. The current version states that:

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

This should be amended to:

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

RESOLVED to approve the amendment to the Terms of Reference.

50 CMA ORDER

The Investments Manager presented the report.

She explained that the Competition and Market's Authority (CMA) had concluded after its investigation into the fiduciary management and consultancy market that pension funds, including the LGPS, need to set their investment advisors 'strategic objectives'. The CMA has set a deadline of 10 December2019 for pension funds to set their investment advisors these strategic objectives. Pension funds could be fined if they accept investment advice without these strategic objectives being in place. The Committee was invited to approve the draft letter setting strategic objectives for Mercer contained in Exempt Appendix 1.

RESOLVED to approve the Letter to Mercer in Exempt Appendix 1 setting out the Strategic Objectives.

51 WORKPLANS

The Governance and Risk Advisor presented the report.

RESOLVED to note work plans and training programme for the relevant period.

The meeting ended at 4.13 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 JUNE 2020**	**AGENDA ITEM NUMBER** 8
TITLE:	**FUND GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Scheme of Delegation Authorisations List Appendix 2 – Scheme of Delegation Schedule Appendix 3 – Terms of Reference for Committee and Investment Panel Appendix 4 – Draft Governance Compliance Statement		

1 THE ISSUE

1.1 This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

1.1 The Scheme of Delegation (Appendix 1 & 2) set out how the Committee delegates some of its responsibilities to Officers. The Schedule details the responsibilities delegated, and the authorisation list sets out who is authorised and the limit of transaction they can authorise.

1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 3 and have been updated to include the Scheme of Delegation.

1.3 The draft Governance Compliance Statement is set out in Appendix 4 reflects the amendments to the revised Terms of Reference.

1.4 The report invites members to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.

1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.

1.6 Lastly, members are requested to give delegated powers to Officers and the Chair to draft the Annual Report to Council on Committee activity in the past twelve months.

2 RECOMMENDATIONS

The Committee:

2.1 **Notes the roles and responsibilities of the members, advisors and officers**

2.2 **Approves Terms of Reference of the Committee and Investment Panel**

2.3 **Approves the Scheme of Delegation**

2.4 **Approves the Governance Compliance Statement**

2.5 **Agrees the membership of the Investment Panel**

2.6 **Agrees independent member representation of the Brunel Working Group**

2.7 **Agrees substitute of Brunel Oversight Board**

2.8 **Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.**

2.9 **Agrees 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).**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 ROLES & RESPONSIBLITIES

4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

The Committee and Investment Panel:

4.2 The Terms of Reference for the Committee, including the Investment Panel, can be found in Appendix 3.

4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.

4.4 The Fund will retain responsibility for its incumbent investment managers until each mandate transfers to the portfolios offered by Brunel. At that point, Brunel will be responsible for appointing managers to manage the assets within each portfolio, monitoring the managers and reporting back to the Fund about the performance of each portfolio. Therefore during 2019-2022, the responsibly for implementing the Fund's investment strategy will gradually transfer from the Fund to Brunel. The Fund will remain responsible for all strategic decisions such as asset allocation and the risk management framework.

4.5 Membership of the Investment Panel is drawn from the voting members of the committee.

4.6 The Chair of the Committee is the the Fund's representative on the Brunel Oversight Board of the Brunel Pension Partnership.

4.7 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.

4.8 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.

4.9 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members are required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds when they are appointed to the committee.

4.10 In addition, the MiFID II (Market in Financancial Instruments Directive) categorises an LGPS fund as a retail client which restricts the Fund's ability to invest in more complex and diversified investments. As a result the Fund has been opted up by its investment managers to 'elective professional client' status. To achieve this status the Fund must on an on going basis satisfy (and provide evidence to) its managers that it has the knowledge and expertise within its governance structure to make decisions around complex investments. Therefore ongoing training of all committee members is crucial to maintaining our elective professional status.

4.11 The Committee Training plan is reviewed at each quarterly committee meeting. It includes training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.

Fund Advisors:

4.12 The guidance on preparing and maintaining an investment strategy statement in support of the LGPS (Management and Investment of Funds) Regulations 2016, regulation 7(2)(a) states "Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries." Regulation 7(2)(b) states that the Fund must "take and act on proper advice in assessing the suitability of their investment portfolio" and regulation 7(2)(e) states "When making investment decisions, administering authorities must take proper advice and act prudently"

4.13 The principles for effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG).

Principle 1: Effective decision-making - requires that "administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively… and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive…".

4.14 All advisory appointments are appointed under a separate procurement process which will follow the Council's procurement policy. National LGPS procurement frameworks are used where possible as it is a more efficient procurement route and the frameworks are closely monitored for value for money and service levels.

4.15 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee's agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund's investment strategy and the managers' performance.

4.16 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the Local Government Pension Scheme Regulations 2013. Regulation 62(1) states that "An administering authority must obtain (a) an actuarial valuation" and (b) "a report by an actuary in respect of the valuation".

4.17 The Fund is externally audited annually and the Committee considers the goverenance report submitted by the auditor at the end of the audit. Currently the

Council's Corporate Audit Committee approves the Fund's Financial Statement as it forms part of the Council's Financial Statement.

4.18 Internal audit undertakes work annually on different aspects of the pension fund, covering new regulations, high risk projects, fraud, governance and process reviews. The Committee reviews all Internal Audit reports and proposed management actions.

Fund Officers:

4.19 The officers' role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, and that all information regarding investment, financial and administrative issues is provided to the Committee/Panel. In addition, the officers are responsible for implementing Fund policy. The Council's Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.

4.20 The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted with the Chair of the Committee where possible. For investment policy issues the Section 151 Officer will also consult with the Chair of the Investment Panel where possible.

5 SCHEME OF DELEGATION

5.1 In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee.

5.2 The Scheme of Delegation schedule sets out the responsibilities delegated by the Committee to officers and how these operate in practice.

5.3 The Scheme of Delegation authorisation list sets out the job role or person authorised and the limit of transaction they can authorise.

6 GOVERNANCE COMPLIANCE STATEMENT

6.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The statement has been updated to reflect the revised Terms of Reference.

6.2 The Committee are asked to approve the draft Statement in Appendix 4.

7 NOMINATIONS TO INVESTMENT PANEL

7.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.

7.2 The Panel shall comprise 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 LD and 1 Labour (with a LD Group nominee chairing the Panel) on the Panel was confirmed at B&NES Council meeting on 21 May 2019.

7.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting in each year.

7.4 Members are invited to nominate themselves to the Panel.

8 BRUNEL OVERSIGHT BOARD REPRESENTATIVE

8.1 As one of the 10 clients within the Brunel Pension Partnership, the Fund is represented on the Brunel Oversight Board. As our representative represents both the Committee and Shareholder on the Board, the represenative is the chair of the committee. A substitute will also be agreed at the meeting.

9 BRUNEL WORKING GROUP

9.1 Given the importance of Brunel to the Fund, a working group considers issues arising fron Brunel Pension partnership with Officers such as Reserve matters and Oversifght Board papers. This working group will not consider routine investment matters which will be monitored and dealt with by the Investment Panel. Representation from one of the independent members will be agreed at the meeting.

10 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEEETINGS

10.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises it members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.

10.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Richard Orton & Steve Pearce have represented the fund at these meetings during the past year. Members are invited to nominate themselves to represent the fund at these meetings (there can be up to two member representatives from the Fund attending any meeting).

11 ANNUAL REPORT TO COUNCIL

11.1 As the Avon Pension Fund Committee administers the Avon Pension Fund in accordance with terms of reference set by the Council, it is considered good practice for the Committee to report to Council annually on the work that it has undertaken in the previous twelve months. This report will also include a reference to the future work programme. In addition, the Avon Fund Pension Board will also publish its annual report detailing the work undertaken by the Board during the year, which will be included in the report to Council. Both reports will be published so that they are available for all stakeholders.

11.2 The annual report will be presented to Council at 12 November meeting. Committee are asked to give delegated powers to Officers to draft the report which will be circulated to all committee members for comment before being approved by the Chair.

12 RISK MANAGEMENT

12.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

13 CLIMATE CHANGE

13.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and has addressed this through its strategic asset allocation to Low Carbon Equities, sustainable equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

14 OTHER OPTIONS CONSIDERED

14.1 None

15 CONSULTATION

15.1 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 & Risk Advisor, 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

<u>Scheme of Delegations – Authorisations January 2020</u>

The Pension Fund Committee has delegated responsibility for agreeing authorisation of transactions to officers. The s151 officer for Pensions (Head of Business Finance & Pensions) agrees the job role or person authorised and the limits as set out below and in the appropriate schedules.

Authorised Signatory List	Instructions which result in the movement of cash with a value of under £10m can be authorised by one of the signatories. Movement of cash with a value of £10m or more must be authorised by two of the signatories. Legal agreements require two authorised signatories unless the agreement is sealed by Bath & North East Somerset Council. All other instructions of a more routine nature can be signed by only one of the signatories.		Names as per schedule ..\Delegations
Authorisation of Pension Benefits	Up to £100,000	Up to £150,000	Over £150,000
	Member Services Senior Pension Officers	Member Services Team Leaders (excluding Pensions Payroll TL)	Administration Managers Plus Pension Manager or Head of Service
Authorisation of payments list to be paid via C-Series	Individual cases	Administration Managers & Pension Manager	
Authorisation of C-Series (Payroll Bacs Payments)	All Amounts	Named Pension & Finance Managers not involved in day to day processing of Benefits	Names as per schedule ..\Delegations
Agresso Payments (Invoices & pension related payments)	Limits as per schedule (link)	Head of Business Finance & Pensions Pensions Manager Investments Manager Payroll Services Manager	Names as per schedule ..\Delegations

		Head of Audit (Pension Board Transactions)	
Treasury Management transactions (on behalf of Pension Fund)	All amounts	Treasury Management Team on authorised list	Names as per schedule ..\Delegations

Scheme of Delegations – January 2020

In addition to the responsibilities listed in the Council's schemes of delegation, some additional responsibilities for functions specifically related to pension fund activities have been delegated to officers by the Pension Fund Committee.

Power of Attorney – Custody Accounts and Investment Managers	The authorisation of Power of Attorney's on behalf of the Pension Fund is delegated to Officers on the Authorised Signatory list.
Termination of Contracts and Investment Managers	The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
Debt management	The Section 151 Officer has authority to manage the liabilities of the Fund including the recovery of debt.
Admissions of new bodies	Officers have authority at admit new admission bodies that are guaranteed subject to them meeting Fund policy. If a body is not guaranteed or does not meet Fund policy, approval is required from the Pension Fund Committee
Approval of Pension Fund Accounts	In consultation with the Chair of the Committee, the Head of Business Finance & Pensions has delegated authority to approve the draft Statement of Accounts and Annual Report for audit.
Reports back to the Committee	In all cases where a decision has been delegated to Officers, decisions made will be reported back to the Committee or Panel at the next meeting for information only.
Internal Dispute Resolution Procedure	Members can appeal against decisions made by the employer or the Fund about pension entitlement. This is a two-stage process: Stage 1 – Employer decision - dealt with by the appointed person at the employer organisation. Stage 1 – Fund decision - dealt with by the Fund's Technical & Compliance Advisor. Stage 2 – Employer decision - dealt with by the Fund's Technical & Compliance Advisor. Stage 2 – Fund decision – dealt with by Head of Legal & Democratic Services.
Death Grants	The decision to pay a death grant to the member's beneficiary: - Non contentious cases sign off from the relevant Service Manager plus Pension Manager - Contentious cases require the third signature of the Head of Business Finance & Pensions

Discretions	Officers are responsible for exercising the Administering Authority discretions specified in the LGPS regulations. Full details of the discretions can be found here S:\Pensions\Technical and Compliance\Discretions\Avon Pension Fund Administering Authority Discretions Dec 2019.docx
Early release of Benefits	The decision to release benefits early for members where their employer no longer exists is delegated to the Administering Authority (Bath & North East Somerset Council)
Strategies & Policies	Officers are responsible for the day to day implementation & monitoring of the investment, funding & administration strategies and related policies with progress reported regularly to the Pension Committee
Strategic Asset Allocation	The Pension Committee has delegated the following to Officers which are reported back to the next Committee or Panel if not discussed prior to the decision:
	Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
	Implementing investment management arrangements in line with the strategic policy as follows: a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel. b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio. One authorised signatory required to approve instruction.
	Restructuring the risk management strategies as required where sensitive to market prices or technical in nature, having taken expert advice.
	Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.
	The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount.

Contracts and Agreements	Officers have authority to enter into contracts on behalf of the pension fund. Where appropriate, agreements are sealed under the Sealing arrangements of Bath & North East Somerset Council. Other contracts are signed by two Officers from the Authorised Signatory list.
	Where an investment is made (i.e. via a pooled fund), Officers have authority to subscribe/redeem units on behalf of the pension fund (notices to be signed by two Officers from the Authorised Signatory list).
	Officers have authority to commission Elective Services from Brunel and issuing instructions as permitted under the Brunel Service Agreement to Brunel Pension Partnership Ltd.
	Officers have authority to appoint specialist advisors to support the Committee and Officers in discharging their functions. Appointments must be in line with the Council's procurement framework and make use of LGPS National Frameworks where available.

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TERMS OF REFERENCE

1 Avon Pension Fund Committee

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

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

Function and Duties

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

The key duties in discharging this role are:

1. Having taken appropriate advice determining the following:
    a. the investment strategy and strategic asset allocation
    b. the administration strategy
    c. the funding strategy.
2. Monitoring the performance of the investment strategy, scheme administration, and external advisors.
3. Ensuring that the investment strategy can be delivered by the portfolios offered by BPP Ltd. If not, agree alternative arrangements. In relation to Brunel Pension Partnership:
    a. Monitoring the performance of BPP Ltd in delivering investment services to the Fund. Make representations to the Brunel

Oversight Board on matters of concern regarding the service provided by BPP Ltd and the performance of its portfolios.

b. Monitoring the governance of Brunel Pension Partnership and making recommendations to the Brunel Oversight Board. Terminating the Service Agreement with BBP Ltd.

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

Delegations

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

Membership of the Committee

Voting members (14)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 3 independent members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated from the Academy bodies 1 nominated by the trades unions
Non-voting members (3)	1 nominated from the Parish Councils Up to 2 nominated from different Trades Unions

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

Meetings

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

Quorum

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

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

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

The Investment Panel will:

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

And have delegated authority for:

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

11. Delegate specific decisions to Officers as appropriate.

Panel Membership

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

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

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

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

Panel Minutes

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

3 Brunel Oversight Board Representative

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

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

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

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

The main duties of the Board Representative are:

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

4 Brunel Pension Partnership Working Group

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

This group will consist of:

a) the BOB Representative,
b) named BOB substitute
c) the Chair and/or Vice Chair if not the BOB representative /substitute
d) an independent committee member.
e) Head of Pensions
f) Investments Manager

The Working Group shall be quorate if three members are in attendance, with at least 2 that are not fund officers. The Head of Pensions shall chair the Working Group.

The Working Group shall meet as and when required as determined by the Head of Pensions. Meetings may be via telephone conference.

Key discussions and action points from the Working Group will be recorded and the committee will be updated at the next committee meeting.

The responsibilities of the working group are as follows:

With regard to any matters arising from Brunel Pension Partnership where the Avon Pension Fund have an interest:

a) to consider each matter that will be brought to the Pension Committee and / or Shareholder representative for decisions in due course

b) to provide guidance to the Pension Committee and / or Shareholder Representative in relation to each matter when they are being considered

c) to provide guidance to the BOB representative as required

d) to make recommendations to the Pension Committee regarding general oversight of the pool, as considered appropriate.

5 Officer Delegations

In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee. These are set out in the Fund's Scheme of Delegation and include the following:

1. Implementation and day to day monitoring of the administration, investment and funding strategies and related policies.
2. Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
3. Implementing investment management arrangements in line with the strategic policy as follows:
    a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel.
    b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio.
4. Restructuring the risk management strategies as required where sensitive to market prices or technical in nature, having taken expert advice.
5. Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.
6. Representing the Fund on the Brunel Client Group to develop Brunel investment strategies and policies which effectively support the interests of the Fund.

7. Commissioning Elective Services from BPP Ltd and issuing instructions as permitted by the Brunel Service Agreement to BPP Ltd.
8. The appointment of specialist advisors to support the Committee and Officers in discharging their functions.
9. Determining policies that support the investment and funding strategies having taken expert advice.
10. In consultation with the Chair of the Committee, the Head of Pensions will approve the draft Statement of Accounts and Annual Report for audit.
11. Authorising expenditure from the Fund in accordance with the annual budget.
12. Admitting new admitted bodies into the Fund subject to them meeting Fund policy.
13. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
14. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
15. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
16. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

To be Approved by Avon Pension Fund Committee 26 June 2020

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Appendix 2

Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 (as amended) require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

Statutory Governance Principles	Compliance status and justification of non-compliance
A - Structure	**Compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice. In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee and these are set out in the Fund's Scheme of Delegation.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The APFC consists of 14 voting members, viz: - 5 elected members from Bath & North East Somerset Council - 3 elected members from the other West Of England unitary councils - 1 nominated by the trades unions - 1 nominated by the Higher/Further education bodies - 1 nominated by Academy bodies - 3 independent members and 3 non-voting members, viz: - 2 nominated by the trades unions - 1 nominated by the Parish/Town Councils
c) That where a secondary committee or panel has	The Avon Pension Fund has a sub-committee, the Investment Panel, to consider

been established, the structure ensures effective communication across both levels.	matters relating to the management and investment of the assets of the Fund in greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main committee agenda.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Every member of the Investment Panel is a member of the main committee.
e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established	The Board's remit is to assist the administering authority to (i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and (ii) ensure the effective and efficient governance and administration of the Scheme. The Pension Board comprises 7 members, 3 employee members, 3 employer members and an independent chairperson. Employer and employee members have voting rights. The Board will publish an annual report to Council containing any recommendations on process or governance. The Board will report any material concerns to the S151 Officer. Board minutes will be circulated to the administering authority (the Pension Committee), S151 Officer and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator. Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pension Committee) the Board shall:

	1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board 2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach 3. The Board will determine action and if sufficiently material will report the breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.
f) The Avon Pension Fund is represented on the governance arrangements of Brunel Pension Partnership.	The Fund has established an FCA regulated company (Brunel) with 9 other LGPS funds which implements the investment strategies of all 10 funds (known as the Brunel Pension Partnership). The Fund allocates its assets to portfolios offered by Brunel in line with the Investment Strategy agreed by the Committee. The Chair of the APFC represents the Avon Pension Fund on the Brunel Oversight Board (BOB). The Investments Manager represents the Fund on the Client Group, a practitioner group to support BOB and engage directly with Brunel. Minutes of BOB meetings are included in Pension Fund Committee and Pension Board agendas. A Brunel Working Group, comprising the Chair, Vice Chair and an independent member of the Committee, the BOB representative (if not the Chair or Vice Chair), the Head of Pensions and the Investments Manager has been established to consider in detail any issues arising from Brunel Pension Partnership such as reserve Matters.
B – Representation	**Partial Compliance**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers , e.g. admission bodies);	In 2019 The Avon Pension Fund changed the structure of the Committee to represent a wider range of employers by including an Academies representative plus a further independent representative.

	There are 14 voting members representing employers across the unitary authorities, Higher and Further Education bodies and now Academies, plus 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure as it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members with voting rights was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders. There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.
ii) scheme members (including deferred and pensioner scheme members);	There are up to 3 trades union representatives (1 with voting rights and 2 non-voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.
iii) where appropriate, independent professional observers;	The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, committee and decision-making process. Furthermore, three members are appointed to the committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit.
iv) expert advisors.	The Fund's investment consultant attends all committee and panel meetings and other expert advisors, such as the Scheme Actuary, attend on an adhoc basis when appropriate.
b) That where lay members sit on a main or secondary committee, they are treated equally	All members of the committee are treated equally in terms of access to papers,

in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.
C – Selection and role of lay members	**Compliant**
a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee. Declarations of interest is a standing item on every committee agenda.
D – Voting	**Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.
E – Training/Facility time/ Expenses	**Compliant**
a) That in relation to the way in which statutory and related decisions are taken by the administrating authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the	The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder. See above. The Fund requires new members without prior experience of the Local

adoption of annual training plans for committee members and maintains a log of all such training.	Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the committee agenda. A training log is maintained.
F – Meetings (frequency/quorum)	**Compliant**
a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The committee meetings are held quarterly. The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings. Lay members are included in the formal arrangements.
G – Access	**Compliant**
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
H - Scope	**Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
I – Publicity	**Compliant**

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

To be Approved by Avon Pension Fund Committee on 26 June 2020

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER **9**
MEETING DATE:	**26 JUNE 2020**	
TITLE:	**2020 - 23 SERVICE PLAN AND BUDGET**	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Annex 1: 2020-23 Service Plan and Budget Report
Appendix 1 – Scope of Avon Pension Fund
Appendix 1a – Admin & Investment Resource
Appendix 2 – Service Plan Monitoring of Objectives
Appendix 3 – Budget & Cash Flow Forecast

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2020 to 31 March 2023.

1.2 The Service Plan (Annex 1) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

2.1 That the Committee approves the 3 Year Service Plan and Budget for 2020-23 for the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

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

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2020-23

4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three-year budget supports the objectives and actions arising from the plan including work relating to the investment strategy, risk management and compliance and improvements in the administration of the Fund.

4.2 The main focus of this plan is as follows:

(i) To work with Brunel Client Group and Brunel to ensure efficient transition of assets and full consideration of all investment, financial and governance issues. Ensure Committee and Board kept up to date of progress.

(ii) To continue the business service objectives outlined in the revised Admin Strategy (2019) and implement the new employer Service Level Agreement including the option of a new chargeable service offer.

(iii) Following 2019 valuation and strategic Investment review, plan for next review to ensure all options and scenarios are considered ahead of 2022 valuation and fed into 2022/23 Strategic Review.

(iv) Develop and implement stakeholder communications strategy for investment strategy and climate change.

(v) To continue the implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.

(vi) Undertake a structural review of digital IT platform and service delivery.

(vii) Plan for the expected burden on Fund administration resulting from the McCloud remedy.

4.3 Full details of the 2020- 23 Service Plan are included in the Annex. Appendix 2 of the Service Plan shows the new medium-term targets for 2020-23

5 BUDGET FOR 2020-23

5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2020 are included as **APPENDIX 3** to the Service Plan.

5.2 The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include governance and compliance expenses which are a consequence of the Fund's policy response to regulations and investment strategy. The budget also includes the estimated costs of the pension board. The LGPS regulations require the costs of local pension boards to be met by the local fund.

5.3 The budget approved for Administration in 2019/20 was £3,441,335. In the proposed budget for 2020/2021 this has been increased to £3,682,416. The increase will provide additional temporary staffing resource to support administration requirements as a result of the expected McCloud remedy. Further additional budget has been allocated to undertake a preliminary review of the current IT systems platform. There is also a roll-over of additional budget for one off projects; to check mortality and member tracing and completion of the GMP reconciliation exercise and finally the potential trivialisation of pensioner member small pot pensions. The previous unused IT development budget have been removed. However, this will be revisited going forward, depending on the planned

IT system review. Within Governance and Compliance there is a decrease in the budget due to the 2019 valuation completing in the main by 31 March 2020.

5.4 Investment management fees (including those for Brunel) are flat year on year due to the fee savings from transitioning the assets to Brunel. Performance fees rise marginally, reflecting performance in excess of targets set. The management costs for Brunel (for operations and service delivery) are shown separately. The Transition costs are not included as these are taken off the value of the assets.

5.5 The inclusion of the three-year cash flow forecast reflects the need to monitor the Fund's cash flow since it ceased to be continuously cash flow positive. The close monitoring of the Fund's cash flow position is a vital tool in the management of the cash that is achieved through its investment strategy.

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 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. 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 in line with the Council's Climate Strategy. 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 persons	**Budget** – Dave Richards, Finance & Systems Manager (Pensions) (01225 395259) **Service Plan --** Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Investments Manager (01225 395306)
Background papers	Various Accounting Records

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Annex 1

THE AVON PENSION FUND

SERVICE PLAN

2020 - 2023

PREPARED BY:

TONY BARTLETT, LIZ WOODYARD, GEOFF CLEAK and DAVE RICHARDS

MARCH 2020

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SECTIONS

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APPENDICES

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AVON PENSION FUND SERVICE PLAN 2020-23

1 BACKGROUND

This Service Plan is presented against a background of global uncertainty and financial concern caused by the COVID 19 coronavirus and the unprecedented actions taken by governments and organisations across the world to prevent its spread. Having met the challenges caused by the 2008 recession, our members, our employers, indeed the world faces an even deeper recession, one that in some quarters is suggested could represent a game-changer as to how some societies live their lives.

As a Fund we currently face challenges to all aspects of our operations, whilst the impacts on Employers may in the short term undermine our Funding Strategy and cause concern for the 2022 valuation. The focus now is on maintaining business continuity through the lockdown period, recognising that future operations will be impacted by the current changes, not least in the shift to greater use of digital communications.

The direction of travel for the period 2020-2023, recognises these new challenges, developing the digital opportunities, whilst enhancing covenant risk assessment work amongst other things; inevitably though there has been an impact on programmed work as the service adapts. This plan updates the progress on planned activities taking account of COVID impacts although it remains to be seen what the long term impacts will be on the LGPS.

Governance

The Coronavirus Act 2020 enables public bodies to establish virtual meetings during the pandemic period and The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panels)(England and Wales) Regulations 2020 ('the Regulations') sets out the details by which they should operate. It is likely that some of the Funds future meetings may be held in this way.

Operationally the Fund is still in transition as it adapts to the changes in its investment arrangements and the complexity that arises from ongoing fragmentation of its employer base. The transition of the assets and the need to implement the investment strategy through the pool requires engagement by the Fund at both committee and officer levels. Although the Fund’s governance arrangements takes this into account, it is kept under review as the new arrangements are still evolving, including the engagement process between Brunel, the Oversight Board and the Fund. Further changes may be required in the future to ensure the Fund’s requirements are addressed, its interests are protected and the governance arrangements are operationally effective.

As agreed by Committee, the remit of Pensions Board has been expanded to provide greater input to the Administration Strategy. The Board role will be developed over the next year enabling the Committee to focus more on Strategic issues improving the overall efficiency and governance arrangements.

Pooling of Investment Assets

The FCA investment management company, Brunel, is managing c. £2.3 billion or 51% of the Fund's assets as at 31 March 2020. The focus through 2021/22 is on the transition of the remaining client assets to Brunel and the development of the ongoing monitoring of the portfolios. In addition to the transitions from legacy managers, the Fund has made allocations to Brunel's Renewable Energy Infrastructure and Secured Income portfolios. The impact of the pandemic has inevitably led to a delay in transition arrangements until 3Q20 due to market volatility, however the impact on savings is not considered to be materially impacted.

Although much time and resources has been spent establishing the pool and Brunel since 2016, significant resources are now required to work with Brunel and the wider pool to ensure the transition plan keeps on track, client strategies (and changes to them) are accommodated within the portfolio structure and that client monitoring is robust to give assurance to the Brunel Oversight Board, and local committees, that Brunel is delivering value for money to its clients. This continues to be an area of development and ongoing engagement with Brunel

Investment Strategy

Following a period of returns above expectations, 2018/19 saw the return of volatility to markets; the diverse strategy and focus on risk protected the Fund from significant declines in some assets.

The Strategic Asset Allocation has been reviewed following the 2019 actuarial valuation to ensure the Fund continues to fund its pension liabilities efficiently and provide value to its employers in terms of stable and affordable contributions. Further the impact of COVID 19 on planned investment changes was again thoroughly tested to ensure the overall strategy remained robust. The agreed changes to the asset allocations will be implemented through Brunel portfolios or, if a portfolio is not available, as an elective service by Brunel or by the Fund directly.

The Equity Protection Strategy has also been revised a result of the Strategic Review and will be subject to ongoing monitoring. In addition an assessment of implementing a more dynamic equity hedging strategy will be undertaken. The review thoroughly considered the financial impact of climate change on each asset class and the agreed actions continue to ensure the Fund moves towards alignment with Paris targets.

Funding Strategy

Over the last few years significant work has been undertaken to de-risk the employer position within the Fund through the Funding Strategy. In addition to the captive ill-health insurance scheme and the liability hedging strategy already implemented, a strategy to match the liabilities of employers that have exited the Fund was being implemented during 2019. This de-risked a further £130m of liabilities within the Fund. The options of developing bespoke funds for select groups reflecting their deficit, risk assessment and financial positions will be explored further and the option of moving towards a fully unitised approach will also be explored in time. This will be an important consideration by the Fund given the nature and diversity of employers within the Fund and will be considered on affordability and practical operational criteria.

The 2019 valuation saw a significant improvement in the funding position (increased from 86% to 94%) which meant total contributions were kept as stable as possible. The McCloud judgement and lack of a remedy significantly increased the complexity of the valuation, but the potential costs were provided for in the valuation. Significant work around employer covenants was undertaken to support the proposed funding plans at the employer level, given the difficult funding environment faced by many employers; this work will now continue given the financial challenge resulting from the pandemic.

Administration Strategy

The previous decades has seen the APF employer base grow to 442; representing an increase in excess of 300%. This figure is expected to increase beyond 500 over the next 18 months and continues to represent a significant challenge to the administration. A review of the Employer Services team structure was undertaken during the year to better manage the receipt and upload of monthly employer data as the drive continues towards the onboarding of all employers to this digital solution.

The revised Administration Strategy has been implemented continuing progress towards a seamless automated pensions service. A number of medium/long term projects are in train to support key strategy objectives and manage risk together with a series of ‘one off’ projects identified to further improve member data and mitigate TPR compliance requirements. In support of the PAS, a new Service Level Agreement with employers, including a chargeable service option will be issued during the term of the current strategy. However, further exploration and development of joined up technical capabilities are required to support administration and further maximise service delivery. This has become increasingly relevant during the current situation ensuring staff have the right training and equipment to operate flexibly and further highlighted the need for systems improvements. During 2020/2021 the Fund will undertake a review of its IT infrastructure and digital service delivery and will report outcomes to the Committee as they begin to emerge.

The outcome of the McCloud judgement is still awaited with a solution for LGPS expected in 2021/2022. However, it is expected that any remedy will have a significant impact on scheme administration and resource and the Fund will continue to monitor outcomes to consider and prepare approach.

2 KEY OBJECTIVES – 2020/21 to 2022/23

Funding Strategy:

1. Implement the policy for ongoing covenant assessment for incorporating into the Funding Strategy and funding plans.
2. To explore further options for bespoke portfolios to manage the funding and liability position of specific employer risk groups
3. Ongoing management of smaller employers to ensure pension costs remain affordable for the employer and financially sustainable for the Fund

Investment Strategy:

4. To monitor the transition of assets to the Brunel Portfolios and performance of Brunel and portfolio thereafter.
5. To implement changes to the strategic asset allocation post 2019/20 review to ensure the Fund can achieve the returns required in the Funding Strategy and that all risks are effectively managed.
6. To revise the Investment Strategy Statement reflecting strategy developments and changes due to Brunel operations.
7. Monitor and develop the Risk Management Framework as required as a mechanism for managing liability risk through the investment portfolio and mitigating investment risk.
8. To increase communications with stakeholders about the investment strategy especially around how the strategy is mitigating the financial risk of climate change.
9. To realign the investment advice required post transition of assets to Brunel.

Administration Strategy:

10. To implement new SLA arrangements to all employers including chargeable service option.
11. To undertake a review of the IT structure and service delivery platform.
12. To complete the rollout of I-Connect and implement joint monthly contribution and data delivery module.
13. To introduce a training & development programme across all pension stakeholders
14. To complete the final phase of the GMP data reconciliation exercise as required by HMRC to ensure the fund is not at risk of erroneous pension liability.
15. To undertake review of pensioner member ‘pots’ to identify potential commutation opportunity.

16. To undertake an exercise to review and rectify any incorrect pensioner member annual increase amounts.
17. To continue the move towards electronic delivery of Scheme communications to members.
18. To monitor outcomes of McCloud judgement and implement actions to manage remedy.

Governance:

19. Keep governance arrangements under review to ensure effective monitoring of Brunel and the transition of the assets.
20. Review the Governance Statement following Good Governance Review (SAB)
21. To ensure the Committee and the Pensions Board is fully trained and briefed on current strategies and operations and in position to scrutinise and make decisions effectively. Retender advisory contracts to align contracts with Fund objectives.

A report on objectives, targets & progress towards objectives is given in Appendix 2.

3 RESOURCE IMPLICATIONS

The appointment to the Governance and Risk Advisor post in 2019 has significantly increased capacity of the management team to respond to the growing governance agenda, as well as improve support for the Committee and Pension Board members.

With the creation of Brunel, the resources within the team devoted to investment strategy, policy and operations diminished, giving rise to resilience and capacity issues. Despite assets transferring to Brunel, significant resources are still required to manage and develop the relationship with Brunel and the client side of the pool. Internal capability ensures the Fund strategy evolves efficiently to meet the Fund's objectives, there is proper control of implementation, that members are trained and supported, and there is adequate internal challenge of expert advice. As a result, a new post with specific focus on strategic investment issues including ESG was provided for in the 2019/20 budget. However, recruitment has not been successful, and the post remains vacant. Until this post is filled, the investment advisors will provide additional support to officers on a project basis.

In respect of administration, following previous Committee agreement for an increase and permanency of appointments in the 2019/20 budget the overall administration function is in a reasonable position. However, a high number of posts remain unfilled and a recruitment programme is currently underway to permanently fill all vacant posts albeit with some slippage due to COVID and remote working. Appendix 1a details the increase in resource since 2014 highlighting the growing void between agreed establishment and actual posts filled.

The 2020/21 budget allows for additional temporary resource to support the expected workload to manage the McCloud remedy, with increased used of external specialist support part of the ongoing solution to manage workload.

4 BUDGET

This Service Plan period includes the costs of managing investment assets through Brunel; savings in investment management fees are materialising as the transition of assets progresses. The Fund is expected to realise net (of transition costs) cumulative savings by 2024-25, with the business case forecasting cumulative savings of £73m by 2036.

The Fund budget (excluding investment costs) proposed for 2020/21 is £4,776,226.

In the areas of Governance and Compliance and Investment Management, where expenditure cannot be directly controlled, the budget reflects the expected volumes of work and fees.

The budget reflects the increasing focus on communications around the investment strategy, especially in relation to how the Fund is managing the impact of climate change on its assets. In addition, following the strategic review there is an increase in the cost of ESG affiliations to support the Fund’s Responsible Investing Policy. The total budget committed to Responsible Investing including staff costs, affiliations, advice and communications is around £150,000 p.a.

Within the directly controlled budget for Administration there is a proposed increase in net expenditure over the 2019/20 budget of £241,081 This net increase includes additional temporary resources to meet expected increased workload resulting from the McCloud remedy and the additional resource introduced to manage the electronic monthly employer data receipt via i-Connect. Provision has been made for consultancy on IT systems review although this will be offset by the removal of the existing IT development budget pending the review. Additional provision of £20,000 has been made in 2020/21 to provide equipment to support flexible working during the pandemic and beyond. The budget also includes the cost of one-off projects to carry out address tracing and mortality checks and completion of the GMP rectification exercise.

Investment Management fees:

The estimated investment management fees are flat versus the 2019/20 budget at £28.9m even after allowing for a 6% increase in asset values during 2020/21.

The annual management fees of £19.5m are lower than last year’s budget (£19.8m); this reflects the lower fees arising from the assets that have transitioned to Brunel. To date this includes the UK Equity, Global Equity, Emerging Market and Low Carbon Passive Equities. In addition, lower fees for the Risk Management Strategies have been implemented following the appointment of a single manager for the pool. The fees do not include the cost of transitions which is deducted from the asset values. In addition, the budget does not include planned transitions during 2020/21 but assumes legacy mandates are retained.

Performance fees are estimated to marginally increase from £9.1m to 9.4m and reflect returns in excess of target from the global property and infrastructure portfolios.

The actual fees paid in 2020/21 will depend on the change in asset values over the year and the performance of the assets subject to the performance fees (performance fees accrue within each year but are only payable when the underlying assets are realised).

It should be noted that the Fund's strategy is to increase the allocation to private market assets, sourcing the allocation from listed market assets will lead to upward pressure on the underlying fee rates. This is because fee rate paid on private market assets is higher (in basis points) than for listed assets, leading to upward pressure on underlying fee rates.

Brunel management costs:

The shareholders have approved the 3-year budget and Business Plan for Brunel for 2020/21 to 202/23. The budget ensures there are adequate resources to (i) deliver the transition plan within an agreed timeline in order that clients can implement their investment strategy efficiently and (ii) to support client funds with business as usual reporting and activities. The overall costs of Brunel of £10.4m are flat compared to 2019/20 after allowing for in year carry forwards; in the later years of the Business Plan, the budget remains stable as the costs associated with the transition fall out of the budget.

However, as more assets transition and more of the costs are applied to the portfolios on an AUM basis, Avon's share of the overall cost has risen.

Governance Costs:

Ongoing governance costs have reduced as the 2019 Valuation has fallen out of the budget. Currently the Fund's investment advisor provides advice on both the legacy mandates and the Brunel portfolios. When the contract is retendered in 2021/22, the new relationship will reflect the requirements post Brunel. The budget (and that for 2021/22) includes the cost for advice and implementation of a dynamic equity hedging strategy; however if implemented there will be savings of the periodic costs to renew the strategy that will no longer be required.

Salaries:

There is slight upward pressure on the salaries in the Investments Team where recruitment of specialist/technical posts have failed due to competition from other financial companies and pension funds in the local area.

Pensions Board:

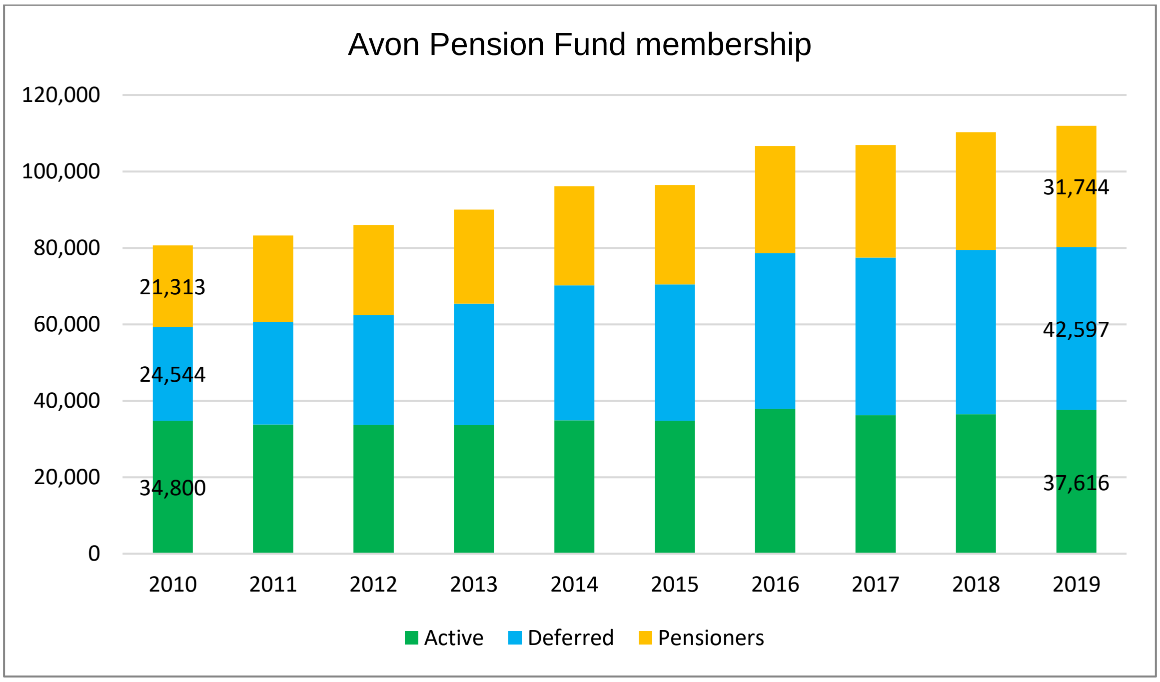
The Pension Fund is required to meet the costs of the Pensions Board that became operational in July 2015. The estimated full year costs of the Board for 2019/20 to 2021/22 have been added to the overall cost to the Fund for the three year budget.

5 CASH FLOW

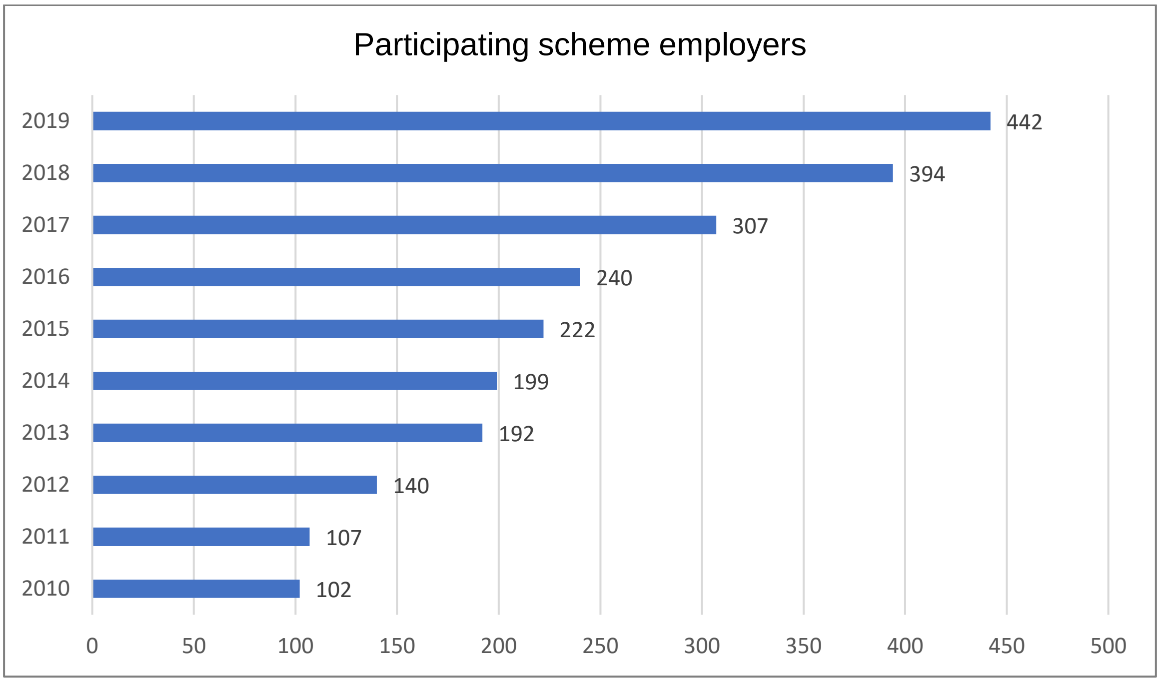
As the Fund's profile matures, monitoring future cash flow trends increases in importance. The Fund is transitioning from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. The cash flow is currently monitored on a monthly basis and reported quarterly to Committee. As a result of the advance lump sum deficit payments due to be made by the major employers in April 2020 the Fund will have larger cash in-flows. However, the consequent absence of these deficit payments in the following two years will result in greater negative annual cash flows. The negative cash flows are managed by using income from the investment portfolio and divestments as required. Divestments are delegated to Officers as part of their operational duties. Consideration is given to the actual allocation against the strategic allocation as well as the view of investment markets.

Full details of the budget between 2020-21 and 2022-23 together with a cash flow forecast for the payment of benefits and the receipt of contributions are given in **Appendix 3.**

Appendix 1 – Scope of Avon Pension Fund



(Data: 31 December 2019)



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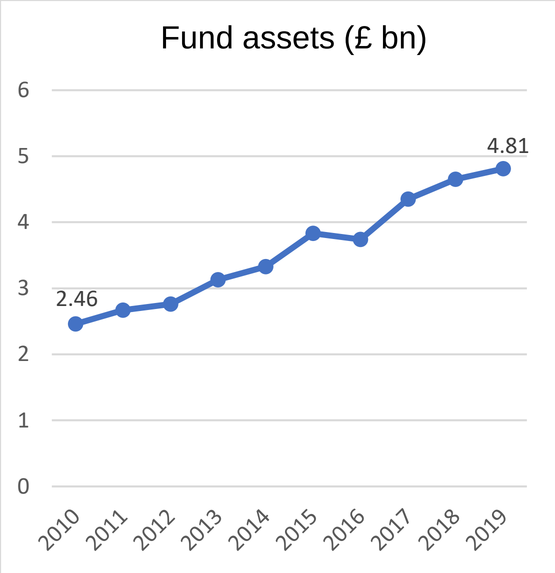

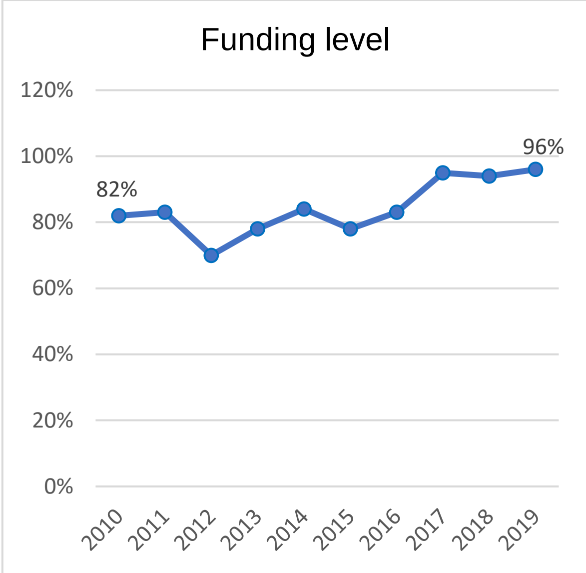

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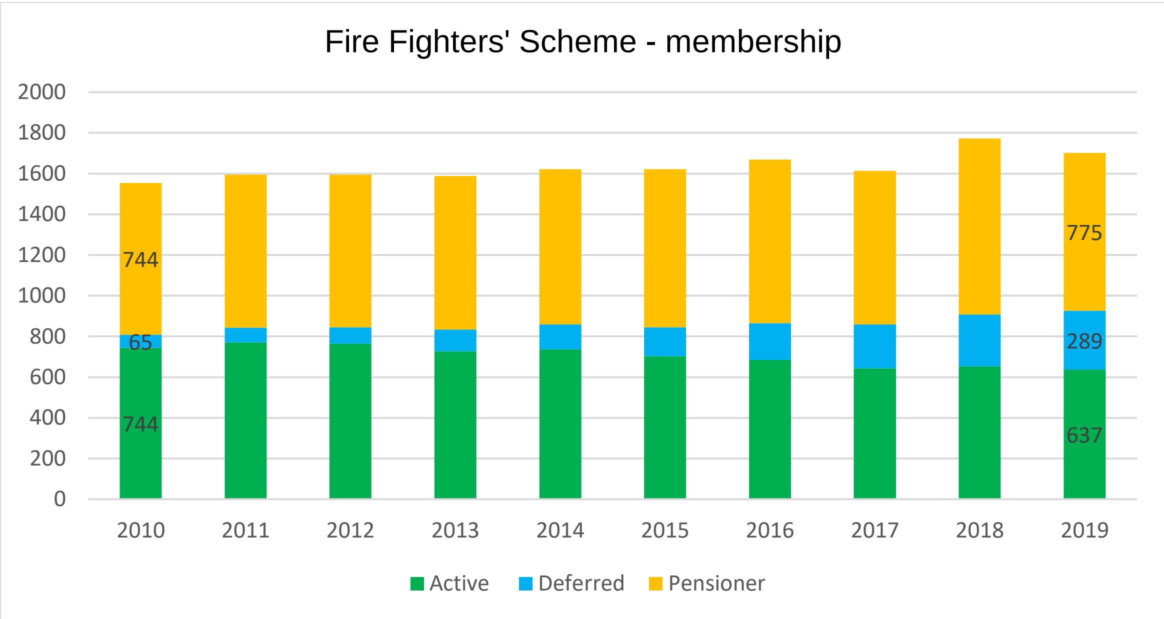
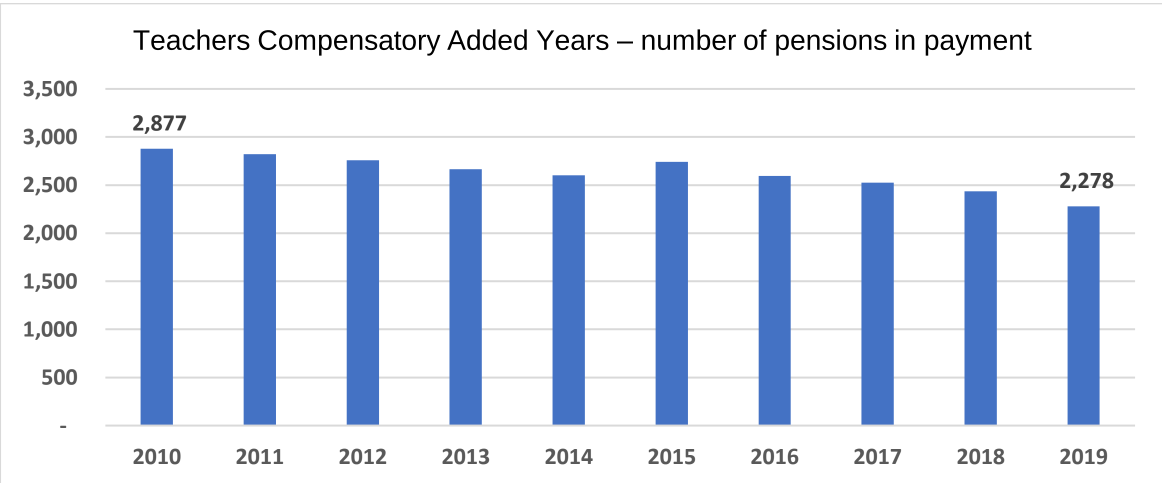
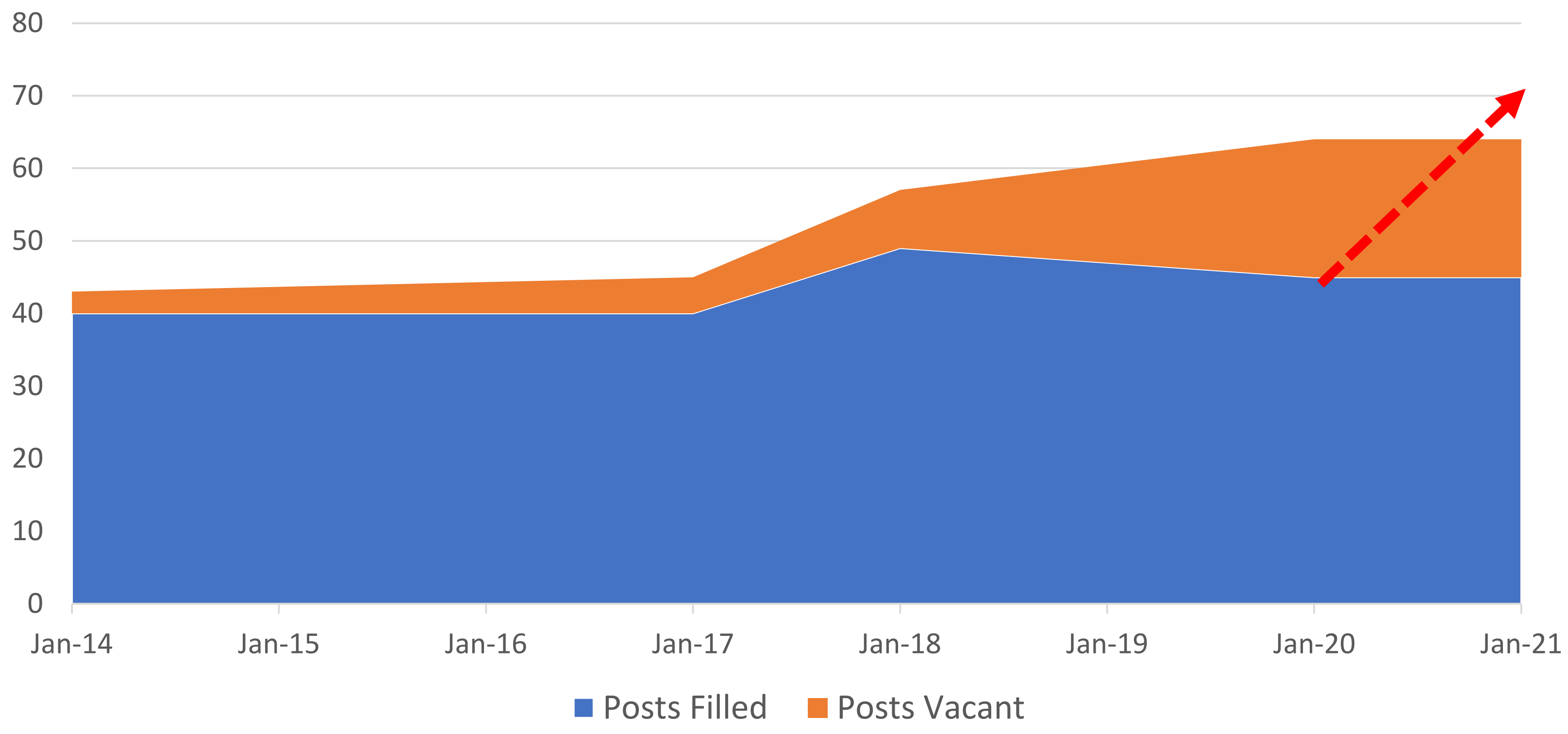




Admin & Investment Resourcing



Apr 2014
New Scheme Introduced

Jan 2017
Admin Restructure and Brunel

Mar 2018
Additional Temporary Resource for Projects Allocated

Jan 2020
Additional Temporary Resource for iConnect Allocated

Jan 2021+
Additional Temporary Resource for McCloud Remedy

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Appendix 2a - Administration Strategy

Key Objectives	**Tasks**	**Target Date**	**Status**
COMMUNICATION			
Implement new SLA's	Roll out of new SLA to all employers	Aug-20	**In progress on target/complete**
	Roll out of employer discretionary policy tool	Aug-20	**In progress on target/complete**
	Promotion of employer training & chargeable service offer	end 2021	**Not planned or started**
Member digital engagement	Activate online ABS availability	Aug-21	**Planned but not started**
	Strategy to Maximise MSS take up	Dec-22	**In progress on target/complete**
Member digital engagement (Fire Schemes)	Launch AF&R website with MSS functionality	May-20	**In progress but potentially off target**
Embrace partnership and collaborative opportunities as they arise at both regional and national level	Collaborative working with LGA/SAB on delivery of national firefighter member website	Dec-20	**In progress on target/complete**
	Participation in i-connect and MSS User Groups – development of product specifications	Ongoing	**In progress on target/complete**
Websites	Review member website - accessibility issues	Aug-20	**In progress on target/complete**
	Content review	Aug-20	**Planned but not started**
IT STRATEGY			
Progress full employer electronic data delivery	Completion of i-connect project	Oct-21	**In progress but potentially off target**
	Implement monitoring & controls	Jul-20	**In progress on target/complete**
	Reconciliation of contributions & i-connect extract	Mar-20	**In progress on target/complete**
Progress software developments with Heywood	Development of online leaver form	Dec-20	**In progress but potentially off target**
	Enhanced secure 2 way portal functionality	Dec-21	**Not planned or started**
	Development of reporting functionality via Iconnect & dashboard	Dec-20	**In progress on target/complete**
	Progress ability to bulk delete member records according to data retention policy	Dec-20	**In progress on target/complete**
Enhance employer support/decision making capabilities	Roll out of employer online discretionary policy tool/including training & support	Aug-20	**In progress on target/complete**

Development of management information hub	Review suitability of available systems [ERM/CRM]	Apr-19	**In progress but potentially off target**
	Further Development of ERM & roll out to all Teams	Dec-20	**In progress on target/complete**
Working relationship with Financial Systems	Review and implementation of SLA between APF & Financial Systems	Jun-20	**In progress on target/complete**
Review & update employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Sep-20	**In progress on target/complete**
	Review Employer website - accessibility issues	Mar-20	**In progress on target/complete**
	Provide ‘knowledge hub’ including video training elements	Sep-20	**In progress on target/complete**
	Implement plan for ongoing review of content	Jun-20	**In progress on target/complete**
TRAINING & ENGAGEMENT			
Introduce new technical training role	Write JD	Aug-20	**Planned but not started**
	Recruit	Dec-20	**Planned but not started**
Recruitment & Training	Project to make temp posts permanent	Mar-20	**In progress on target/complete**
	Project to fill app 10 posts across Member & Employer Services	Sep-20	**In progress on target/complete**
	Implement temp training & support role	Jul-20	**In progress on target/complete**
	Training plan for existing staff	Ongoing	**In progress on target/complete**
	Training plan for new staff	Jun-20	**In progress on target/complete**
Review structure & JDs	Look at requirement for training and support Team	Sep-20	**In progress on target/complete**
	Generic & link graded JDs	Sep-20	**In progress on target/complete**
Introduce staff technical training programme	Scheme Specific training	End - 2020	**Planned but not started**
	Data requirements		**Planned but not started**
	Governance & compliance		**Planned but not started**
	Legislation		**Planned but not started**
	IT Skills		**Planned but not started**
	GDPR		**Planned but not started**
Review & Implement employer training programme	Employer responsibilities	Sep-20	**In progress on target/complete**
	Data & TPR requirements	Sep-20	**In progress on target/complete**

	I-Connect	Sep-20	**In progress on target/complete**
	HR Development	Sep-20	**In progress on target/complete**
	Discretionary Policy tool	Aug-20	**In progress on target/complete**
Chargeable Services Offer	Set up framework to manage chargeable services	end 2021	**Not planned or started**
	Develop chargeable services brochure	end 2021	**Not planned or started**
Key Person Risk	Succession Planning	Jun-20	**In progress on target/complete**
	Review documentation of procedures	Jun-20	**In progress on target/complete**
PERFORMANCE			
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-21	**In progress on target/complete**
	GMP equalisation	await details	**Not planned or started**
Trivial Commutation	Review of pensioner member pension pots to identify potential commutation opportunity	Dec-20	**Planned but not started**
	Key project support from scheme actuary	Dec-20	**In progress on target/complete**
Processing Backlogs	To clear outstanding task work set at 'Reply Due' (4000 cases)	review 2021	**Not planned or started**
TPR Data improvement	Address Rectification		
	· Manual forensic tracing	Sep-20	**In progress on target/complete**
	Review common and conditional reports & consolidate	Dec-20	**In progress on target/complete**
	Review DIP for Fund	Dec-20	**In progress on target/complete**
	Care Roll up	Jun-20	**In progress on target/complete**
	Review outstanding tasks and review old tasks eg casual hours, 2014 Care pay	Dec-20	**Planned but not started**
	Consistency Checks	Dec-20	**Planned but not started**
Internal Dispute Resolution Policy	Review internal process – identify resource for stage 1 & 2 review and develop employer engagement	Sep-20	**In progress on target/complete**
	Review general complaints process prior to IDRP and incorporate learning into processes	Sep-20	**In progress on target/complete**

Statutory refund payment	Review of member data to establish qualifying entitlement to statutory refund under LGPS Regs 2014	Review requirements and plan from 1Q2019	**In progress on target/complete**
Revise Fire Service model	Develop revised service offer and SLA	Apr-19	**In progress but potentially off target**
McCloud	Implementation of remedy - Fire		**Not planned or started**
	Implementation of remedy - LGPS		**Not planned or started**
	Plan needed to prepare	Dec-20	**In progress on target/complete**
	Review requirement for hour changes	Dec-20	**In progress on target/complete**
DWP Pensions Dashboard	Plan required for implementation	2021	**Not planned or started**
LGPS Cost Cap Mechanism	Preparation required in case of backdated implementation	Dec-20	**Not planned or started**

Appendix 2b - Funding Strategy			
Key Objectives	**Tasks**	**Target Date**	**Status**
Covenant assessment of employers during valuation period	Establish policy for monitoring employer covenant between valuations: rolling timetable for reviewing employers; collection and collation of data; identifying higher risk employers for closer monitoring.	By Sept 2020 Report annually to committee	**In progress on target/complete**
	Explore options with employers to mitigate covenant risks	Ongoing	**In progress on target/complete**
Valuation and FSS	Identify FSS aspects/policy reviews required post 2019 valuation	Jun-20	**In progress on target/complete**
	Plan options to consider in 2022 valuation	Jun-21	**Not planned or started**
Actuarial advisory contract retender	Procure using National Framework	2021/22	**In progress on target/complete**
Review AVC arrangements	Review range of investment choices for members – high level review by advisor to meet governance requirement	2021	**Not planned or started**
	Further work to decide on any changes.	2021	**Not planned or started**
Funding Communications Strategy	Agree strategy primarily for employers	Jul-20	**In progress but potentially off target**
	o Website	Ongoing updating	**In progress on target/complete**
	o Forums/ meetings	Ongoing updating	**In progress but potentially off target**

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Appendix 2c - Investment Strategy			
Key Objectives	**Tasks**	**Target Date**	**Status**
Transition of assets	Input as member of Brunel Client Group	Ongoing	In progress on target/complete
	Monitor Avon plan for transitioning assets based on Brunel plan	Ongoing	In progress on target/complete
Implement investment strategy projects maintaining compliance with the Fund's Investment Strategy and Policies	Approve revised Investment strategy	by 30 April 2020	In progress on target/complete
	· New private market alloactions	Commitments made	In progress on target/complete
	· Strategic Benchmark review	3Q20	In progress on target/complete
Monitor risk management strategies ensuring collateral managed efficiently and decisions taken in timely manner	Liaise with Mercer and Blackrock as to exposures, trigger points and monitoring framework	Ongoing	In progress on target/complete
	Annual review of trigger points and strategy	Annually 3Q	In progress on target/complete
	Implement new Equity Protection Strategy	1Q20	In progress on target/complete
	Explore dynamic hedging	3Q20	In progress on target/complete
	Arrange Panel & committee training as needed	ongoing	In progress on target/complete
Annual review of Investment Strategy Statement (ISS)	Annual or when make significant changes to ISS	June 2020 (reflect new strategy)	In progress on target/complete
Investment advisory contract retender	Procure using National Framework	2021/22	Not planned or started
Review of Responsible Investing Policy	Review policy as to effectiveness and incorporate new initiatives post transition of assets , when Brunel service offering more developed	2021/22	In progress on target/complete
	Avon to participate in Brunel RI sub group	ongoing	In progress on target/complete
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	By 30/09/20	In progress on target/complete
Team Resources	Appoint Senior Investment Officer	3Q20	In progress but potentially off target
	Consider team structure post asset transition	From 2020/21	Not planned or started
Investment Communications Strategy	Agree strategy across all stakeholders	Jun-20	In progress on target/complete
	o Website		In progress on target/complete
	o Newsletters		In progress on target/complete
	o Forums/ meetings		In progress but potentially off target

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Appendix 2d - Governance			
Key Objectives	**Tasks**	**Target Date**	**Status**
Review governance arrangements following Good Governance Review & the pooling of assets	Review ToR of Committee and Investment Panel	Jun-20	In progress on target/complete
	Review Governance Compliance statement	Jun-20	In progress on target/complete
	Conflicts of Interest Policy	Jun-20	In progress on target/complete
	Policy on Committee Representation	Jun-20	In progress on target/complete
	Training policy	Jun-20	In progress on target/complete
	R&R matrix	Jun-20	In progress on target/complete
	Cyber security	Dec-20	In progress on target/complete
	Review disaster recovery / business continuity plan	Jun-20	In progress on target/complete
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	In progress on target/complete
Independent Members on Committee	Appoint Independent Member. Terms end 2Q21 (end of 2nd term for one member)	Start January 2021	Not planned or started
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in June	In progress on target/complete
Legal contract retender	Procure using National Framework	2020	In progress on target/complete
Committee & Pension Board	Develop online portal for PC & LPB members – public and secure areas	Jun-20	In progress on target/complete
	Review papers and content that go to committee and set up library on Modern Gov	Jun-20	In progress on target/complete
	Document process for dealing with ineffective pension boards	Sep-20	Not planned or started
GDPR	Ensure ongoing compliance with regulations	ongoing	In progress on target/complete
	Training for staff		In progress on target/complete
Compliance with TPR requirements	review and revise Data Improvement Plan	Sep-20	In progress on target/complete
Effectively manage risks	Implement new process	Jun-20	In progress on target/complete
Scheme of Delegations	Produce and publish document	Jun-20	In progress on target/complete

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Appendix 2e - Finance

Key Objective	**Tasks**	**Target Date**	**Status**
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	Sep-20	**In progress on target/complete**

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Budget and Cash Flow Forecast APPENDIX 3

Three Year Budget	Budget for 2019/20 £	Forecast 2019/20 £	Budget 2020/21 £	Budget 2021/22 £	Budget 2022/23 £
Investment Expenses	23,043	23,043	28,280	23,746	24,221
Administration Costs	79,050	78,030	109,147	72,530	73,941
Communication Costs	74,071	116,892	133,053	87,064	88,805
Payroll Communication Costs	170,689	102,670	140,689	143,003	145,363
Information Systems	289,637	361,637	332,841	318,698	324,672
Salaries	2,400,942	2,053,167	2,620,255	2,870,660	2,922,073
Central Allocated Costs	527,700	527,700	538,652	549,425	560,414
IT Strategy	72,202	72,202	0	0	0
Miscellaneous Recoveries/Income	(196,000)	(196,000)	(220,500)	(224,910)	(229,408)
Total Administration	**3,441,335**	**3,139,340**	**3,682,416**	**3,840,215**	**3,910,079**
Governance Costs	415,170	415,170	555,800	544,516	453,406
- Members' Allowances	39,025	39,025	42,080	42,922	43,780
- Independent Members' Costs	65,000	65,000	58,000	58,960	59,939
Compliance Costs	931,500	932,520	567,930	579,289	940,874
Brunel Expenses	25,000	25,000	25,000	25,000	25,000
Compliance Costs recharged	(225,000)	(225,000)	(200,000)	(204,000)	(208,080)
Governance & Compliance	**1,250,695**	**1,251,715**	**1,048,810**	**1,046,686**	**1,314,920**
Pensions Board	**20,000**	**20,000**	**45,000**	**20,400**	**20,808**
Global Custodian Fees	0	0	67,000	50,000	50,000
Brunel Management Fees	1,477,000	1,477,000	1,635,000	1,635,000	1,635,000
Investment Manager Fees					
Annual Management Fees	19,832,956	19,910,129	19,484,891	19,874,589	20,272,081
Performance Related Fees	9,083,313	8,262,955	9,366,369	9,553,696	9,744,770
Investment Fees	**30,393,269**	**29,650,084**	**30,553,260**	**31,113,286**	**31,701,851**
TOTAL COST TO FUND	**35,105,299**	**34,061,140**	**35,329,487**	**36,020,587**	**36,947,658**

Cash Flow Forecast (Excluding Administration and Investment costs)		2020/21 £'000	2021/22 £'000	2022/23 £'000
Benefits Outflows				
Benefits	Pensions	(156,044)	(162,910)	(166,295)
	Lump sums	(30,777)	(32,598)	(34,955)
Total Benefits Outflows		**(186,821)**	**(197,731)**	**(207,852)**
Inflows				
Deficit recovery		48,888	11,511	11,961
Future service Contributions		141,638	146,005	149,544
Total Contributions		**190,525**	**157,515**	**161,504**
Net Cash Flow (excluding Administration & Investment costs)		**3,704**	**(40,216)**	**(46,348)**
Divestments & Investment income received as cash		7,000	49,000	51,000
Net Pension Transfers In / Out		0	0	0
Cash outflow due to administration of the Fund		(10,420)	(10,628)	(10,841)
Net Cash Flow (Out-Flow)		**448**	**283**	**901**

Notes

- Net cash requirements will be met from divestments and cash balances
- Transfers in and out are assumed to net to zero
- The cash outflow due to administration includes Investment Management Fees that are invoiced to the Fund.

- The forecast for 2020/21 includes the assumption that employers will not make up front three year deficit payments in advance. The deficit payments in 2019/20 and 2021/22 are smaller due to some employers making three year advance deficit payments.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 JUNE 2020**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 March 2020)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Annual Investment Review Appendix 3 – LAPFF Quarterly Engagement Monitoring Report Appendix 4 – Brunel update Exempt Appendix 5 – Pooling transition costs & savings update	

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 31 March 2020.

1.3 The report summarises the changes to the investment strategy approved in April 2020 (see section 7).

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to note:

2.1 **The information set out in the report and appendices**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2020 will affect the 2022 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:

a) The funding level fell from c.96% to c.84% over the year to 31 March 2020. The deficit was estimated to have increased sharply over the year, from £283m to £863m.

b) The decline in the funding level was driven by the sharp contraction in market prices experienced at the end of 1Q 2020; steady improvements in the deficit and funding level had been seen up to this point.

5 ANNUAL INVESTMENT REVIEW

5.1 This quarter Mercer has provided an annual investment review of the year to 31 March 2020 (see Appendix 2) rather than the normal quarterly performance report. The report discusses the impact of COVID-19 on investment returns and the short- and long-term outlook for various asset classes.

5.2 The purpose of this report is to inform the Committee as to how the strategy has performed over the last year, and to provide a summary of the outcomes of the 2019/20 investment strategy review.

6 INVESTMENT PERFORMANCE

A – Fund Performance

6.1 The Fund's assets decreased by £352m (c.6.4%) over the year ending 31 March 2020 giving a value for the Fund of £4,467m. 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 -1.1% over the year.

Table 1: Fund Investment Returns (Periods to 31 March 2020)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-9.9%	-6.4%	1.0%
Avon Pension Fund (excl. currency hedging)	-8.6%	-5.3%	1.3%
Strategic benchmark (no currency hedging)	-11.1%	-6.3%	1.6%
Currency hedge impact	-1.3%	-1.1%	-0.3%

6.2 **Fund Investment Return:** Returns over the year were dominated by an exceptional level of volatility in the first quarter of 2020 arising from the COVID-19 pandemic. Developed market equities were down by 20% while emerging markets depreciated by 19% over the quarter. US and UK equities were down by 19.6% and 23.9% respectively. The yield on the US 10-year Treasury ended March at 0.7%, 1.21% below the previous quarter. In the UK, 10-year Gilts moved from a peak of 0.8% to end the quarter at 0.36%. Central banks around the world delivered a swathe of emergency measures and strove to maintain lending liquidity to avert a credit crunch. Fears over the impact of the virus pushed oil prices into freefall. The collapse was exacerbated by the start of a price war between Saudi Arabia and Russia. Over the 12-month period to 31 March 2020, Sterling depreciated by 2.6% against the US Dollar from $1.30 to $1.24. Sterling depreciated by 7.2% against the Yen and by 4.8% against the Euro, from €1.16 to €1.13.

6.3 **Fund Performance, exclusive of currency hedging, was -5.3% over the year versus a benchmark return of -6.3%. The relative +1.0% over the year is attributed to;**

a) **Asset Allocation:** Asset allocation contributed **0.8%** over the year, driven by an overweight to infrastructure and an underweight to UK equities versus the strategic benchmark.

Despite a large devaluation in LDI assets through the year, an underweight versus the benchmark allocation meant this was a lead contributor to the positive asset allocation.

b) **Manager Performance:** Active manager impact over the year was **0.2%.** Lead contributors included the Fund's overseas equities allocation and hedge funds. Conversely, the lead detractor was the multi-asset credit mandate.

Separately, the equity protection strategy contributed +0.6% as markets fell during the final quarter of the year and the strategy became more valuable.

6.4 **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 1.3% over the quarter and detracted 1.1% over the year.

6.5 **Liability Risk Management Strategy Performance:** The liability risk management strategy seeks to 'lock in' to attractive levels of real interest rates to achieve increased long-term certainty of real returns. Any increase in the present value of the Fund's liabilities should be met with a subsequent increase in the value of the liability hedging component of the BlackRock Qualifying Investor Fund (QIF). Towards the end of the year a series of measures were taken to address the potential implications of the ongoing Government consultation on RPI reform. In order to pre-empt any devaluation in RPI linked assets the Fund revised its trigger framework. The Investment Panel will continue implementation work around the trigger framework when the new liability benchmark has been generated by the Fund's actuary. Over the year inflation expectations fell which drove negative absolute returns from the LDI mandate; -34.5% over the year.

6.6 **Equity Protection Strategy Performance (EPS):** The EPS expired in three tranches throughout Q120, protecting the asset value during the 2019 triennial valuation. Part of the strategy protected the Fund from the large downward move experienced in March, however this was not sufficient to offset the losses crystallised in the January and February expiries, where equity markets were above the level at which the Fund could participate in upside gains. Before the end of the period the EPS was renewed and extended to cover developed market and emerging market equity exposure for an intervening period while the Panel considers alternative equity protection strategies. The Fund has seen a material benefit having renewed the protection strategy in January and February when markets were at close to all time highs. This effectively reset the protection level at a considerably higher level than the previous protection strategy, meaning that following the fall in markets in March the protection was highly valuable at the end of the period.

6.7 **Collateral Management:** Collateral held in the QIF that is used to capitalise the risk management strategies remained within its prescribed parameters throughout the year to March and was sufficient to absorb the stress tests that are routinely carried out to ensure operational efficiency. To allow additional collateral to be raised when required, and in order to keep leverage within the QIF guidelines, the investment manager has discretion to sell down a passive equity fund and replace any lost equity exposure synthetically.

B – Investment Manager Performance

6.8 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **There were no changes to manager ratings this quarter.**

6.9 Absolute returns over the year to March were adversely impacted by COVID-19 related market volatility. The Fund's equity mandates were most severely impacted, with UK active equity mandates incurring double-digit losses. The Fund's low carbon passive equity mandate saw a modest benefit versus the broad market-cap weighted index due to its relatively low exposure to oil & gas companies. The price of Brent Crude Oil fell 67% over the year. The only equity mandate to post a positive absolute return over the period was the Fund's dedicated global sustainable mandate, which benefitted from its holdings in preventative healthcare and technology companies. The DGFs benefitted from their low correlation with the equity market. Ruffer's equity and credit protection strategies insulated them from the two hardest hit asset classes in the final quarter of the year. The Fund's alternative investments in hedge funds, property and infrastructure also performed well in absolute terms over the year, although the impact of COVID-19 on some alternative investments including property and infrastructure is yet to be fully accounted for, leading a number of managers to attach 'material uncertainty clauses' to valuations. The only mandates to exceed their benchmarks over the year were the UK SRI and global sustainable equity mandates. On a longer-term basis, most investment mandates with a three-year track record delivered positive absolute returns, with the exception of the UK equity mandate and the LDI assets. Positive relative returns were generated by the Fund's core infrastructure manager. Detailed analysis of investment manager performance can be found at Appendix 2.

7 INVESTMENT STRATEGY

Summary of 2019/20 Investment Strategy Review:

7.1 The Fund undertook a review of its investment strategy in 2019/20 which considered, amongst other things, the impact of climate change on potential investment returns and the Fund's maturing cash flow profile. The outcomes of the review involved a number of asset allocation changes and the setting of specific climate change objectives resulting from evidence-based climate change modelling that was carried out as part of the review.

7.2 The overarching objectives relating to the climate emergency are:

a) Implement a <2^0C aligned portfolio by committing to net zero emissions by 2050 or earlier. This will be achieved by working with Brunel using the results of the industry wide project being undertaken to assess what each 2^0C asset portfolio will look like. Expect to review the findings in line with the global stocktake timeline in 2022/23.

b) Reducing the carbon intensity of the portfolio over time with the aim of being 30% less carbon intensive by 2022.

c) Invest sustainably so that we support a 'just transition' to the low carbon economy with the aim of investing at least 30% of the assets in sustainable and low carbon investments by 2025.

d) Use the Fund's power as a shareholder to encourage change. Financial markets and companies urgently need to adapt their activities to support the transition to a low carbon economy. Collaboration as part of Brunel Pension Partnership makes our influence more powerful as they manage a £30bn pool of assets. In addition, the Fund will independently support investor led initiatives such as ClimateAction100+ and Institutional Investors Group on Climate Change to increase pressure on companies and governments to align with the Paris goals. If engagement does not work ahead of the Paris Stocktake in 2023, we will consider selective divestment from laggard companies.

7.3 In light of the COVID-19 pandemic, Committee took advice from Mercer on the suitability of the proposed changes and, having agreed that the long-term assumptions and rationale for making the changes were still valid, approved the changes in April 2020. To account for potential short-term cash flow implications, it was agreed that the increased allocations to private market assets (detailed below) should be phased over the next two-year Brunel investment cycle. The main changes to the investment strategy include: -

a) Allocate 10% of total assets to Global Sustainable Equities, to be funded from the existing allocation to UK and Global Equities.

b) Increase the target allocation to Renewable Infrastructure from 2.5% to 5.0% of total assets and to commit only an extra 1.25% in 2020, to be funded from the existing allocation to Diversified Growth Funds.

c) Increase the target allocation to Secured Income from 7.5% to 10% of total assets and to commit only an extra 1.25% in 2020, to be funded from the existing allocation to Diversified Growth Funds.

d) Allocate 5% of total assets to Private Debt and to commit only 1% in 2020, to be funded from the existing allocation to Hedge Funds.

7.4 The revised asset allocations were approved by B&NES Chief Executive under urgent powers in April 2020.

Overview of Strategic Performance:

7.5 **Asset Class Returns:** Developed market equity returns over the last 3 years fell to 2.6% p.a., materially below the assumed strategic return of 8.1% p.a. on the same basis. At the end of March the three-year return from emerging market equities had fallen to -1.2% p.a.; against an assumed return of 8.7% p.a. Over the three-year period index-linked gilts returned 2.9% p.a. versus an assumed return of 2.2% p.a. The three-year UK property return of 5.6% p.a. fell just short of the assumed return of 5.75%. Hedge fund returns were positive over the three-year period at 3.7% p.a. but remain below the strategic return of 5.1%.

7.6 **Transition of Assets to Brunel Portfolios:** At 31 March 2020 Brunel directly managed 30% of the Fund's assets across its Low Carbon passive equity portfolio, its actively managed UK, Emerging Market and High Alpha equity portfolios and private markets portfolios. A further 20% of assets relating to the Fund's risk management strategies are governed by Brunel legal agreements.

7.7 **Private Markets Commitments to Brunel Portfolios:** At 31 March 2020 25.3% of the Fund's cycle 1 £115m commitment to Brunel's renewable infrastructure portfolio had been deployed and 20.1% of the Fund's £345m commitment to the secure income portfolio had been deployed. The pace of capital deployment in the infrastructure portfolio remains on track. Deployment in the secure income portfolio, specifically the long-lease property component, has been slow partly as a result of a protracted negotiation around a large UK-based asset, where terms have now been agreed in principle. Further delays to deployment are expected in long-lease property as underlying fund managers defer acquisitions as a result of the COVID-19 pandemic. The current best estimate suggests further capital will not be called until late 2020 for the long-lease property funds. The operational infrastructure element of the secure income portfolio continues to invest in line with expectation, where capital deployment has not been affected to the same extent as long-lease property.

8 BRUNEL UPDATE

8.1 Appendix 5 is the quarterly Brunel update. Following the transitions in 4Q19, the transition costs incurred and investment fee savings achieved have been estimated and are set out in Exempt Appendix 6.

9 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

9.1 As at 31 March 2020 all asset allocations were within the control ranges for rebalancing based on the strategic benchmark. The Fund redeemed £25m from Loomis Sayles in January and a further £30m post period end to bring the Multi Asset Credit allocation further in line with its long-term 6% target.

Cash Management

9.2 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.

9.3 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.

10 RESPONSIBLE INVESTMENT ACTIVITY

10.1 **Brunel Responsible Investment Activity:** Key RI achievements over the quarter included:

i. Brunel co-filed a shareholder resolution at Barclay's AGM. Following a series of engagements, which Brunel was actively involved in, Barclays announced an ambition to become a net-zero bank by 2050. In the absence of any short-term targets by Barclays, Brunel supported both the Barclays management resolution to become net-zero by 2050 and the shareholder resolution that called for Barclays to set and disclose targets to phase out its financing of fossil fuel companies where they are not aligned with the goals of the Paris Climate Agreement. The AGM took place post quarter end in May where the management resolution won near unanimous support from shareholders while the shareholder resolution won significant minority support, surpassing the 20% threshold where UK companies are required to consult with shareholders and explain the views received and actions taken publicly within six months.

ii. As a signatory to the United Nations Principles of Responsible Investment (UNPRI), Brunel are required to file an annual report disclosing how the organisation has performed against the PRI's industry-standard environmental, social and governance framework. Submission of this report will lead to an assessment and score that will enable stakeholders to evaluate Brunel's approach to RI and will provide useful insights on areas for improvement.

iii. Post period-end Brunel published their annual Responsible Investment and Stewardship Outcomes Report, acknowledging the significant contribution made by Avon alongside all Brunel client funds. The report gives an account of how Brunel have delivered against joint strategic responsible investment priorities through the year. The report is available on the Fund's website at the following address:

https://www.avonpensionfund.org.uk/brunel-pension-partnership-2020-responsible-investment-and-stewardship-outcomes-report

10.2 **Brunel Engagement Summary**: Over the quarter Hermes (Brunel's appointed voting and engagement provider) have engaged with 274 companies held by Avon in the Brunel portfolios on a range of 795 ESG issues. Environmental topics have featured in 25.5% of engagements, over 80% of which relate directly to climate change. Social topics featured in 19.7% of engagements, where diversity and human rights featured prominently. Of the 34.6% of Governance related engagements the majority of discussions revolved around executive remuneration. Strategy, risk and communication topics such as audit and accounting and cyber security featured in the remaining 20.1% of engagements over the quarter. Separately, Brunel joined several institutional investors, in sending letters to FTSE350 companies who have failed to comply with the UK modern day slavery act by publishing a modern day slavery statement, or who have not adequately disclosed. Human rights and modern human slavery will form a key part of Brunel's voting strategy in 2020.

10.3 **Stewardship Update:** During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	361
Resolutions voted:	4627
Votes For:	4124
Votes Against:	418
Abstained:	46
Withheld* vote:	39

** 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.*

10.4 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.

11 ANNUAL ASSURANCE ON CONTROL ENVIRONMENT OF 3RD PARTY SUPPLIERS

11.1 As part of the risk management process the Fund annually reviews the internal control reports (ICR) of the custodian and investment managers (and their administrators where relevant) and reports the findings to Committee. These reports are often designated SSAE16 or ISAE3402 reports, which states which set of standards are being reported against.

11.2 ICR reports describe the internal control environment of an organisation. The management of the organisation are responsible for identifying the control procedures which they consider appropriate to enable certain control objectives to be met. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the stated objectives or not.

11.3 For the reports reviewed in 2019/20, with the exception of one legacy investment manager, in each case the external auditor's report stated that the controls were in place and achieved the control objective. As part of the process, officers discuss the significance of the internal control reports with investment managers and custodian on an on-going basis and follow-up any issues flagged in the reports. Two qualifications, noting a failure in the invoicing process and a lack of adequate review and suitability of non-standard client reporting were noted for one of the Fund's legacy managers. Following corrective action taken by the manager no further action was taken.

11.4 The ICRs of the pooled funds (and their administrators/custodian) and the Fund's custodian are also audited by the Fund's external auditor as part of the annual audit.

12 RISK MANAGEMENT

12.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset

Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

13 CLIMATE CHANGE

13.1 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 addresses this through its strategic asset allocation to Low Carbon Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

14 OTHER OPTIONS CONSIDERED

14.1 None.

15 CONSULTATION

15.1 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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APPENDIX 1

AVON PENSION FUND VALUATION - 31 MARCH 2020

	Brunel Portfolios	Cash Management Strategy	QIF	Active Equities		Funds of Hedge Funds	DGFs		MAC	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	Jupiter (SRI)	Schroder Global	JP Morgan	Pyrford	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities																
UK	149.9			151.9											301.8	6.8%
Emerging Markets	196.2														196.2	4.4%
Global Developed Markets	377.7		415.1	11.1											803.9	18.0%
Global Low Carbon	497.5														497.5	11.1%
Equity Derivatives[1]			118.8										22.2		141.0	3.2%
Total Overseas	***1071.4***		***533.9***	***11.1***											***1616.4***	**36.7%**
Total Equities	**1221.3**		**533.9**	**163.0**									**22.2**		***1940.4***	**43.4%**
Exchange-Traded Funds		**40.3**													***40.3***	**0.9%**
DGFs							**213.6**	**392.0**							***605.6***	**13.6%**
Hedge Funds						**258.0**									***258.0***	**5.8%**
MAC									**291.7**						***291.7***	**6.5%**
Property										**208.1**	**194.9**				***403.0***	**9.0%**
Infrastructure												**334.1**			***334.1***	**7.5%**
Renewable Infrastructure	**24.3**														***24.3***	**0.5%**
Secured Income	**69.1**														***69.1***	**1.5%**
LDI Assets & Bonds																
LDI Assets			287.5												287.5	6.4%
Corporate Bonds			115.8												115.8	2.6%
Total Bonds			**403.3**												***403.3***	**9.0%**
Cash				10.3	7.3					13.0				95.6	***126.3***	**2.8%**
FX Hedging													-30.4		***-30.4***	**-0.7%**
TOTAL	**1314.7**	**40.3**	**937.2**	**173.4**	**7.3**	**258.0**	**213.6**	**392.0**	**291.7**	**221.1**	**194.9**	**334.1**	**-8.2**	**95.6**	**4466.5**	**100.0%**

[1] Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

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MERCER

Avon Pension Fund

Annual Investment Review to 31 March 2020

June 2020

Steve Turner
Ross Palmer

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

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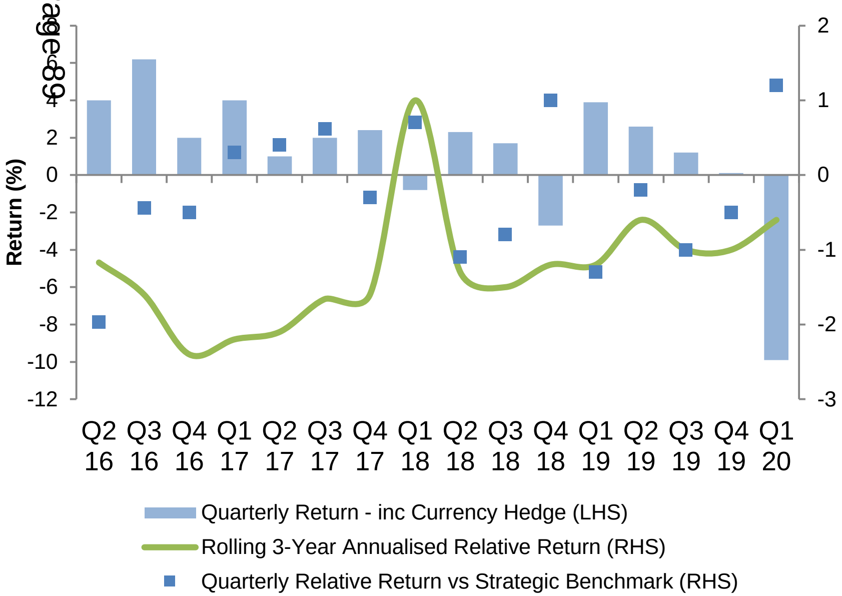
Section 1

Executive Summary

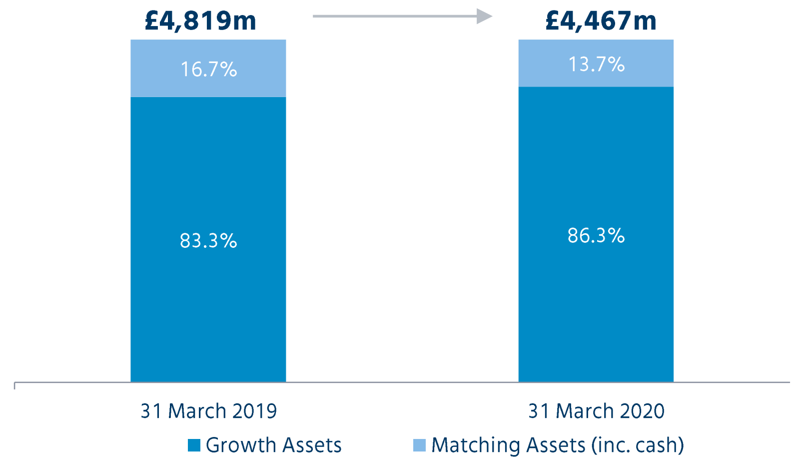
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-9.9	-6.4	1.0
Total Fund (ex currency hedge)	-8.6	-5.3	1.3
Strategic Benchmark **(2)** (ex currency hedge)	-11.1	-6.3	1.6
Relative (1 – 2)	**+1.2**	**-0.1**	**-0.6**

Excess Return Chart



Asset Allocation



Commentary

Over the year to 31 March 2020, total Fund assets (including currency hedging) decreased from £4,819m to £4,467m. This was largely driven by the sharp contraction of most growth assets in the first quarter of 2020, as the coronavirus made its impact on the global economy and financial markets. The LDI assets also fell in value as inflation expectations reduced over the year. However the equity protection strategy added value during the period.

At the end of the year, the allocation to Infrastructure had drifted slightly above the Fund's upper tolerance range, as specified in the Investment Strategy Statement.

The Fund performed slightly below its strategic benchmark over the year, amid mixed relative performance from the mandates.

The Fund's currency hedging policy detracted value over the year due to the depreciation of Sterling.

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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 assets of the Fund.

Funding Level

- The estimated funding level fell over the year to 84% (on the 2019 Valuation assumptions). This was driven primarily by the turbulence at the end of this period.
- The decline in the funding level over the period was within the level of risk (VaR) expected from the current investment strategy.

Fund Performance

- The value of the Fund's assets decreased by £352m over the year, to £4,467m as at 31 March 2020, as most growth assets saw sharp contractions in Q1 2020 as the coronavirus made its impact on the global economy and financial markets. The LDI assets also reduced in value as inflation expectations fell over the period. The equity protection strategy added value during the period.

Strategy

- Global (developed) equity returns over the last three years fell to 2.6% p.a., below the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term (1-3 year) outlook for developed market equities.
- Returns for emerging market equities fell into negative territory, returning-1.2% p.a. over the three-year period, below the assumed return of 8.70% p.a. While valuations have deteriorated, our medium-term outlook is more positive for emerging markets relative to developed markets.
- UK government bond returns over the three-year period remain higher than the long-term assumed strategic returns, as yields edged further downwards with increased investor demand. The return on fixed interest gilts increased to 8.0% p.a. over three years versus an assumed return of 1.90% p.a., whilst the return on index-linked gilts was unchanged at 2.9% p.a., versus an assumed return of 2.15% p.a.
- UK corporate bonds returned 2.2% p.a. over the three-year period, taking them below of the assumed strategic return of 3.25% p.a.
- The three-year UK property return of 5.6% p.a. also fell just short of the assumed return of 5.75% p.a.
- Hedge fund returns were positive over the three-year period, at 3.7% p.a. in local currency terms, but remains below the strategic return of 5.10% p.a. In recent years hedge funds have been impacted by low cash rates and the e generally more challenging environment for active managers.

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EXECUTIVE SUMMARY

Managers

- The sharpest falls in absolute returns over the year were seen by the equity mandates, though the Jupiter Global Sustainable Equity fund saw positive performance. The Diversified Growth Funds ("DGFs") were less adversely impacted by recent turbulence thanks to a lower correlation with the market, and this allowed one of these managers, Ruffer, to achieve positive performance over the year. The Fund of Hedge Fund mandate delivered positive growth, and the Infrastructure mandates were also stand out performers. The Multi-Asset Credit manager struggled over the period as sub-investment grade credit spreads widened significantly during the recent quarter as the coronavirus pandemic took a grip.
- The negative absolute performance of the Fund's LDI portfolio over the year was driven largely by falls in implied inflation (partly due to the prospect of RPI reform and concerns over the recessionary impact of the coronavirus). This should be considered in the context of lower expected growth in the Fund's benefits, which the strategy aims to hedge, given the CPI+ discount rate methodology used.
- The Brunel Secured Income mandate was broadly flat over the year, noting that it is still in the early stages of being drawn down.
- Over the three-year period, most mandates with a three-year track record produced positive absolute returns., with the exception of the UK Equity mandate and the LDI assets. Positive relative returns were generated by IFM Infrastructure over this period.
- It should be noted that 31 March 2020 was close to the low point (to date) for growth assets since the COVID-19 pandemic began to severely impact markets. The majority of the Fund's growth assets have recovered to some extent during April and May 2020.

Key Points for Consideration

- The Active Global Equity and Emerging Market Equity mandates were transitioned to Brunel during the year.
- The Committee carried out a series of investment strategy workshops during Q4 2019 and Q1 2020, reviewing all aspects of the Fund's portfolio including potential new asset classes, Responsible Investment allocations and the risk management strategies.
- The Committee agreed a number of strategic changes in April 2020, including tilting more of the equity portfolio to sustainable investments, increased allocations to Secured Income and Renewable Infrastructure, and a new allocation to Private Debt. The Fund's strategic benchmark is currently being reviewed.
- The Committee also agreed to continue with an equity protection strategy, with the current static strategy being renewed until mid-2021 whilst the Officers and Panel investigate further the merits of implementing a dynamic solution.

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Section 2

Market Background

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Over 2019, the global economy continued its expansion, led by the US which saw a tightening labour market, rising wages and consumer confidence, fuelled by the business-friendly stance of the Trump administration even though trade tensions took some toll on business confidence. In the UK, the outcome of the 2019 election was well received by markets, though uncertainty over how Brexit proceedings will unfold still remains. Headwinds for emerging markets began to soften in early 2019, with improvement on the trade front. In Q1 2020, however, the global economy entered what is expected to be the most severe downturn since the Great Depression while oil prices collapsed simultaneously as a price war between Russia and Saudi Arabia escalated while global demand collapsed simultaneously. Unprecedented monetary easing and fiscal programmes not seen since World War II cushioned the blow somewhat.

The second quarter of 2019 was volatile but global equity markets ended the quarter on a positive note in both US Dollar and sterling terms. The third quarter saw a sell-off during August 2019 amid global slowdown fears as well as continued trade tensions, but global equity markets recovered in the end, finishing the third quarter pretty much flat in US Dollar terms but positive in sterling terms. Equity markets then rallied in the fourth quarter as progress on the trade front, as well as the prospect of prolonged easy monetary conditions on a global level, lifted sentiment. The COVID-19 pandemic which originated in China in December 2019 and started to spread globally from the second half of the first quarter of 2020 prompted governments to shut down entire countries including the US, UK and most of Europe. The abrupt halt in business activities and collapse in corporate earnings prompted investors to flee equity markets and shift into safe haven assets with the result being the worst equity sell-off since 2008 even though sterling weakening against US Dollar offset losses somewhat for unhedged UK investors.

Bond Market Review

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 9.9%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 17.6% over the year as the longer end of the nominal yield curve fell by more than the shorter end.
The yield for the FTSE Gilts All Stocks index fell over the year from 1.36% to 0.66%.

The FTSE All Stocks Index -Linked Gilts index returned 2.2% with the corresponding over 15-year index exhibiting a return of 2.0%.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 1.7%.

Currency Market Review

Over the 12-month period to 31 March 2020, Sterling depreciated by 2.6% against the US Dollar from $1.30 to $1.24. Over the same period, Sterling depreciated by 7.2% against the Yen from ¥144.23 to ¥133.86, and by 4.8% against the Euro from €1.16 to €1.13.

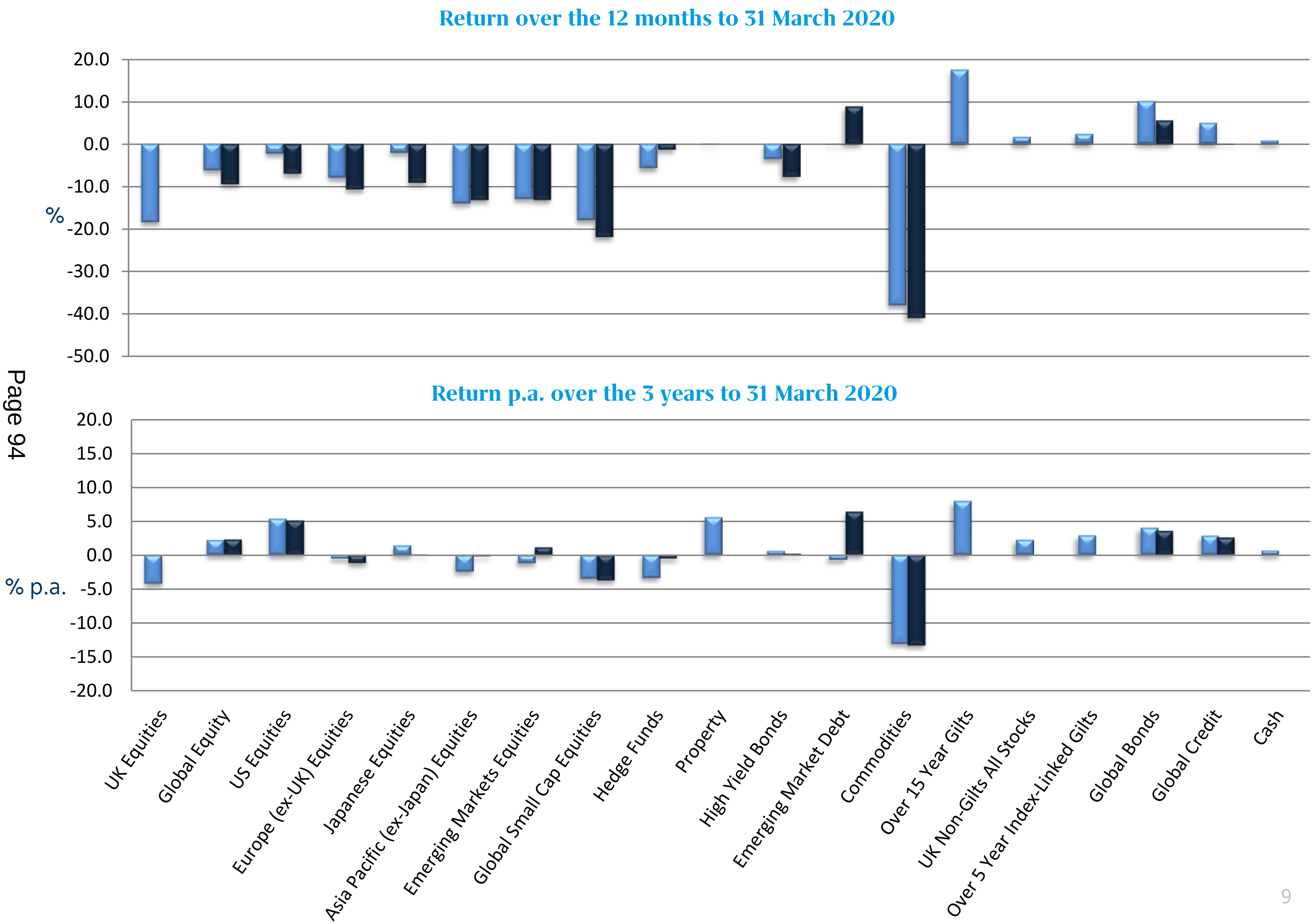
Commodity Market Review

The price of Brent Crude Oil fell 67.0% from $ 68.55 to $ 22.60 per barrel over the one-year period. Over the same period, the price of Gold increased 24.4% from $ 1295.72 per troy ounce to $ 1612.10.

The S&P GSCI Commodity Spot Index returned -38.1% over the one-year period to 31 March 2020 in Sterling terms.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

MARKET BACKGROUND
INDEX PERFORMANCE



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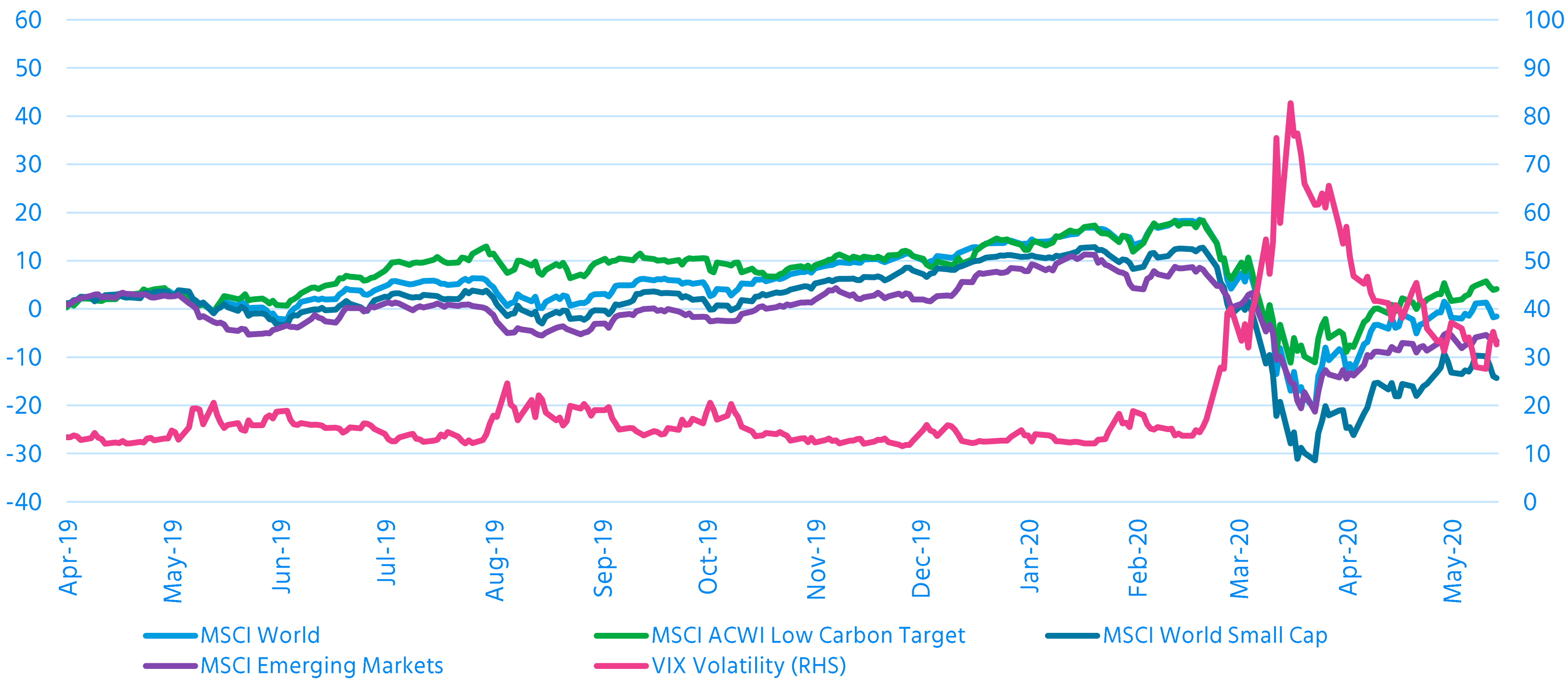
Source: Thomson Reuters Datastream.

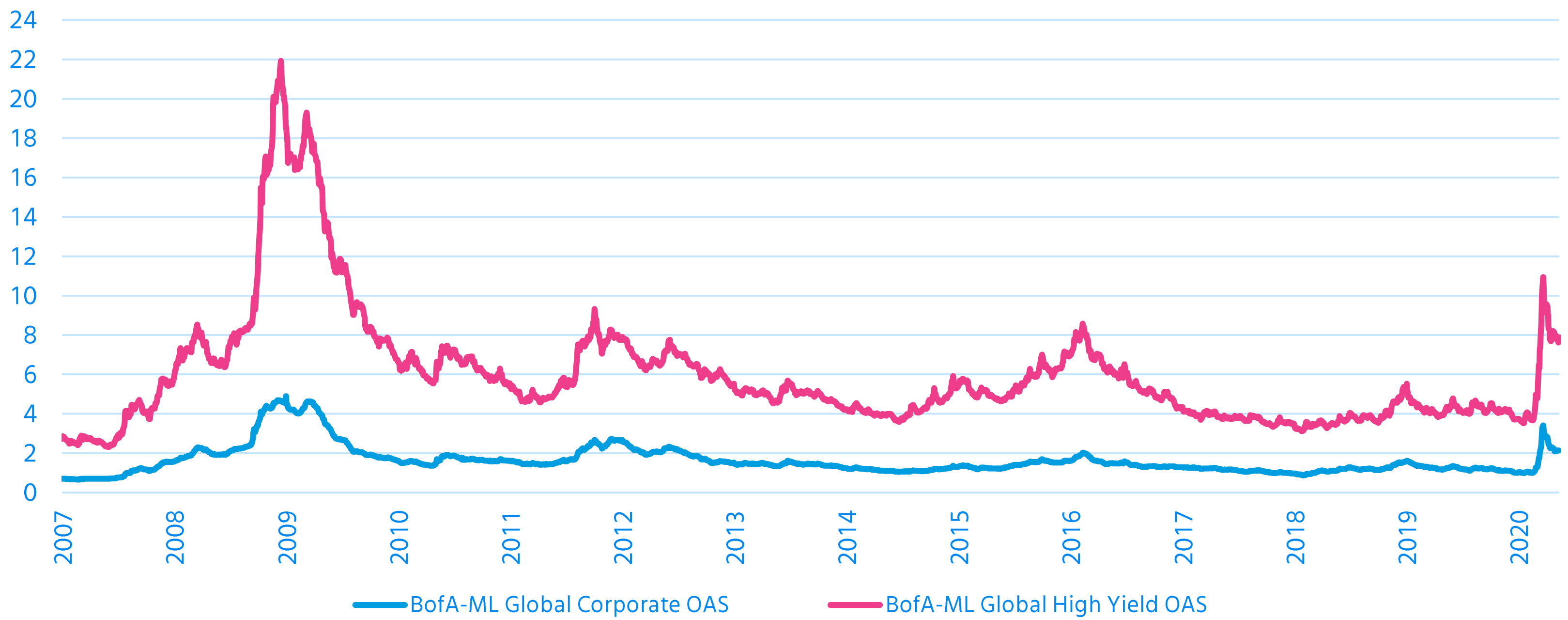
GLOBAL EQUITY MARKET RETURNS

- Once the impact of Coronavirus began to fully grip markets in late February 2020, some equity markets fell c.30% from their previous highs, as volatility levels exceeded those experienced in the 2008 Financial Crisis. Markets have recovered somewhat since, although the UK market remains the most depressed from previous highs.
- The global low carbon index fell less, mainly due to lower fossil fuel exposure as oil prices fell sharply.
- Emerging market performance has been similar to the global developed market in terms of the dip and recovery to date.



CREDIT SPREADS

- Global credit spreads initially rose sharply, with investment grade spreads up to over 3% and high yield spreads going above 10%. Spreads have reduced somewhat over April/May; however, we are far from the end of this crisis and spreads could well widen again if we get a second wave of disruption in markets.
- Markets became very illiquid during March, partly reflecting reduced broker/dealer inventory, and the retreat from market-making and proprietary trading by many banks following the regulation changes post-2008.
- We expect a rise in default rates (which is priced in to markets) and for transaction costs and liquidity to remain as ongoing issues to be monitored.



UK GILT YIELDS

- Gilt yield volatility reached unprecedented levels in March, with an initial dip followed by a sell off in gilts (mostly from non-UK investors raising cash in thinly traded markets), before yields fell again following central bank stimulus, with the BoE announcing a £200bn quantitative easing programme.
- Inflation has also been falling, driven partly by the prospect of RPI reform (the likely outcome being that RPI is moved in line with CPIH), but also by the expected collapse in global demand and falling oil prices. Despite RPI reform still looming, we believe current breakeven inflation levels are attractive from a long-term perspective.

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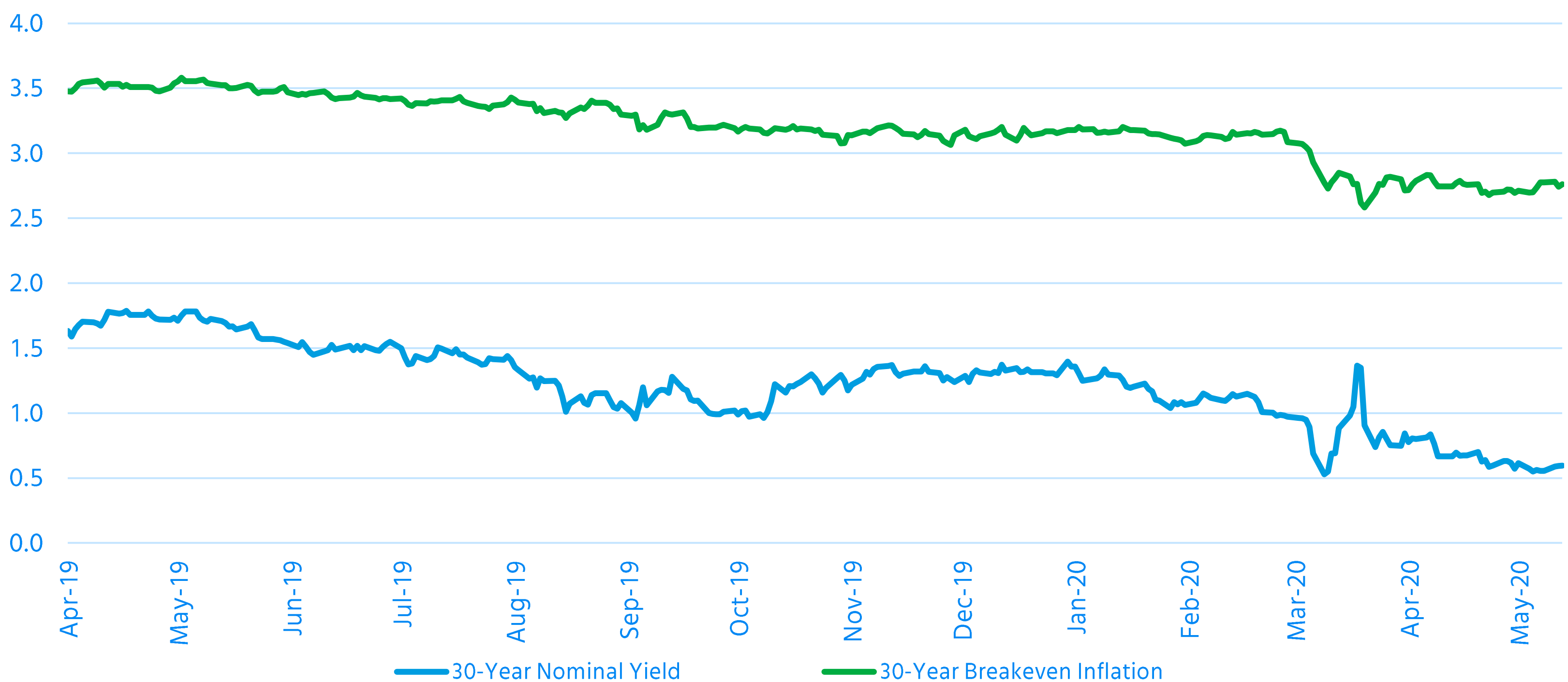
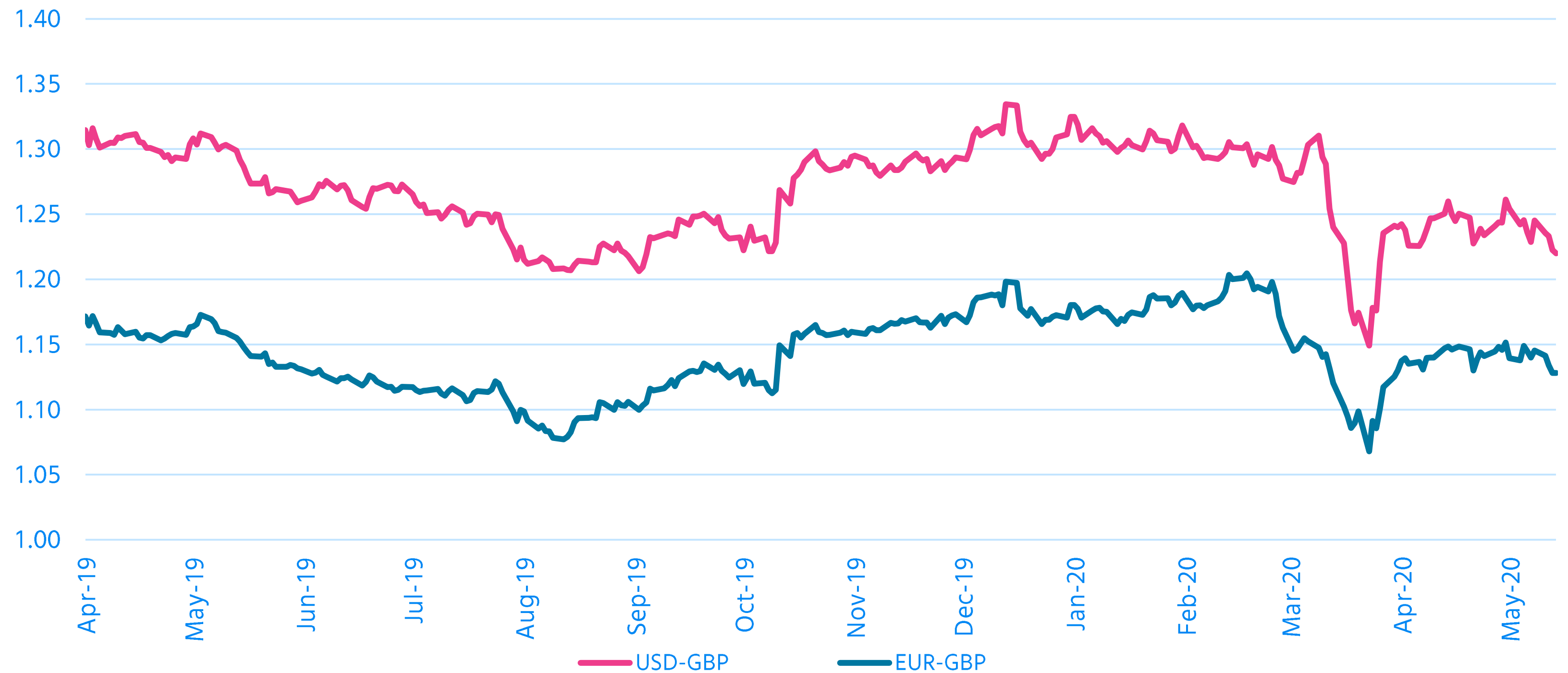


CURRENCY EXCHANGE RATES

- Sterling fell sharply against other major currencies in March, due to continued worries about the economic fallout from Coronavirus. The US Dollar exchange rate reached a 35-year low. Sterling rebounded somewhat in late March and early April following the Bank of England's base rate cut, but remains relatively weak against the major currencies from a long-term perspective.
- We remain supportive of the current strategic hedging policy and would not be looking to increase the level of hedging, say, on equities at the current time.



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Section 3
Strategic Considerations

EQUITY PORTFOLIO

No long-term issues

Short-term concerns

Long-term concerns

Asset Class	Current Target	Proposed Target	Current View	Comments
Global/UK Equity	18.4%	8%		Uncertainty is currently greatest in developed economies, where both disease incidence and government responses have only been escalating. The full extent of the economic impact of the COVID-19 virus may not yet be reflected by equity valuations . We remain cautious on equities given potential for further falls. What appears to be a contrarian buying opportunity needs to be seen within the context of highly volatile equity and earnings estimates amid a highly unfavourable macro environment.
Sustainable Equity	3.5%	10%		Valuations have so far declined only around two thirds as much as the wider global market, benefitting from the reduced fossil fuel exposure as oil prices have fallen sharply. We remain positive on sustainable and low carbon equity exposures for the Fund to improve the ESG focus of the portfolio.
Low Carbon Equity	10%	10%		
Global Small Cap Equity	-	3.8%		We do expect small cap to be more volatile and suffer higher drawdowns, but there could be good opportunities to buy at cheaper levels and capitalise when markets eventually rebound.
Emerging Markets Equity	5.6%	5.6%		The earliest country to demonstrate containment of COVID-19, China, is beginning to demonstrate an improved macro environment. Even if the impact on earnings for the year remains a worry, especially in the light of exports to developed markets, valuations remain attractive. The high weight of China in Emerging Markets indices somewhat offsets emerging concerns about the spread of COVID-19 in less developed economies.

LIQUID GROWTH ASSETS

- No long-term issues (green)
- Short-term concerns (amber)
- Long-term concerns (red)

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Asset Class	Current Target	Proposed Target	Current View	Comments
Diversified Growth Funds	15%	10%	Amber	Depending on how well DGFs hold up during this crisis, the industry may begin to 're-discover' the value of these strategies, which have largely flattered to deceive in recent years. During the dip, the Fund's DGF strategies performed materially better than equity markets, so the downside protection benefits have initially been evident.
Hedge Funds	5%	-	Red	We remain in favour of removing this allocation and using it to fund future private markets commitments, noting that the Brunel DGF is expected to have some idiosyncratic 'hedge fund like' characteristics.
Multi Asset Credit	6%	6%	Green	While the macro environment has deteriorated significantly, high yield valuations have become much more attractive. Given the magnitude of the sell-off, spreads at current stressed levels have historically offered investors an opportunity to generate strong returns on a forward basis. MAC strategies should be well placed to capitalise as markets begin to stabilise. We are mindful of an increase in default rates, so managers will need be nimble across sector/security positions to be successful in this more challenging corporate environment.

ILLIQUID GROWTH & INCOME ASSETS

- ● No long-term issues
- ● Short-term concerns
- ● Long-term concerns

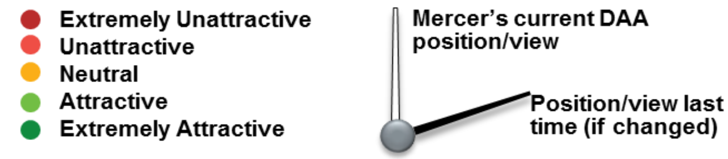
Asset Class	Current Target	Proposed Target	Current View	Comments
Core Property	7.5%	7.5%	● (yellow)	Liquidity in the property market is expected to dry up as the crisis unfolds and many funds are suspending trading. Expect valuations in the retail, leisure and office sectors to fall, and income disruption likely with some tenants under cashflow stress.
Secured Income	7.5%	10%	Current Assets ● (yellow) New Money ● (green)	We expect this asset class to perform better than core property, but valuations could see declines due to wider real estate impacts. If valuations do reduce that benefits new allocations, and relative value versus index-linked gilts remains attractive. But could see longer timeframes to get invested Brunel should be reviewing income security with underlying managers, but would expect some disruption in this environment.
Core Infrastructure	5%	5%	● (green)	We expect infrastructure assets to perform relatively robustly, but valuations could be impacted in the short term due to economic concerns and falling inflation.
Renewable Infrastructure	2.5%	5%	● (green)	As above, recognising that the long term case for renewable assets remains strong; we do not expect the current crisis to impact future demand for the asset class.
Private Debt	-	5%	● (green)	The asset class performed relatively well in the 2007-2009 period, but the market was less mature then. Likely to see a large spread of outcomes between senior/junior debt and individual strategies. Opportunities could be attractive as companies continue to need finance. Underlying managers will be more selective, but should command higher levels of interest and improved covenants.

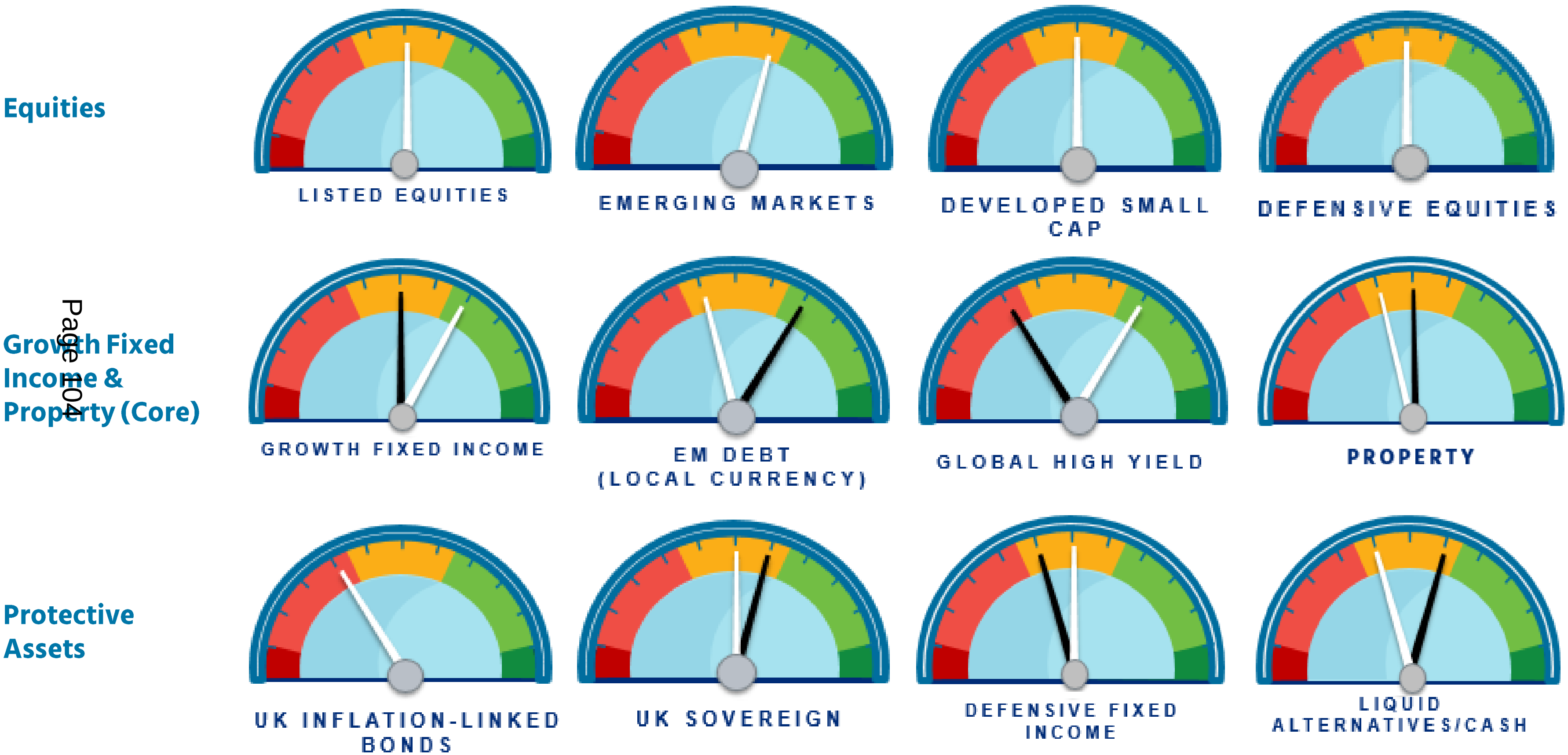
PROTECTION STRATEGIES

- ● No long-term issues
- ● Short-term concerns
- ● Long-term concerns

Asset Class	Current Target	Proposed Target	Current View	Comments
Corporate Bonds	2%	2%	● (green)	Overall, we see corporate bonds as offering value with historically high spreads offering fair compensation for elevated credit risk and ongoing macro concerns. There is optimism that swiftly enacted monetary and fiscal measures will provide support in averting the worst of the crisis.
LDI	12%	12%	● (green)	With UK gilt yields plummeting to all-time lows, valuations look very expensive. But further rate falls, possibly into negative territory, are not inconceivable. Core inflation has fallen considerably following the demand shock and oil price decline; however, while we see inflation levels as attractive for the long term, it may be some time before we see a strong demand-led recovery, ultimately leading to cost pressures. We also see plausible scenarios in the future where inflation could ramp up significantly as the COVID-19 crisis abates. We have advised on reinstating the inflation triggers to increase the inflation hedge ratio at attractive market levels.
Equity Protection	Overlay on 100% of equity portfolio		● (green)	Has dampened recent equity market falls, but there still remains significant 'time value', especially in the tranches expiring in 2021. Should consider options for unwinding/re-striking tranches of the strategy depending on how equity markets progress from here.
Currency Hedging	Overlay on 50% of overseas equities and 100% of alternatives		● (green)	We remain supportive of the current strategic currency hedging policy and would not be looking to increase the level of hedging at the current time, despite recent depreciation in Sterling.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q2 2020





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.

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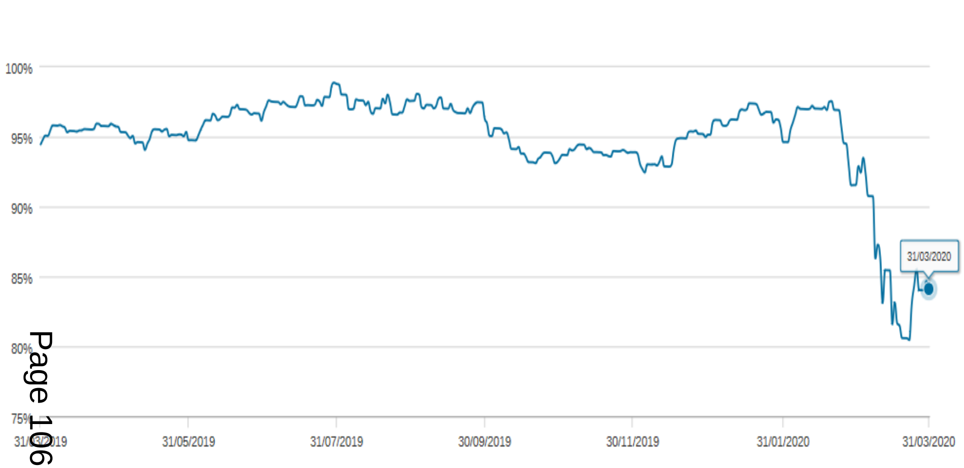
Section 4

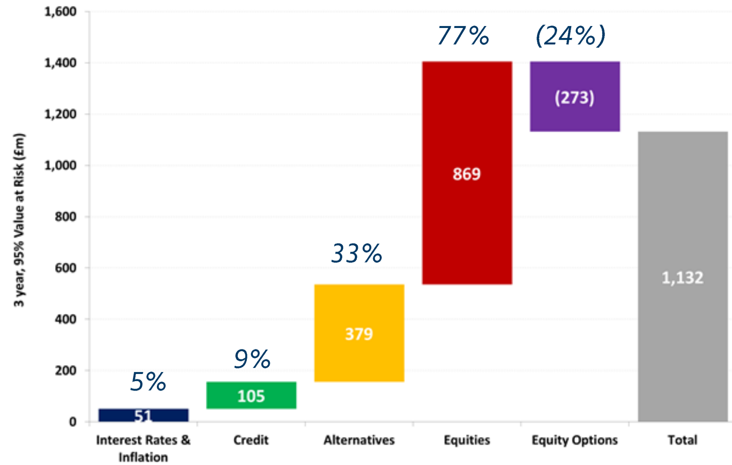
Consideration of Funding Level

CONSIDERATION OF FUNDING LEVEL
YEAR TO 31 MARCH 2020

Estimated Funding Level – Year to 31 March 2019



Value-at-Risk Attribution



The charts above illustrate the estimated progression of the funding level (on the 2019 actuarial valuation basis) over the year to 31 March 2020 on the left hand side, and the main risks the Fund is exposed to on the right side (again on the 2019 valuation basis), including the size of these risks in the context of the deficit position. The purpose of showing this chart is to provide 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.

The grey column on the right hand side of this chart shows the estimated 95th percentile (1-in-20) Value-at-Risk figure relative to our 'best estimate' of what the deficit would be in three years time. As at 31 March 2020, the chart shows that if a 1-in-20 downside event occurred, we would expect that in three years time the deficit would worsen by at least an additional **£1,132m** on top of the expected deficit at that time. This compares to an equivalent figure of £1,268m as at 31 March 2019, which has largely been driven the fall in the Fund's asset value over the year, as well as the decision taken to extend the equity protection strategy, which was originally due to expire at the start of this year.

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, and volatility of equity markets and alternative assets). **It should be noted that while these figures indicate levels of volatility on the downside, there is also a potential upside benefit from taking these risks.** Equity risk continues to be the largest driver of volatility (net 53% including options).

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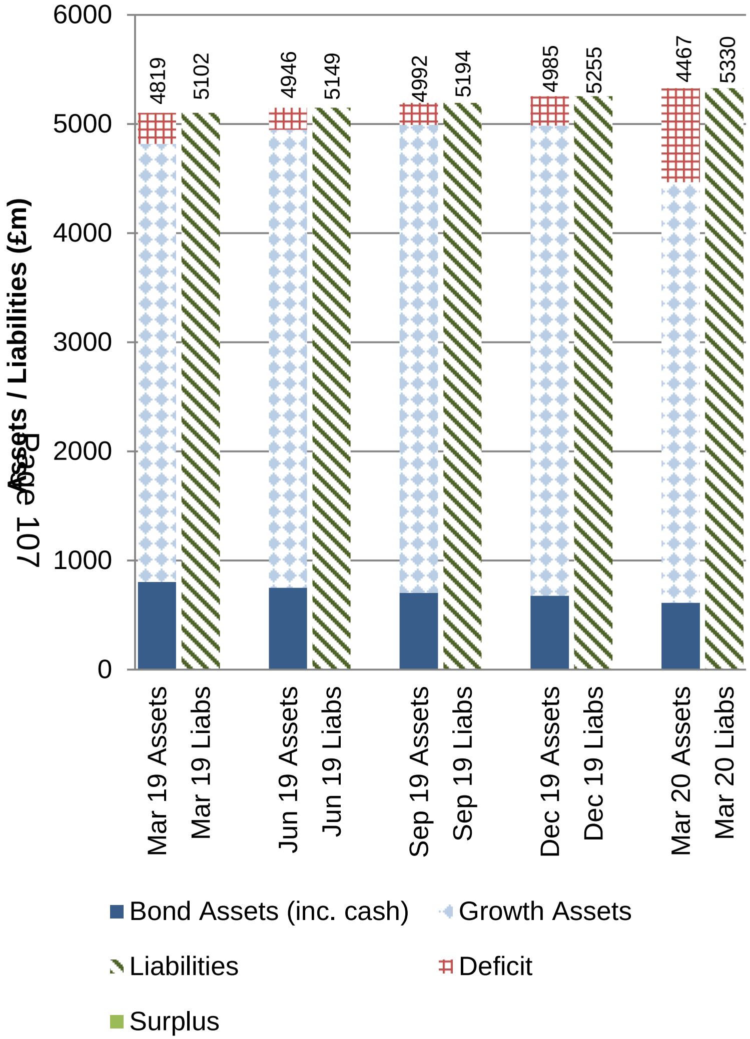
The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

CONSIDERATION OF FUNDING LEVEL
ATTRIBUTION OF CHANGE IN DEFICIT/SURPLUS



- Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have increased sharply over the year, from £283m to £863m. This is calculated using the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.
- This was largely driven by the turbulence at the end of the period, when asset values fell sharply as a result of the COVID-19 pandemic.
- The decline in the funding level over the period was within the level of risk (VaR) expected from the current investment strategy.

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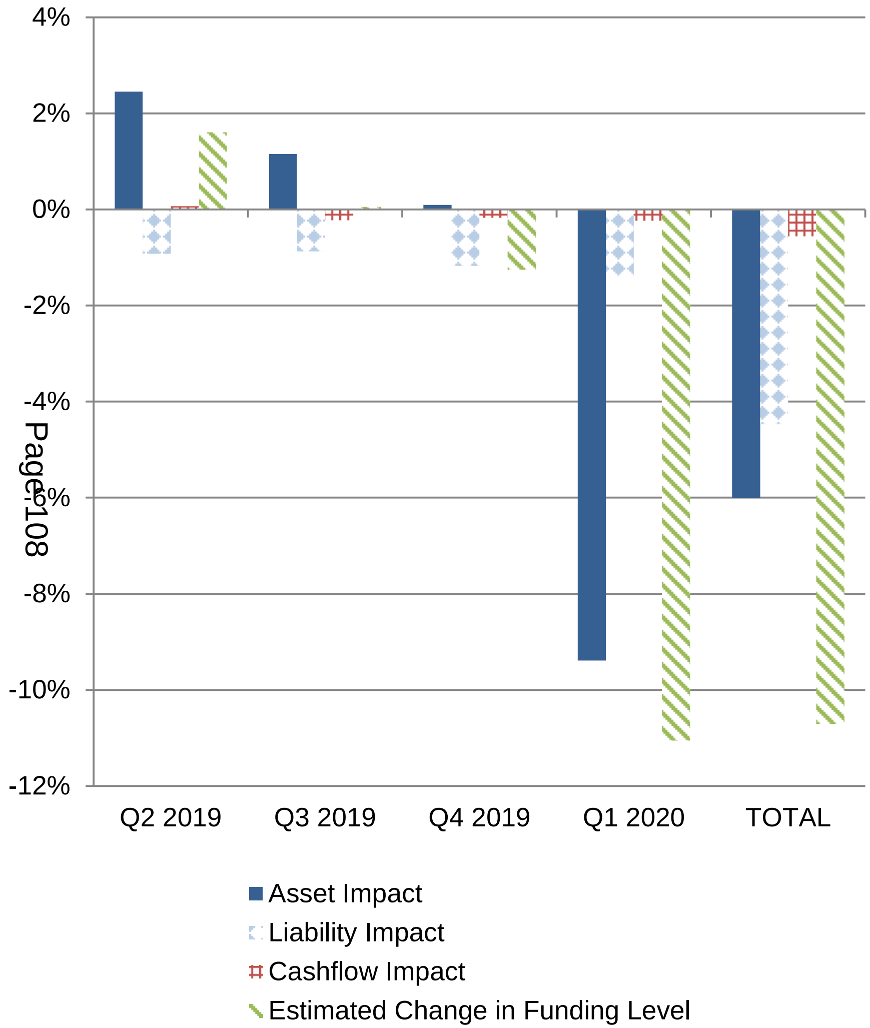
CONSIDERATION OF FUNDING LEVEL
ATTRIBUTION OF CHANGE IN FUNDING LEVEL



- In terms of the funding level, the dynamics in the final quarter of the year translated into a fall in the funding level from c. 95% to c. 84%.
- The Fund's assets returned -6.4% over the year, whilst the present value of the liabilities increased by 4.5%.

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Section 5

Fund Valuations

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation

Asset Class	31 March 2019 (£'000)	31 March 2020 (£'000)	31 March 2019 (%)	31 March 2020 (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,744,532	1,621,513	36.2	36.3	34.0	29 - 39	+2.3%
Emerging Market Equities	228,531	196,232	4.7	4.4	6.0	3 - 9	-1.6%
Diversified Growth Funds	597,717	605,666	12.4	13.6	15.0	10 - 20	-1.4%
Fund of Hedge Funds	232,127	257,967	4.8	5.8	5.0	0 - 7.5	+0.8%
Property*	458,157	521,877	9.5	11.7	10.0	5 - 15	+1.7%
Infrastructure	342,723	358,444	7.1	8.0	5.0	0 - 7.5	+3.0%
Multi-Asset Credit	410,444	291,661	8.5	6.5	11.0	6 - 16	-4.5%
Corporate Bonds	86,168	115,842	1.8	2.6	2.0	No set range	+0.6%
LDI**	568,083	406,427	11.8	9.1	12.0	No set range	-2.9%
Cash (including currency instruments)	150,553	90,925	3.1	2.0	-	0 - 5	+2.0%
Total	**4,819,035**	**4,466,553**	**100.0**	**100.0**	**100.0**		

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 the Brunel Secured Income mandate

**Valuation includes mark-to-market value of equity protection strategy.

- Invested assets decreased over the year by £352m.
- The allocation to Infrastructure drifted marginally above the upper tolerance range. All other asset classes remain within their ranges.

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FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation					
Manager	**Asset Class**	**31 March 2019 (£'000)**	**31 March 2020 (£'000)**	**31 March 2019 (%)**	**31 March 2020 (%)**
BlackRock	Global Equities	440,339	415,059	9.1	9.3
BlackRock	Corporate Bonds	86,168	115,842	1.8	2.6
BlackRock	LDI*	568,083	406,427	11.8	9.1
BlackRock	Cash	71,639	40,301	1.5	0.9
Brunel	UK Equities	187,270	149,873	3.9	3.4
Jupiter	UK Equities	194,848	162,604	4.0	3.6
Brunel	Global Low Carbon Equities	520,926	497,508	10.8	11.1
Jupiter	Global Sustainable Equities	10,740	11,137	0.2	0.2
Schroders	Global Equities	390,103	7,316	8.1	0.2
Brunel	Global High Alpha Equity	-	377,707	-	8.5
Brunel	Emerging Market Equities	-	196,232	-	4.4
Genesis	Emerging Market Equities	117,600	-	2.4	-
Unigestion	Emerging Market Equities	110,931	-	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

Manager Allocation

Manager	Asset Class	31 March 2019 (£'000)	31 March 2020 (£'000)	31 March 2019 (%)	31 March 2020 (%)
Loomis Sayles	Multi-Asset Credit	410,444	291,661	8.5	6.5
Pyrford	DGF	218,582	213,642	4.5	4.8
Ruffer	DGF	379,136	392,024	7.9	8.8
JP Morgan	Fund of Hedge Funds	232,127	257,967	4.8	5.8
Schroder	UK Property	240,276	221,064	5.0	4.9
Partners	Property	201,187	231,705	4.2	5.2
IFM	Infrastructure	331,571	334,132	6.9	7.5
Brunel	Infrastructure	11,152	24,312	0.2	0.5
Brunel	Secured Income	16,695	69,107	0.3	1.5
Record Currency Management	Currency Hedging	29,631	-8,174	0.6	-0.2
Internal Cash	Cash	49,283	58,798	1.0	1.3
Total		4,819,035	4,466,553	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.

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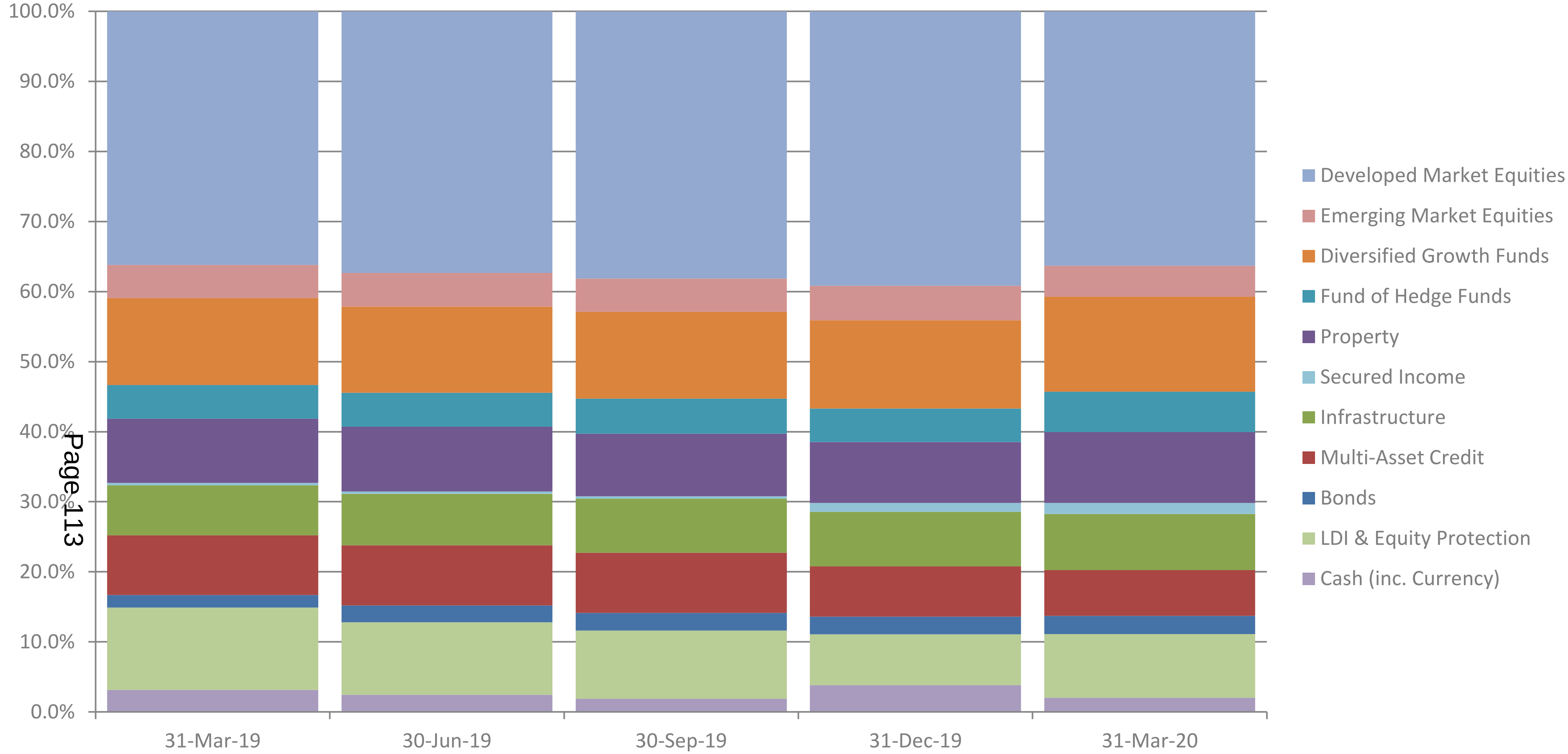
COMMENTARY ON CHANGE IN ASSET ALLOCATION OVER THE YEAR



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- In Q2 2019, the bespoke buy-and-maintain corporate bond strategy was implemented with BlackRock, replacing the legacy passive corporate bond holding. There was also a simulatneous reduction in LDI holdings, given the increase in scope of the Fund’s low-risk liability bucket.
- In Q4 2019, the active global equity mandate with Schroders, and the emerging market equity mandates with Genesis and Unigestion, were transitioned to Brunel.

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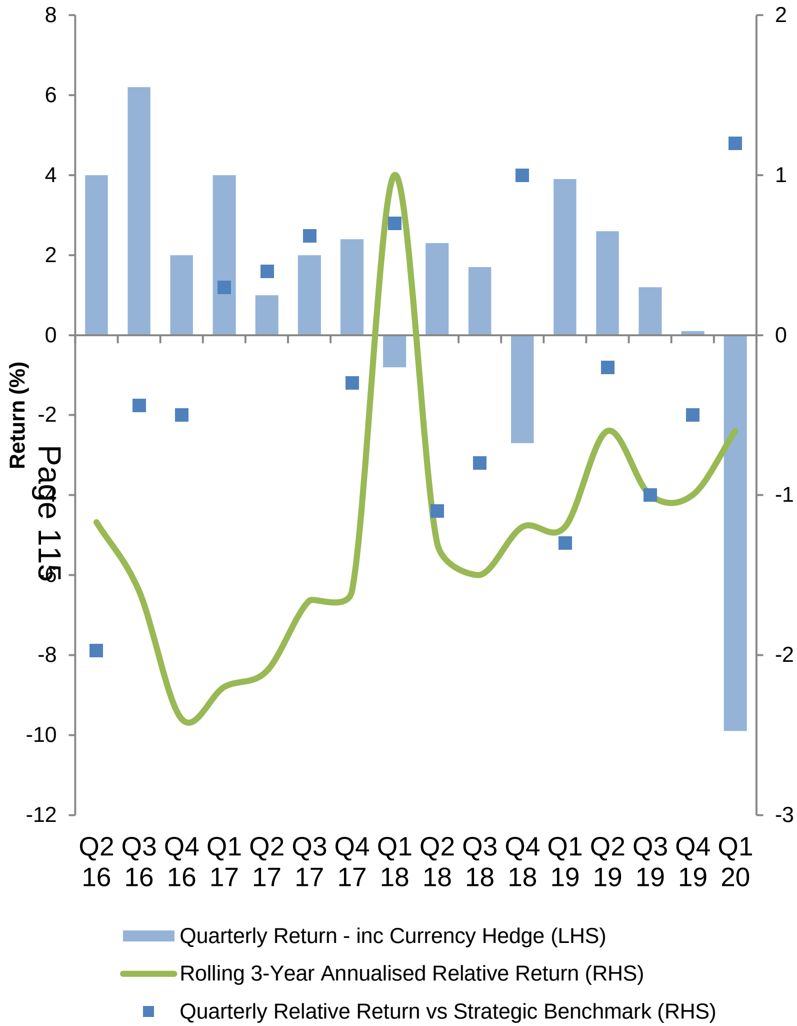
Section 6

Performance Summary

PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



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	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-9.9	-6.4	1.0
Total Fund (ex currency hedge)	-8.6	-5.3	1.3
Strategic Benchmark **(2)** (ex currency hedge)	-11.1	-6.3	1.6
Relative (1-2)	**+1.2**	**-0.1**	**-0.6**

- Over the quarter, the Fund outperformed the Strategic Benchmark by 1.2%. The Fund performed slightly below the Strategic Benchmark over the year, and underperformed over the three year period by 0.6%.
- Outperformance was facilitated by the protection in value in the Fund's equity mandate compared to the wider global market. This was thanks to the equity protection strategy, as well as lesser sell-offs over the year in passive low carbon equity, which is the Fund's largest mandate, and is not reflected in the Fund's strategic benchmark.
- The Fund's currency hedging mandate detracted value over the quarter, and the one and three-year time periods, given the depreciation of Sterling over all of these horizons.

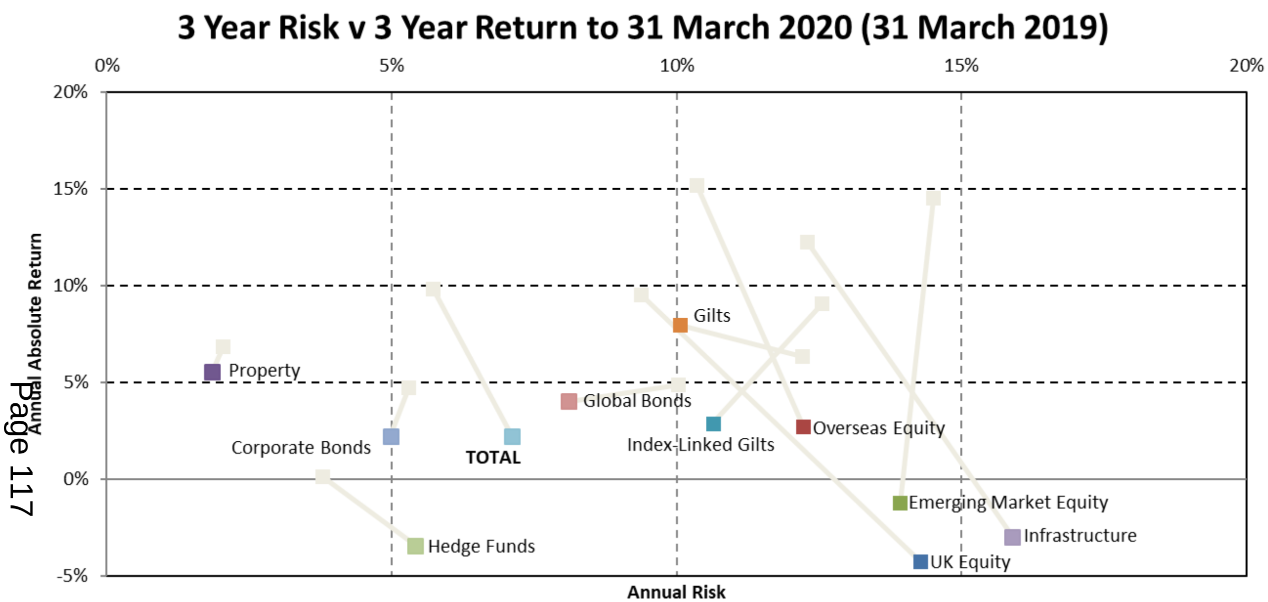
PERFORMANCE SUMMARY
INDEX PERFORMANCE vs STRATEGIC BENCHMARK

Asset Class	Weight in Strategic Benchmark		Index Returns	Contribution to Total Benchmark	Index Returns	Contribution to Total Benchmark	Assumed Strategic Return	
	Start (%)	End (%)	1 Year (%)	1 Year (%)	3 Years (% p.a.)	3 Years (% p.a.)	Return (% p.a.)	Contribution vs Assumption* (% p.a.)
UK Equities	10.0	10.0	**-18.5**	-2.0	**-4.2**	-0.4	**8.05**	-1.2
Overseas Equities	24.0	24.0	**-6.2**	-1.5	**3.2**	+0.8	**8.05**	-1.2
EM Equities	6.0	6.0	**-13.2**	-0.8	**-1.0**	-0.1	**8.7**	-0.6
DGF	15.0	15.0	**4.9**	+0.7	**1.3**	+0.2	**6.95**	-0.8
Hedge Funds	5.0	5.0	**3.9**	+0.2	**0.0**	0.0	**5.1**	-0.3
Property	10.0	10.0	**4.9**	+0.4	**2.2**	+0.2	**5.75**	-0.4
Infrastructure	5.0	5.0	**6.0**	+0.3	**2.9**	+0.1	**6.95**	-0.2
Multi-Asset Credit	11.0	11.0	**4.9**	+0.5	**0.0**	0.0	**3.5**	-0.4
UK Corporate Bonds	2.0	2.0	**0.5**	0.0	**1.3**	0.0	**3.25**	0.0
LDI	12.0	12.0	**-34.5**	-4.2	**4.8**	+0.7	**2.15**	+0.4
Total Fund	**100.0**	**100.0**	**-6.3**	**-6.3**	**1.6**	**+1.6**	**6.2**	**-4.6**

Source: Mercer estimates. May not sum due to rounding.

* Contribution to total difference between strategic benchmark return over last three years (1.6% p.a.) and overall assumed strategic return (6.2% p.a.).

PERFORMANCE SUMMARY
RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2020, 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 State Street). We also show the positions as at 31 March 2018, in grey.

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Comments

- All assets saw decreases in observed returns over the three-year period, with Gilts being the only exception.
- Whilst most asset classes observed decreases in associated volatilities, some of the steepest changes over the quarter were increases in UK Equity, Infrastructure and Hedge Funds.

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PERFORMANCE SUMMARY
MANAGER PERFORMANCE TO 31 MARCH 2020

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 Equity	-16.3	-15.7	-0.7	-7.9	-7.6	-0.3	2.8	2.8	+0.1	-	Target met
BlackRock Corporate Bonds	-7.2	-7.2	0.0	-0.7	-0.7	0.0	2.0	2.1	0.0	-	Target not met
BlackRock LDI	-30.8	-30.8	0.0	-34.5	-34.5	0.0	-9.9	-9.9	0.0	-	Target met
Brunel UK Equity	-26.6	-25.1	-2.0	-20.0	-18.5	-1.8	N/A	N/A	N/A	+2	N/A
Jupiter UK Equity	-25.2	-25.1	-0.1	-16.7	-18.5	+2.2	-5.3	-4.2	-1.1	+2	Target not met
Brunel Passive Low Carbon Equity	-15.3	-15.3	0.0	-4.5	-4.5	0.0	N/A	N/A	N/A	-	N/A
Jupiter Global Sustainable Equity	-8.7	-15.9	+8.6	3.6	-6.2	+10.4	N/A	N/A	N/A	+2-4	N/A
Brunel Global High Alpha Equity	-11.8	-15.5	+4.4	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Brunel Emerging Market Equity	-20.4	-18.3	-2.6	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Loomis Sayles	-12.8	1.2	-13.8	-7.6	4.8	-11.8	N/A	N/A	N/A	-	N/A
Pyrford	-4.8	1.5	-6.2	-2.4	7.9	-9.5	-0.4	8.0	-7.8	-	Target not met
Ruffer	-2.8	1.4	-4.1	3.2	5.9	-2.5	N/A	N/A	N/A	-	N/A
JP Morgan	-2.2	1.3	-3.4	2.4	5.4	-2.8	3.7	5.0	-1.3	-	Target not met
Schroder UK Property	-2.1	-1.3	-0.8	-0.3	0.0	-0.3	5.0	4.8	+0.2	+1	Target not met
Partners Property *	0.4	2.5	-2.1	7.1	10.0	-2.7	5.2	10.0	-4.3	-	Target not met
IFM	-6.6	1.4	-7.9	4.9	5.3	-0.4	13.5	4.4	+8.7	-	Target met
Brunel Infrastructure	6.2	0.1	+6.1	10.7	1.5	+9.1	N/A	N/A	N/A	+4	N/A
Brunel Secured Income	-1.4	0.1	-1.5	0.1	1.5	-1.4	N/A	N/A	N/A	+2	N/A

- Source: Investment Managers, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan, Partners and IFM, whose performance is shown in local currency terms.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Performance to 31 December 2019 as this is the latest date that this is available to.

PERFORMANCE SUMMARY
ACTIVE INVESTMENT MANAGER CONTRIBUTION (YEAR TO 31 MARCH 2020)

Asset Class	Weight in Strategic Benchmark Start (%)	Weight in Strategic Benchmark End (%)	Average Relative Position * (%)	Fund Return (%)	Index Return (%)	Asset Allocation Impact (%)	Active Manager Impact (%)	Total Manager Impact (%)
UK Equities	10.0	10.0	-2.0	-18.2	-18.5	+0.2	+0.1	+0.3
Overseas Equities	24.0	24.0	+5.8	-3.9	-6.2	0.0	+0.7	+0.7
Emerging Market Equities	6.0	6.0	-1.2	-13.9	-13.2	+0.1	0.0	+0.1
Diversified Growth Funds	15.0	15.0	-2.4	1.3	4.9	-0.3	-0.4	-0.7
Fund of Hedge Funds	5.0	5.0	0.0	11.1	3.9	0.0	+0.4	+0.4
Property **	10.0	10.0	-0.1	5.2	4.9	0.0	+0.1	+0.1
Infrastructure	5.0	5.0	+2.5	1.6	6.0	+0.3	-0.3	0.0
Multi-Asset Credit	11.0	11.0	-3.0	-7.6	4.9	-0.3	-0.9	-1.2
UK Corporate Bonds	2.0	2.0	+0.4	0.5	0.5	0.0	0.0	0.0
LDI	12.0	12.0	-2.5	-34.5	-34.5	+0.7	0.0	+0.7
Equity Protection ***	-	-	-	-	-	+0.6	0.0	+0.6
Total Fund	**100.0**	**100.0**	**-**	**-5.3**	**-6.3**	**+1.4**	**-0.4**	**1.0**

Source: Avon, Investment Managers and Mercer estimates. Figures may not sum due to rounding.

* Average overweight position taken as the average of the beginning and end of year weights.
** Property includes Secured Income allocation.
*** The equity protection strategy is an overlay so does not have a target allocation, hence no specific allocation or performance figures are shown, but it does have an impact on overall performance as shown.

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Appendix 1

Manager Monitoring

MANAGER MONITORING
UK EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance *	Fund	B'mark	Relative	Target	Contribution to outperformance *
Jupiter	-16.7	-18.5	**+1.8**	+0.09	-5.3	-4.2	**-1.1**	+2	-0.05
Brunel	-20.0	-18.5	**-1.5**	-0.06	n/a	n/a	**n/a**	+2	

Source: Avon, Investment Managers and Mercer estimates.
* "Contribution to outperformance" is the annualised impact on total return of the individual managers' performance relative to their benchmark over the periods measured, and provides an indication of the relative impact of manager out- or under-performance.

Market Commentary

- UK equities contracted sharply over the year by 18.5%, being the hardest hit region in Q1 mainly due to high exposures to oil, gas and basic materials on the FTSE All-Share.

Performance Commentary

- Jupiter managed to outperform the benchmark over the one year period, with one of the key contributors being its limited exposure to oil, gas and mining companies. It did however underperform over the three year period.
- Jupiter's tracking error was 4.2% p.a. Jupiter's holdings remain noticeably different from the benchmark, due in large part to its Socially Responsible Investment objectives – having a significant underweight to large cap stocks and overweight to midcap stocks.
- The more recently-implemented Brunel mandate underperformed over the one year period.

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MANAGER MONITORING
DEVELOPED GLOBAL EQUITIES

Manager / fund	1 Year (%)				3 Years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Jupiter	3.6	-6.2	**+10.4**	+0.02	n/a	n/a	**n/a**	+2-4	n/a
Brunel (Passive Low Carbon)	-4.5	-4.5	**0.0**	+0.00	n/a	n/a	**n/a**	+2-3	n/a
Brunel (High Alpha)*	-10.5	-14.4	**+3.9**	n/a	n/a	n/a	**n/a**	+2-3	n/a
Schroders (terminated) **	9.1	9.9	**-0.8**	-0.07	7.9	7.7	**+0.2**	+4	+0.01

Source: Avon, Investment Managers and Mercer estimates.
* Since inception performance shown (from November 2019), as mandate has not been in place for a full year.
** Performance shown up to 30 September 2019, which is the closest quarter end to termination, e.g. for the last year performance is shown from 31 March 2019 to 30 September 2019, and 3 year performance is shown from 31 March 2017 to 30 September 2019.

Market Commentary

- Global equities returned -6.2% over the year in sterling terms, with all regions performing negatively in both sterling and local currency terms.
- Japan was the most cushioned region, returning -2.1%, whilst US equities returned -2.3%.
- European (ex-UK) equities returned -8.0%, and Asia Pacific (ex-Japan) was among the worst hit regions outside of the UK at -14.1%. (All in Sterling terms)

Performance Commentary

- Despite this backdrop, the Jupiter global sustainable mandate managed to deliver positive performance over the year thanks to strong outperformance in the first three quarters.
- The Brunel low carbon fund performed in line with its benchmark over the year, whilst the high alpha fund has outperformed since its inception in November 2019.
- The Schroders mandate was terminated in Q4 2019, but did manage to contribute to outperformance over the 3 year period* prior to this.

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MANAGER MONITORING
EMERGING MARKET EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Genesis (terminated) *	6.9	2.1	**+4.8**	+0.12	6.7	4.5	**+2.2**	-	+0.05
Unigestion (terminated) *	0.9	1.9	**-1.0**	-0.02	3.0	4.2	**-1.2**	+2-4	-0.08
Brunel**	-17.4	-15.2	**-2.2**	n/a	n/a	n/a	**n/a**	+2-3	n/a

Source: Avon, Investment Managers and Mercer estimates.
*Performance shown up to 30 September 2019, which is the closest quarter end to termination, e.g. for the last year performance is shown from 31 March 2019 to 30 September 2019, and 3 year performance is shown from 31 March 2019 to 30 September 2019.
** Since inception performance shown (from October 2019), as mandate has not been in place for a full year.

Market Commentary

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- Emerging Market equities contracted by 13.0% over the year to 31 March 2020, being one of the most adversely impacted regions at the end of the period.
- Even though China seems to be returning to some normality, there is still a significant question mark over how other emerging countries will cope with the pandemic as well as the impact the oil price shock will be having on oil producing countries.

Performance Commentary

- In Q4 2019, the mandates with Genesis and Unigestion were transitioned to Brunel, hence performance for the latter over the one and three year period are not yet available.
- Brunel has however underperformed its benchmark since its inception in October 2019, after a difficult first full quarter.
- Genesis had contributed to outperformance over these time horizons*, whilst Unigestion had detracted.

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MANAGER MONITORING
FUND OF HEDGE FUNDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
JP Morgan	2.4	5.4	**-2.8**	-0.05	3.7	5.0	**-1.3**	-	-0.07

Source: Avon, Investment Managers and Mercer estimates.
Returns are in local currency terms.

Market Commentary [1]

- Fund of Hedge Funds fell by 5.7% over the year, as per the HFRI Diversified Fund of Fund Index.
- Discretionary and systematic macro strategies were the only positive performing strategies over the year.
- Event-driven and distressed were the worst performing strategies at -12.6% and -12.4% respectively (in USD terms).
- We continued to see dispersion in manager results across strategies.

Performance Commentary

- JP Morgan did provide positive performance in local currency terms thanks largely to its opportunistic/macro and relative value sleeves.
- Performance will have been stronger in sterling terms due to the currency's depreciation.
- The mandate did however underperform its targeted return benchmark over the one and three year periods, as hedge fund returns in general have been weak.

[1] Source: Hedge Fund Research Inc.

MANAGER MONITORING
DGF

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Pyrford	-2.4	7.9	**-9.5**	-0.45	-0.4	8.0	**-7.8**	-	-0.28
Ruffer	3.2	5.9	**-2.5**	-0.21	n/a	n/a	**n/a**	-	n/a

Source: Avon, Investment Managers and Mercer estimates.

Performance Commentary

- The Fund's DGF managers underperformed their benchmarks.
- It was difficult for the mandates to keep pace with their targeted return benchmarks in Q1 2020, despite holding up relatively well compared to equity markets.
- Disappointing performance was more noticeable for Pyrford who delivered negative returns over the one and three year period, whilst Ruffer did manage to grow capital over the year.
- Whilst Pyrford has a largely stable asset allocation, the portfolio managed Ruffer is more dynamic.

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MANAGER MONITORING
PROPERTY AND SECURED INCOME

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Schroders	-0.3	0.0	**-0.3**	-0.02	5.0	4.8	**+0.2**	+1	+0.00
Partners*	7.1	10.0	**-2.7**	-0.13	5.2	10.0	**-4.3**	-	-0.21
Brunel (Secured Income)	0.1	1.5	**-1.4**	-0.02				+2	

Source: Avon, Investment Managers and Mercer estimates.
*** Partners performance and the contribution to outperformance reflects the periods to 31 December 2019. Returns for this mandate are in local currency terms.**

Market Commentary

- The UK property market was broadly flat over the year (as measured by the UK IPD PPF All Balanced Funds Index – the benchmark for the Schroders mandate).
- This index contracted by 1.3% over Q1 2020, and the long-term impact of the UK lockdown on property pricing is still uncertain given the sharp fall in transactions.
- The Partners' mandate is more focused on overseas property, and has a performance target of 10% p.a., with the benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).
- The Brunel secured income mandate is more focused on long lease property, so we would expect returns to be more income driven, albeit capital is still expected to be impacted by the COVID-19 situation to a degree. This mandate is still only partly funded.

Performance Commentary

- Schroders slightly underperformed the benchmark over the year, and valuations at the end of the quarter were issued with 'material uncertainty' caveats. The mandate outperformed over the three year period, during which 'value add' strategies have been the largest contributors to performance.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 December 2019 at 7.1% p.a. (in local currency) is below their target of 10% p.a.

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MANAGER MONITORING INFRASTRUCTURE

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
IFM	4.9	5.3	**-0.4**	-0.01	13.5	4.4	**+8.7**	-	+0.52
Brunel	10.7	1.5	**+9.2**	+0.03	n/a	n/a	**n/a**	+4	n/a

Source: Avon, Investment Managers and Mercer estimates.
Returns for IFM are in local currency terms.
* Performance is shown since inception

Market Commentary

- The infrastructure market, as measured by the S&P Global Infrastructure Index (a listed index), returned -6.1% over the year in sterling terms.
- This was driven by a sharp contraction in the final quarter with positive steady growth prior to that.
- Given the unlisted nature of the mandates, we would caution that current valuations may not fully reflect the full impact of the COVID-19 crisis.
- But we do not expect demand for renewable assets (the focus of the Brunel mandate) to be impact longer term.
- The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned.

Performance Commentary

- IFM delivered positive performance over the year (in local currency terms), which fell just short of its targeted return benchmark.
- Outperformance was strong over the three year period to 31 March 2020, making the mandate the biggest contributor to outperformance over this period.
- The portfolio consists of 17 holdings and most of it is invested in the United States, United Kingdom and Mexico. Toll roads and airports, which represent two of the main sub-sector allocations of the fund, observed the greatest adverse impact from the recent severe disruption to global transportation.
- The Brunel Renewable Infrastructure sleeve is still in the early stages of being funded but has delivered good performance to date.

MANAGER MONITORING
CREDIT

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
BlackRock	-0.7	-0.7	0.0	n/a*	2.0	2.1	**-0.1**	-	n/a*
Loomis Sayles	-7.6	4.8	**-11.8**	-0.84	n/a	n/a	**n/a**	-	n/a

Source: Avon, Investment Managers and Mercer estimates.
*Mandate is passive, and benchmark is assumed to be equal to the return on bonds held.

Market Commentary

- Corporate debt, as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index, returned 1.7% over the year to 31 March 2020.
- Credit spreads spiked over Q1 amidst investor risk aversion, pricing in significant levels of stress for corporates who are expected to struggle to meet their fixed charges, while many have seen revenues decline considerably.
- Sub-investment grade spreads in particular increased quite sharply over Q1 2020 to over 10%, before falling back a bit. The Merrill Lynch Global High Yield Index returned -3.6% over the year.

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Performance Commentary

- The BlackRock bespoke buy-and-maintain corporate bond strategy, which was implemented in Q2 2019, suffered falls in Q1 2020 as yield spreads widened. However, given the buy-and-maintain nature, short-term volatility is less of a concern; the key to success will be avoiding defaults.
- Loomis Multi-Asset Credit ("MAC") was more negatively impacted due to its exposure to high yield and emerging market bonds, and consequently underperformed its composite benchmark by 11.8% over the one year period. This made it the biggest detractor in relative terms in the portfolio over this time period.

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MANAGER MONITORING
CURRENCY

Market Commentary

- Over the 12-month period to 31 March 2020, Sterling depreciated by 2.6% against the US Dollar from $1.30 to $1.24.
- Over the same period, Sterling depreciated by 7.2% against the Yen from ¥144.23 to ¥133.86, and by 4.8% against the Euro from €1.16 to €1.13.

Performance Commentary

- Over the 12 month period to 31 March 2020, the hedging mandates have all underperformed their informal benchmark returns.

Currency Hedging 12 Month Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	821,305,387	872,614,470	5.09%	(3.52%)	(3.57%)	1.78%
EUR	158,973,158	144,091,390	2.69%	(0.88%)	(0.72%)	2.13%
JPY	93,930,678	117,703,189	7.75%	(3.57%)	(3.56%)	4.50%
Total	1,074,209,223	1,134,409,048	4.98%	(3.12%)	(3.13%)	2.08%

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	227,347,568	250,443,905	5.09%	(7.13%)	(7.33%)	(2.01%)
Total	227,347,568	250,443,905	5.09%	(7.13%)	(7.33%)	(2.01%)

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	23,879,908	25,715,449	5.09%	(7.13%)	(7.32%)	(2.01%)
EUR	176,095,090	179,374,319	2.69%	(2.16%)	(1.92%)	1.23%
Total	199,974,998	205,089,767	3.00%	(2.76%)	(2.58%)	0.84%

The Passive Infrastructure Hedge was terminated on 2 January 2020.
At the start of the period, as at 31 March 2019, this additional sleeve had an exposure of £188,775,625

Source: Record.

Appendix 2

Summary of Mandates

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Equites	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%
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Passive Global Low Carbon Equities	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Global Sustainable Equities (SRI)	MSCI AC World	+2-4%
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
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.	-
Schroders	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Infrastructure	CPI	+4%
Brunel	Secured Income	CPI	+2%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

MERCER

Appendix 3

Market Statistics Indices

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
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.

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Appendix 4
Changes in Yields

CHANGES IN YIELDS

Index	31-Mar-20	31-Dec-19	31-Mar-19	31-Mar-18
UK Equities	5.53	4.09	4.22	3.85
Over 15 Year Gilts	0.75	1.25	1.48	1.63
Over 5 Year Index-Linked Gilts	-1.92	-1.84	-1.85	-1.65
Sterling Non Gilts	2.50	2.00	2.34	2.47

- UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 9.9%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 17.6% over the year as the longer end of the nominal yield curve fell by more than the shorter end.
- The yield for the FTSE Gilts All Stocks index fell over the year from 1.36% to 0.66%.
- The FTSE All Stocks Index -Linked Gilts index returned 2.2% with the corresponding over 15-year index exhibiting a return of 2.0%.
- Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 1.7%.

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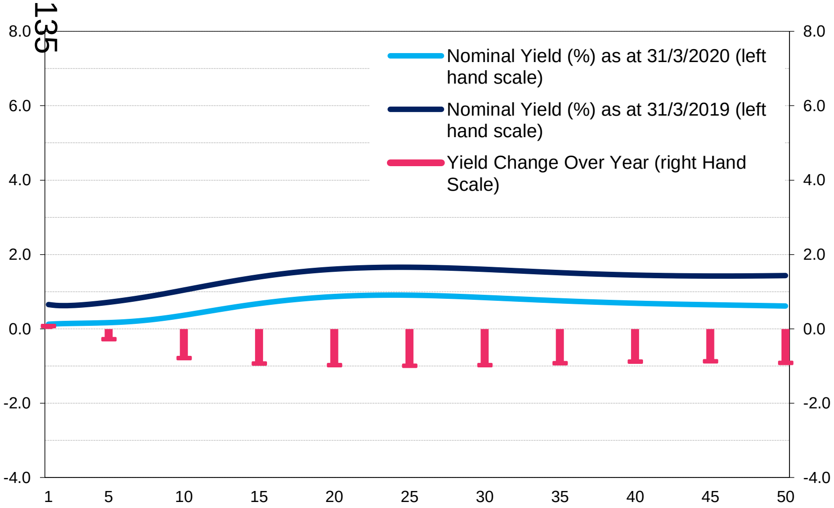
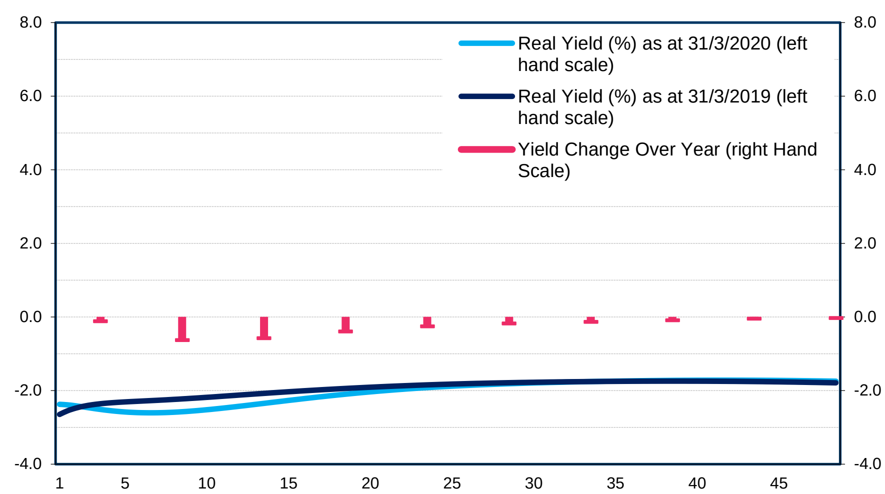
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

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Quarterly Engagement Report

January-March 2020

Coronavirus update, Boeing ANZ, Barclays, AngloAmerican, Vale, Alphabet, Amazon

Local Authority Pension Fund Forum

CLIMATE EMERGENCY

Coronavirus Update

While restrictions on movement stemming from the coronavirus outbreak have led to cancellation of some LAPFF meetings, the Forum's services will continue as normally as possible under the circumstances. The LAPFF Executive meeting was held via video conference, and meeting papers for the LAPFF Business meeting were circulated for comment by the membership ahead of a virtual meeting. Services such as voting alerts for the upcoming AGM season will also continue, with many AGMs being held virtually (though a few will be cancelled or postponed). The delegation to Brazil is also being planned as normal on the understanding that if it must be postponed, the parameters for the visit will still be in place once it is allowed to go ahead. Company engagements are also taking place by video conference. The Forum will monitor the impact of the pandemic on investee companies through these engagements, where appropriate. For further updates, please contact PIRC staff.

Barclays and ANZ Meet LAPFF to Discuss Climate Lending

Over the last few months, the number of banks being targeted for their lending policies on climate has increased. Therefore, LAPFF has stepped up its engagement with banks over their lending policies to ensure that they are aligned with Paris Agreement objectives and are undertaking lobbying in a manner consistent with these objectives.

To this end, LAPFF met both with ANZ Bank and with Barclays during the quarter to encourage them along these lines. The Forum issued a voting alert in support of the ANZ resolutions encouraging the bank to take a stronger, more transparent stance on climate, including climate lending. There were concerns about the lack of awareness by ANZ about mounting pressure on banks to improve their performance both on lending and disclosure around climate practices. ANZ also did not seem to be aware of its industry body memberships, including one such body that has a notably poor record on climate.

Engagement with Barclays was more encouraging. A meeting with Nigel Higgins (pictured above), the Barclays chair, sought to ascertain the company response to the shareholder resolution on setting targets for the provision of financial services to energy and utility companies that are not aligned with the Paris Agreement. Barclays has made significant strategic commitments and is likely to declare a long-term ambition for

CLIMATE EMERGENCY

Brumadinho,the area affected by the collapse of a tailings dam in the state of Minas Gerias, Brazil,

2050, demonstrating significant progress. The resolution has been coordinated by ShareAction and co-filed by at least four LAPFF members as well as other institutional investors such as Sarasin. It remains to be seen whether the Barclays resolution will be filed in some form, but the Forum was reasonably happy with Barclay's engagement on this issue.

LAPFF will follow up with both companies on their responses during the engagements to ensure that they are moving forward on this issue at an acceptable rate. In relation to Barclays, meetings with the company and some requisitionists continue regarding likely outcomes for the AGM.

LAPFF Engages Insurers and Banks on Climate Finance

In a related engagement, LAPFF has written to eleven insurance providers to determine how well they are incorporating climate considerations into their insurance businesses, and in particular their underwriting activities. Three banks have been included in this engagement, and the Forum has asked about their climate lending policies as well.

The rationale for this engagement is two-fold. First, in reviewing the latest results of LAPFF's largest holdings, four of the top ten entries were insurance companies. Therefore, LAPFF members have a large financial interest in these companies. Second, upon reviewing the companies' positions on climate, it was clear that, almost uniformly, climate as an insurance consideration had received significantly less attention in disclosures than climate and investment considerations. This omission is worrying in that insurers, through both underwriting and investing, have a large role in defining business risk for companies. Therefore, if they are not considering climate risk sufficiently or adequately, and are not creating appropriate risk incentives for companies on climate or other matters, this oversight or lack of consideration could impact both on financial returns and on environmental and social outcomes.

Eleven companies have been written to including those based in Germany, the US, France and Hong Kong, as well as to UK companies. Given the global nature of the engagement, there has been a positive response so far with four companies offering meeting dates and two expressing interest in meetings.

Cllr McMurdo met with Sir John Kingman, Chair of Legal & General Group, in the first of these engagements and found the exchange useful. The Forum will continue to arrange meetings as possible – some companies have said they will not have capacity to meet until after the coronavirus outbreak has been contained.

High Risk Tailings Dams Broached with Vale, AngloAmerican, and ArcelorMittal

As part of the community engagement element of the investor tailings dam initiative, LAPFF has been liaising with community representatives over a list of high risk tailings dams in Brazil. Vale has by far the largest number of dams on the list, but AngloAmerican and ArcelorMittal are also represented. Therefore, LAPFF has approached all three companies to try to gain assurances that they have taken adequate steps to prevent further tailings dam collapses.

In preparation for these meetings, the Forum is continuing to engage with affected community members to determine their main concerns in relation to the cited dams. These exchanges have proven extremely helpful in highlighting issues and questions to pose to the companies about the security of their assets and any threats from an investment perspective.

All three companies have responded positively to the LAPFF meeting requests, although only Vale has offered a meeting at board level – with the Chair – despite requests for board level engagement and an explanation that community engagement is a strategic issue for the Forum. Therefore, LAPFF will continue to take meetings as offered but will also continue to push for board level engagement on this issue.

COMPANY ENGAGEMENT

A Boeing 737 aircraft rests in shallow water in the St. Johns River after sliding off the runway at Naval Air Station Jacksonville May 3, 2019 in Jacksonville, Florida

Boeing, Boeing, Gone?

The accusations of poor conduct against Boeing in relation to two 737 MAX crashes last year continue to mount. There have now been press articles about botched engineering in the tail design, leaked employee emails stating they would never fly on such a flawed aircraft, and a statement from the current Chair that he doesn't know what former Chair and CEO, Dennis Muilenburg was thinking in how he ran the company. LAPFF has written to the company to follow up on its requests for a meeting with the Chair to discuss any progress with an independent review of governance and risk at the airline.

Boeing has acknowledged the request but to date has not provided access to the board, stating that it is not the company's policy to have investors engage directly at board level. On another note, LAPFF has had more success with Boeing on the climate front. It is understood that following constructive dialogue with the governor's office over how a climate bill in its original form would impact operations in Oregon, Boeing representatives are not actively opposing the proposed legislation.

The Forum will continue to seek engagement at board level over both the safety and climate issues.

Amazon and Alphabet Shareholder Resolutions Co-filed by LAPFF Members

LAPFF has been in touch with John Keenan of AFSCME in relation to a slew of shareholder resolutions being filed this year with US companies. The Forum has circulated these resolutions in an attempt to increase LAPFF members' involvement on ESG with US companies.

Two resolutions co-filed by LAPFF members were with Amazon and Alphabet. Both of these resolutions were aimed at social issues. The Amazon resolution sought to involve employee representatives at board level, while the Alphabet resolution requested board level oversight of human rights risks.

Both resolutions were blocked by the SEC. This outcome is disappointing but not unexpected in light of the SEC's recent consultation on shareholder resolutions. This consultation seemed to be aimed at reducing the number of resolutions that US companies receive by making it harder to file and co-file. It remains to be seen what the outcome of the consultation is, but it is likely that the shareholder resolution route in the US will be significantly curtailed, if not abandoned altogether, in light of these developments.

COMPANY ENGAGEMENT

OTHER NOTABLE ENGAGEMENTS

Collaborative engagement with Sarasin – Shell, BP, Total

LAPFF has been partnering with Sarasin and other institutional investors in engagements with the Big Four auditing firms and Shell, BP and Total about incorporating climate appropriately in the audit process. While the engagements with the audit firms were less than encouraging, both the audit firms and the companies themselves are showing signs of movement on this issue.

Specifically, Shell and Total have changed their accounting assumptions after letters from the investor coalition. Sarasin noted the following improvements in reporting from Shell:

1.The board has reduced long-term oil price assumption from \$70/bbl to \$60/bbl (down from \$80/bbl in 2017) & gas from \$3.5 to \$3/ MMBtu - contributing to the £3.6bn impairments in 2019. They have clearly linked this to climate/energy transition considerations.

2.The auditor, EY, has substantively increased its focus and analysis of the energy transition as it impacts core accounting assumptions from asset valuation tests related to PPE & JVs, reserves, refinery assets, DTA etc –

3.EY notes that gas prices remain elevated versus peers

4.EY has also picked up our call for reassurance over capital maintenance and specifically dividend paying capacity in line with Part 23 of the Companies Act. This is now included as a Key Audit Matter.

Total has also accounted for decarbonisation in its commodity price assumptions. This accounting has factored into Shell's impairment assessment too.

The investor coalition will continue to engage with these companies and others on this climate audit issue using the front-runners as examples of good practice.

New Zealand social media engagement

In the wake of the Christchurch mosque shooting, LAPFF has been working with New Zealand Super Fund and other investors to engage social media companies on implementing more responsible internet content practices. The supporting investors, including LAPFF, recently signed a letter to these companies to mark the one year anniversary of the shooting and urging them to do more.

Apart from the fact that 100 signatories are now part of the engagement, there have been other points of progress, notably on improved technology to monitor suspicious content. However, while the companies – including Facebook, Alphabet, and Twitter - have engaged with investors on this issue, the engagement seems to have stalled.

Therefore, the letter contains a number of requests of social media companies. First, while progress has been made, especially on the technology side, these developments are insufficient to prevent livestreaming and/or dissemination of content should another attack occur. Second, stronger governance and accountability at executive and board level is needed. Third, more openness and engagement with investors is needed. Finally, the letter advocates for a stronger response from companies and regulation that keeps up with the changing environment.

Not all companies are compliant with its provisions in the Modern Slavery act

IOPA engagement

At the October 2019 LAPFF Business Meeting, the Forum agreed to join a collective engagement to help end the opioid addiction crisis in the US. This engagement - Investors for Opioid and Pharmaceutical Accountability (IOPA) - is coordinated by the Union of Auto Workers and is aimed at encouraging pharmaceutical companies, distributors and retailers to improve their governance on opioids.

The investor initiative comprises a number of trade union investors, one of which – the Teamsters – recently filed a shareholder resolution with AmerisourceBergen. This resolution garnered 51% of the independent votes cast at the company AGM. Resolutions were withdrawn from other companies, such as Walgreens, that have engaged more constructively with the initiative.

IOPA holds regular calls and updates. LAPFF will continue to engage with this initiative.

FTSE 350 Modern Slavery Act engagement

Although the UK Modern Slavery Act has been in place for five years now, not all companies are compliant with its provisions. Rathbones and PRI have coordinated a collaborative initiative to contact non-compliant FTSE 350 companies and encourage them to take steps to become compliant.

LAPFF signed on to this initiative during the quarter and has since had an update that five companies have become compliant as a result of the engagement. These companies are Cairn Energy Plc, Grainger Plc, IWG Plc, PMO Premier Oil

COMPANY ENGAGEMENT

Plc, and Safestore Plc.

There are 19 companies that have yet to comply and are being chased. Companies have been notified that they might face negative voting outcomes if they do not comply, but this voting will take place in consideration of coronavirus developments.

Nestlé

Cllr McMurdo, the LAPFF Chair, attended an investor roundtable with Nestlé in February. Attendance was both to receive an update on the company's ESG activities and to maintain the positive relationship established by prior LAPFF Chair, Paul Doughty, after his visit to Nestlé's headquarters in Vevey, Switzerland last year.

The session was led by Nestlé Chair, Paul Bulcke, with whom LAPFF met last year. The Forum asked a question about whether Nestlé had reaped benefits from participation in RE100, the initiative aimed at encouraging companies to adopt renewable energy alternatives. Nestlé's response suggested that there was little awareness of this initiative, let alone the fact that Nestlé is a signatory.

Consequently, the Forum is concerned about some greenwashing on the company's part and has written to request a one-on-one meeting.

Delta

A call was held with representatives of Delta Airlines to assess Delta's likely response to the shareholder resolution filed on lobbying and what steps the company is willing to take to ensure lobbying is Paris compliant.

Company representatives wanted the requisitionists to withdraw the resolution, but it was considered further conversations needed to be had and withdrawal of resolution would have to be on evidence of company progress. Given that currently, over 70 aviation companies are planning the first flight of electric air vehicles by 2024, LAPFF asked why neither the company nor trade-body literature referred to electric flights in any scenario planning or R&D spend up to 2050. It seemed this was outside the scope of their knowledge.

LAPFF remains in contact with the lead filer, currently the resolution remains on the ballot and next steps are to request a board level meeting.

Rio Tinto

In a meeting with the Rio Tinto chair with other Climate Action 100+ investors, LAPFF sought to assess progress since the 2019 AGM as to whether the company has looked at 'innovative ways in which to influence scope 3 emissions and start implementing related targets'.

Simon Thompson, the chair clearly outlined a number of measures by which scope 3 emissions were being influenced. At a previous meeting with him in 2019, LAPFF had asked what the company could do to develop partnerships with industries they supplied. At this meeting, he reported that partnerships had drawn them closer to Chinese, Japanese

VOTING ALERTS

Santos

With AGM season ramping up, the Forum issued a voting alert for Australian oil and gas producer, Santos. As with BHP and ANZ, Santos is facing two resolutions, one to amend its constitution to allow for a second resolution on climate lobbying. The Forum's recommendation was to support both resolutions. There is also a third recommendation to vote in favour of a resolution on disclosure in line with Paris Agreement goals.

COMPANY ENGAGEMENT

and South Korean steelmakers. To set company-wide targets was difficult as in many instances it is even hard to quantify scope 3 emissions, for example for a Chinese steel plant.

A shareholder resolution on company lobbying has been withdrawn, but one on setting scope 3 targets remains on the ballot.

POLICY ENGAGEMENT

Financial Reporting Council

LAPFF had a meeting with Sir Jon Thompson, the new CEO of the FRC which is to be renamed ARGA ('Audit Reporting and Governance Authority'). Reliable accounts has been a long standing strand of LAPFF's work. The discussions covered issues relating to audit, accounting standards and pooled voting. Sir Jon indicated that the new body would be up and running in statutory form by September 2022. On accounting standards ('IFRS') the new model for endorsement of new standards will be under the UK Secretary of State at BEIS. The FRC itself will not have a view. A new body – the UK IFRS Endorsement Board – will take on this role and will share office with the FRC but be operationally independent. On the Brydon Review of audit, Sir Jon indicated that the government is minded to accept all recommendations, around fifty in total. As this is an area that will require legislation matters, it will need to be monitored by LAPFF carefully. Issues regarding pooled voting and disclosure of fund manager votes were also discussed. A summary was sent to LAPFF members as a member briefing.

CEO of the FRC, Sir Jon Thompson

SEC Shareholder Resolution Consultation

LAPFF submitted a response to the SEC consultation on whether to change the rules relating to the filing of shareholder resolutions. The proposed rules are significantly more stringent than those that already exist, and there is concern that if they are enacted they will shut down this engagement mechanism for investors.

COP 25-26 Climate Finance Agenda

In February, a LAPFF representative participated in a second investor discussion and strategizing day on the COP 25–26 Climate Finance Agenda, the first being in November 2019. Hosted by CCLA, it included communication with Nigel Topping, the UK's 'High Level Climate Action Champion', representatives from IIGCC and the PRI as well as a range of other investors and stakeholders.

New Zealand Climate Consultation

LAPFF responded to the New Zealand Government consultation on their proposal to mandate companies to report in a consistent and defined manner how climate change impacts their business and investments.

OECD Tax Letter

LAPFF signed onto an investor letter submitted to the OECD on its base erosion and profit sharing (BEPS) plan related to tax transparency. The letter was supported by investors representing investments totalling $847 billion in assets under management. This response noted the increased risk for companies and investors in failing to uphold responsible and transparent tax practices.

MEDIA COVERAGE

FRC Stance on Climate, UK watchdog to scrutinize how companies, auditors calculate climate risk, Reuters 20 February 2020

Putting climate change on the balance sheet, economia, 2 March 2020

Tailings Dam Delegation

Institutional investors' delegation to visit tailings dam communities, IPE, 24 January 2020

NETWORKS AND EVENTS

The Death Knell of the Zombie Investor and The Rise of Stewardship

Speakers from DWS and CREATE-Research presented the second edition of the DWS-sponsored CREATE report that surveyed 127 pension funds globally in 20 countries on pension fund approach to stewardship. The participants hold combined assets under management of £1.9 trillion. This report looked in detail at the pension industry's approach to stewardship in the passive context, with 98% of respondents regarding stewardship as 'important' or 'very important'.

Sovereign Debt and ESG

LAPFF agreed this year to explore whether to engage with asset classes other than equities. This webinar provided a look at how sovereign bonds can and should be used to promote the ESG agenda. It was pointed out, for example, that the bond market is ten times the size of the equities market. A subsequent seminar - right climate for fixed income sustainability – looked more specifically at sovereign bonds and how investors can hold countries to account for their policies and practices on climate.

Fidelio Overture: 2020 Climate Challenge - Is the Board Prepared?

This roundtable examined 'the role of automotives in the Extinction Rebellion World'. It looked at how diversity and innovation can contribute to the industry's response to climate change. There was discussion on: how the industry can promote fair and diverse hiring, the impact of technology on the automotive industry, and how the automotive industry can play a formative role in tackling climate change.

UK Energy Breakfast Seminar

This seminar explored what net zero by 2050 means for UK energy & fuels. The response by the UK energy markets included input from British Independent Utilities followed by a panel discussion and Q&A with Catapult & Electric Vehicle Energy Taskforce, E3G, BEIS Committee on Climate Change and British Independent Utilities.

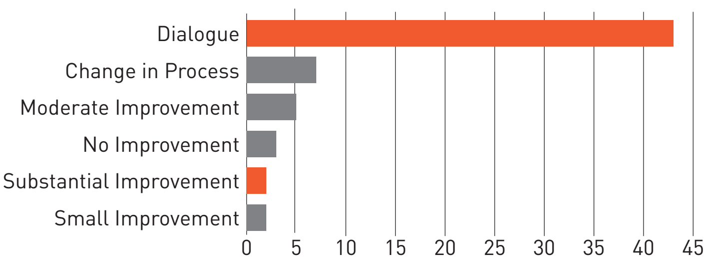
COMPANY PROGRESS REPORT

The Forum undertook 55 engagements with 36 companies over the quarter

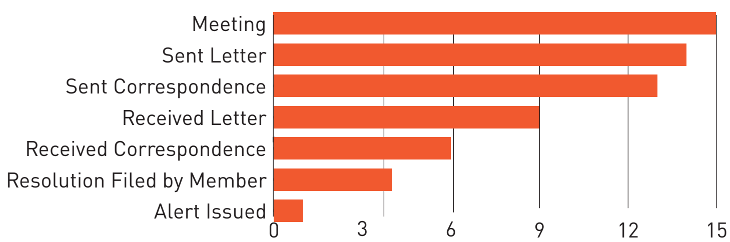
Company	Collaboration	Activity	Topic	Outcome	Position Engaged	Domicile
AIA GROUP LTD		Sent Correspondence	Climate Change	Dialogue	Chairperson	HKG
ALLIANZ SE		Sent Correspondence	Climate Change	Dialogue	Chairperson	DEU
ALPHABET INC		Resolution Filed by Member/Received Correspondence	Employment Standards	Dialogue/ Change in Process	Chairperson	USA
AMAZON.COM INC.		Alert Issued	Human Rights	Dialogue	Specialist Staff	USA
ANGLO AMERICAN PLC		Received Correspondence	Human Rights	Dialogue	Chairperson	GBR
ANZ-AUSTRALIA & NEW ZEALAND BANK		Meeting	Climate Change	Dialogue	Chairperson	AUS
ARCELORMITTAL SA		Sent Letter	Climate Change	Substantial Improvement	Specialist Staff	LUX
AVIVA PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
AXA		Sent Correspondence	Climate Change	Dialogue	Chairperson	FRA
BARCLAYS PLC		Meeting	Climate Change	Change in Process	Chairperson	GBR
BERKSHIRE HATHAWAY INC.		Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
BHP GROUP PLC	CA100+	Meeting	Climate Change	Small Improvement	Specialist Staff	GBR
BLACKROCK INC		Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
CHEVRON CORPORATION		Received Correspondence	Climate Change	No Improvement	Specialist Staff	USA
CHIPOTLE MEXICAN GRILL INC		Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
CRH PLC		Received Correspondence	Climate Change	Moderate Improvement	Chairperson	IRL
DELTA AIR LINES INC		Resolution Filed by Member/Meeting	Climate Change	Dialogue	Chairperson	USA
DOMINO'S PIZZA INTERNATIONAL	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
FRASERS GROUP PLC		Received Correspondence	Governance (General)	No Improvement	Exec Director/CEO	GBR
HSBC HOLDINGS PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
LEGAL & GENERAL GROUP PLC		Meeting	Climate Change/ Audit Practices	Dialogue/ Substantial Improvement	Chairperson	GBR
LLOYDS BANKING GROUP PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
MARKS & SPENCER GROUP PLC		Meeting	Environmental Risk	Small Improvement	Specialist Staff	GBR
MCDONALD'S CORPORATION		Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA
MUENCHENER RUECK AG (MUNICH RE)		Sent Correspondence	Climate Change	Dialogue	Chairperson	DEU
NESTLE SA		Meeting	Governance (General)	Dialogue	Chairperson	CHE
PRUDENTIAL PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
RESTAURANT BRANDS INTERNATIONAL INC	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	CAN
RIO TINTO GROUP (GBP)		Meeting	Climate Change	Moderate Improvement	Chairperson	GBR
STANDARD CHARTERED PLC		Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
THE BOEING COMPANY		Received Correspondence	Governance (General)	No Improvement	Chairperson	USA
TOTAL SA	CA100+	Sent Correspondence	Climate Change	Dialogue	Chairperson	FRA
NATIONAL GRID PLC		Sent Correspondence	Climate Change	Dialogue	Specialist Staff	GBR
VALE SA		Received Correspondence	Human Rights	Dialogue	Chairperson	BRA
WENDY'S INTERNATIONAL	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	GBR
YUM! BRANDS INC.	CERES + FAIRR	Sent Correspondence	Environmental Risk	Dialogue	Exec Director/CEO	USA

ENGAGEMENT DATA

MEETING ENGAGEMENT OUTCOMES



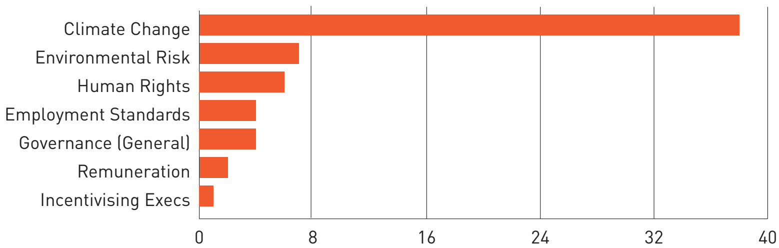
ACTIVITY



ENGAGEMENT DATA

COMPANY DOMICILES

ENGAGEMENT TOPICS



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Individual Member Funds
Avon Pension Fund
Barking and Dagenham Pension Fund
Barnet Pension Fund
Bedfordshire Pension Fund
Bexley Pension Fund
Brent Pension Fund
Cambridgeshire Pension Fund
Camden Pension Fund
Cardiff & Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation Pension Fund
Clwyd Pension Fund (Flintshire CC)
Cornwall Pension Fund
Croydon Pension Fund
Cumbria Pension Fund
Derbyshire Pension Fund
Devon Pension Fund
Dorset Pension Fund
Durham Pension Fund
Dyfed Pension Fund
Ealing Pension Fund
East Riding Pension Fund
East Sussex Pension Fund
Enfield Pension Fund
Environment Agency Pension Fund
Essex Pension Fund
Falkirk Pension Fund
Gloucestershire Pension Fund
Greater Gwent Pension Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney Pension Fund
Hammersmith and Fulham Pension Fund
Haringey Pension Fund
Harrow Pension Fund
Havering Pension Fund
Hertfordshire Pension Fund
Hounslow Pension Fund
Islington Pension Fund
Kingston upon Thames Pension Fund
Lambeth Pension Fund
Lancashire County Pension Fund
Leicestershire Pension Fund
Lewisham Pension Fund
Lincolnshire Pension Fund
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire Pension Fund
Northumberland Pension Fund
Nottinghamshire Pension Fund
Oxfordshire Pension Fund
Powys Pension Fund
Redbridge Pension Fund
Rhondda Cynon Taf Pension Fund
Shropshire Pension Fund
Somerset Pension Fund
South Yorkshire Pension Authority
Southwark Pension Fund
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk Pension Fund
Surrey Pension Fund
Sutton Pension Fund
Swansea Pension Fund
Teesside Pension Fund
Tower Hamlets Pension Fund
Tyne and Wear Pension Fund
Waltham Forest Pension Fund
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Westminster Pension Fund
Wiltshire Pension Fund
Worcestershire Pension Fund

Pool Company Members
Border to Coast Pensions Partnership
Brunel Pensions Partnership
LGPS Central
Northern LGPS
London CIV
Wales Pension Partnership

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Appendix 4

Brunel Update Report

1. Governance:

1.1 COVID impact is covered elsewhere on the agenda.

1.2 Brunel Oversight Board (BOB) has met once since the November 2019 update report. BOB meeting minutes will be circulated to members when received. The next BOB meeting is 25 June 2020.

1.3 Client Group (CG) is meeting twice a month with focus on data for final accounts and annual reports, BAU and investment markets environment.

1.4 CG and BOB are receiving quarterly performance and KPI reports. Any issues of concern will be referred to Committee.

1.5 James Russell-Stracey has been appointed Chief Stakeholder Officer and is now in post. He will work closely with CG and BOB and the Brunel Board to strengthen the partnership.

1.6 Mark Mansley the CIO resigned in May. The recruitment process has commenced.

1.7 The 2020/21 Business Plan and Budget was approved by Shareholders at the 2020 AGM.

1.8 Verbal updates will be given at the meeting.

2. Investments:

2.1. No assets transferred in 1Q20.

2.2. Assets that have transitioned now total £2.2bn:

Brunel portfolio	Value at 31/03/20	Transitioning Mandates/Managers	Date transitioned
Passive Equities	£497m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£150m	UK Equities - TT Int'l	Nov 2018
Emerging Market Equities (EM)	£196m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£378m	Global Equities - Schroders	Nov 2019
Risk Management Strategies[1]	£978m	Blackrock LDI & EPS	Oct 2019

[1] Brunel only appoint manager for the RM strategies; Avon retain responsibility for all other aspects.

2.3. In addition, Brunel invests £69m in Secured Income assets and £24m in Renewable Infrastructure on behalf of the Fund.

2.4. The transition plan is slightly delayed due to COVID with transitions planned for 2Q20 delayed due to market volatility. These will proceed once market conditions stabilise so that transition costs can be contained.

2.5. Exempt Appendix 6 provides an updated summary of fee savings and transition costs following these two transitions.

2.6. In 1Q20 Brunel published its Climate Change Policy which sets out the ambition for the pool and clear objectives for investment managers and investee companies.

2.7. Avon's project plan for the transition of assets includes a Risk Register of risks specific to the transition for Avon. Due COVID the risk rating of a delay in the transition timeline has increased to high.

3. Operational/Financial:

3.1. BOB reviews the business update report from Brunel 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 2019/20 is an underspend of £1.6m with £685k being carry forward to 2020/21 (for delays in projects and timing adjustments), leaving an underspend of £937k.

3.2. The budget for 2020/21 is within the cost envelope agreed as part of the 2019/20 Business Plan. It includes the appointments of the new CEO and CSO and an increase in resources to support the Responsible Investment service provision for clients.

3.3. Brunel is reviewing its level of regulatory capital to ensure it continues to meet FCA rules and will take its conclusions to BOB for consideration in due course.

3.4. The Business Case for pooling is updated following each transition, once fees and costs are known, and is reviewed by CG. A high-level review of the Original Business Case (OBC) is done annually, the next due post 31/03/20. To date only 5 equity portfolios have transitioned: UK, passive, Low Volatility, Emerging Markets and Global High Alpha. The savings and transition costs realised to date are ahead of the budget (i.e. fee savings are greater than estimated; transition costs are lower than expected). Following Avon's transition to each portfolio, the Committee is provided with an update on fee savings and transition costs (see Exempt Appendix 6).

3.5. There are no changes to the Avon Brunel Risk dashboard.

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 679/20

Meeting / Decision: Avon Pension Fund Committee
Date: 26 June 2020

Author: Nathan Rollinson
Report Title: Investment performance and strategy monitoring (for periods ending 31 March 2020) **List of attachments to this report:** Appendix 1 – Fund Valuation Appendix 2 – Mercer Annual Investment Review Appendix 3 – LAPFF Quarterly Engagement Monitoring Report Appendix 4 – Brunel update **Exempt Appendix 5** – Pooling transition costs & savings update

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: 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 appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

<u>PUBLIC INTEREST TEST</u>

If the Panel 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 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 Panel 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:	**26 JUNE 2020**	**AGENDA ITEM NUMBER** **11**
TITLE:	**DRAFT REVISED INVESTMENT STRATEGY STATEMENT**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Investment Strategy Statement		

1 THE ISSUE

1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), state that the Investment Strategy Statement (ISS) must be kept under review and revised from time to time particularly when there is a material change in risk and reviewed at least every three years. The current statement has been revised to include changes arising from the Fund's 2019/20 investment strategy review, specifically: increased allocations to private market assets, the development of climate change objectives and ensuing changes to the Fund's equity allocation. Updates have also been made to sections covering the Fund's risk management strategies and pooling.

1.2 The Regulations state that the administering authority must consult on the ISS as appropriate. The Pension Board will review the draft ISS for compliance with the regulations and a wider consultation will be done with scheme employers. Consultation responses will be considered by the Committee before agreeing the final version at the September 2020 Committee meeting.

2 RECOMMENDATION

That the Avon Pension Fund Committee:

2.1 **Approves the draft Investment Strategy Statement for consultation, noting that:**

(i) The ISS has been prepared in line with the statutory requirements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance.

(ii) The ISS has been updated to reflect changes to the Fund's investment strategy following the 2019/20 investment strategy review.

(iii) A copy of the draft Statement will be published on the Fund's website.

3 FINANCIAL IMPLICATIONS

3.1 This report contains no direct financial implications.

4 INVESTMENT STRATEGY STATEMENT

4.1 To comply with the regulations and guidance, the ISS must include:

a) A requirement to invest money in a wide variety of investments;

b) The assessment of the suitability of particular investments and types of investments;

c) The approach to risk, including the ways in which risks are to be measured and managed;

d) The approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The policy on the exercise of rights (including voting rights) attaching to investments.

5 CHANGES TO THE ISS

5.1 The key changes are:

a) Updates to reflect the Fund's approach to climate change and the resultant increase in the allocation to sustainable equities and renewable infrastructure and the setting of climate objectives aligning the investment strategy with the Paris Agreement goals.

b) The increased strategic allocation to private market assets and the income generative and risk diversification benefits that result.

c) Updated wording around the Fund's risk management strategies, reflecting the extension of its equity protection strategy to encompass emerging market equities and the implementation of its low risk corporate bond strategy.

5.2 The draft ISS at Appendix 1 replaces the existing ISS which was last reviewed and updated in December 2018 and once approved, will be published on the Fund's website.

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 in line with the Council's Climate Strategy. 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 and Sustainable 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	Liz Woodyard, Investments Manager; Nathan Rollinson, Assistant Investments Manager (Tel: 01225 395357)
Background papers	DCLG guidance on preparing and maintaining an investment strategy statement (September 2016) and associated guidance: https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement
Please contact the report author if you need to access this report in an alternative format	

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Investment Strategy Statement 2020

Introduction

1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the Avon Pension Fund (the Fund) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. This statement updates and replaces the December 2018 ISS and incorporates changes arising from the 2019/20 strategic investment review.

1.2 The purpose of the ISS is:

- To set out the governance arrangements for investment
- To set out the Fund's investment objectives
- To define the fund's investment beliefs
- How the Fund will manage investment -related risks
- How the Fund incorporates responsible investment
- To set out the strategic asset allocation benchmark and ranges to provide flexibility

1.3 As stated above, the ISS outlines the Fund's approach to Responsible Investment (RI), how RI is integrated into the investment decision making process and how the Fund fulfils its role as a responsible steward of its assets. Particular attention is given to the Fund's immediate and long-term ambitions around climate change. The strategy acknowledges there is a need to address the impact of climate change on its investment assets and capture new sources of return that will arise from the transition to a low carbon economy. However, it also acknowledges that the investment products required are not yet fully developed. In addition, the policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a lower carbon world. It therefore has set clear objectives with milestones that will be delivered through its relationship with Brunel Pension Partnership to ensure that the investment portfolio is aligned with the Paris Agreement within a realistic timeframe.

1.4 The ISS is supported by the Funding Strategy Statement (FSS) as well as a broader framework of policies in investments, most notably those relating to Risk Management and Responsible Investment. An integrated approach ensures the investment strategy supports the Fund in meeting its regulatory requirements.

1.5 The ISS is subject to a review at least every three years and from time to time on any material changes to any aspects of the Fund which are judged to have a bearing on the stated investment strategy. Ongoing quarterly and annual monitoring of the strategy enables the Committee to take advice as to whether a review is needed at any time.

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

Investment Governance Framework

1.7 The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the **Avon Pension Fund Committee** (the Committee), which is its formal decision-making body. Members of the Committee represent a cross section of the Fund's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.

1.8 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to Officers.

1.9 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.

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

2. Approach to Pooling

2.1 The Fund participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. Brunel Pension Partnership Limited (Brunel) authorised by the Financial Conduct Authority (FCA) has been established specifically to manage the assets within the pool. Brunel is owned by the ten administering authorities (in equal shares) that participate in the pool. These pooling arrangements meet the requirements of the Regulations and Government guidance.

2.2 The Avon Pension Fund retains responsibility for setting the strategic asset allocation for the Fund and allocating assets to the portfolios provided by Brunel. Brunel is responsible for implementing the asset allocations of the participating funds (the 'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it selects the external managers or pooled funds required to meet the investment objective of each portfolio. Brunel creates collective investment vehicles for quoted assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.

2.3 As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Avon Pension Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

2.4 The pool has established governance arrangements. 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 responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it considers relevant matters on behalf of the administering authorities but does not have delegated powers to take decisions requiring shareholder approval. These are remitted back to each administering authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

2.5 Brunel Oversight Board is supported by the Client Group, comprised investment officers drawn from each of the administering authorities but also draws on finance and legal officers as required. It has a primary role in managing the relationship with Brunel, reviewing the transition of assets to the portfolios, providing practical support to the Brunel Oversight Board so it can fulfil its monitoring and oversight function and monitoring Brunel's performance and service delivery. The Committee and Investment Panel receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

2.6 Bath & North East Somerset Council approved the full business case for the Brunel Pension Partnership in 2017. The transitioning the Fund's assets to Brunel's management is expected to be completed (except for legacy private market assets) during 2021/22. The transition timetable agreed between the clients and Brunel is regularly monitored by the Client Group. Until such time as assets transition, the Fund will maintain its relationship with existing investment managers and oversee their investment performance, working in partnership with Brunel where appropriate.

2.7 Following the completion of the transition plan, it is intended that all of the Avon Pension Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid private market and fund of fund investments which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated and capital is returned. The formulation, implementation and ongoing monitoring of the Fund's risk management strategies (e.g. Liability Driven Investing and Equity Protection) remain the responsibility of the Fund and its specialist advisors. Brunel acts as facilitator working with the manager, under a broad commercial agreement covering the manager's key terms.

3. Investment Beliefs

3.1 The Fund is a long-term investor whose aim is to deliver financially sustainable returns to meet the future pension benefits of its members. The Committee has a fiduciary duty to act in the best interest of the Fund's members. This includes managing Environmental, Social and Corporate Governance ('ESG') issues that may be financially material to the Fund.

3.2 The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.

- **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.
- **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.
- **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
- **Long term approach to investing.** The strength of the employer covenant[1] and funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long-term view of investment strategy.
- **Environmental, Social and Governance factors** are important drivers of the sustainability of investment returns over the long term and they can have a material financial impact if not managed appropriately.
- **Climate change.** The Fund believes climate change creates both risks and opportunities to the Fund's investments and has used an evidence-based approach to develop a set of objectives with the aim of delivering a portfolio aligned with the goals of the Paris Agreement. Key milestones that review the progress made over time ensure the Fund continues to work towards its medium-term and long-term objectives.
- **Diversification of assets is an important element of the risk management framework.**
- **Active management can add value to returns, albeit with higher short-term volatility.**
- **Value for money from investments** is important, in terms of net returns. Asset pooling is expected to help reduce costs over the long term, whilst providing more choice of investments, and therefore have the potential to enhance Fund returns.

4. Investment Objective

4.1 The Fund's investment objective is to achieve a return on assets consistent with an acceptable level of risk that will enable the Fund to meet its pension

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

liabilities over time, that is, to achieve 100% funding in line with the Funding Strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating return consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

4.2 The investment strategy is reviewed at least every three years to reflect the changing liability profile of the Fund. In the recent review, the assessment by the Fund’s investment consultant generated a best estimate average expected return of CPI+2.5% per annum based on the current investment strategy. When setting the funding strategy a margin for prudence is taken on this return expectation; implementation of the risk management strategies (see Section 7) to reduce the volatility of returns within the investment strategy supports a lower margin for prudence. To achieve 100% funding for the 2019 valuation, a minimum return of CPI+1.75% per annum (the discount rate) over 13 years was assumed in the Funding Strategy. For future benefit accruals an investment return of CPI+2.25% per annum is assumed.

4.3 The Fund adopts a more prudent lower risk investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities. These assets are invested in a portfolio that is designed to better match the risk profile of the employer’s liabilities and reduce volatility in employer contributions.

5. Investment strategy

5.1 The Fund’s Investment Strategy is set based on an appropriate balance between generating a satisfactory long-term return whilst taking account of market volatility and risk and the long-term nature of the liabilities. The framework is structured to be flexible enough to take advantage of short-term opportunities to achieve its strategic return targets whilst fulfilling its fiduciary duty to members.

5.2 The Fund has implemented a number of risk management strategies which seek to provide more certainty of achieving the required real investment return (in excess of inflation) and protect against volatility in the funding position. These strategies are designed to provide more certainty to the funding plan and greater stability in employer contributions (see section 7 for more detail).

5.3 The investment strategy was reviewed in 2019/20 and the review considered:

- An analysis of the medium- and long-term risks facing the Fund, including consideration of different economic and market scenarios.
- A cashflow budgeting exercise designed to assess the level of ‘illiquidity premium’ the Fund could reasonably be expected to capture.
- Evidence-based climate change modelling designed to inform long term objectives and targets relating to climate change and the

direction of travel for investment in alternative energy and low carbon solutions.

5.4 Following this review, a number of strategic changes were agreed as follows:

a) To address the climate emergency:

- Setting clear targets to ensure that the portfolios are aligned with the Paris Agreement ambition to limit global warming to below 2°C
- Increase the target allocation to renewable infrastructure by 2.5% to 5% of assets
- Increase the allocation to sustainable equities to 10% of assets

b) To better meet future cashflow requirements through asset income and further diversify the sources of growth in the portfolio:

- Increase the target allocation to Secured income by 2.5% to 10% of assets
- Allocate 5% of assets to Private Debt

5.5 The proposed changes were reassessed in April 2020 given the Coronavirus pandemic and the ensuing market volatility, which concluded that the revised long-term strategy and asset allocation remained appropriate. The longer-term impact arising from the pandemic will be kept under review. In order to manage any potential cash flow pressures as a direct result of the market volatility the allocations to private markets strategies will be phased in over the medium-term to mitigate liquidity risk.

5.6 Currently 37.5% of assets are allocated to equities of which 20% is targeted to be invested in sustainable and low carbon equities. The Fund's longer-term ambition is to invest all equity assets in sustainable and low carbon equities; however further analysis is required to assess the overall viability of making such a change and the impact on risk and return it is likely to have on the portfolio.

5.7 The investment cycle for private market assets means that commitments are drawn down over an extended timeframe. As a result, progress in reaching the target allocation for the private market assets and the consequent decrease in the existing allocations to liquid growth strategies will depend upon Brunel in identifying suitable investments, and on the pace of the subsequent draw down of capital.

5.8 The strategic framework includes a target allocation against which strategic performance is monitored by Committee. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to manage cash flow. The ability to periodically rebalance asset holdings enables the Fund to effectively implement risk management strategies such as liability-driven investments, equity protection strategies and currency hedging which require collateral to be posted in order to maintain the desired level of risk reduction.

5.9 The Fund's long-term asset allocation following the 2019/20 review, along with an overview of the role each asset plays, is set out in Appendix 1.

6. Suitability of Investments

6.1 The Fund invests across a diversified portfolio of assets and strategies including quoted equity, government and non-government bonds, derivatives for the purpose of efficient portfolio management and to hedge specific risks and less liquid private market assets such as infrastructure, property and private debt.

6.2 As the liability profile of the Fund matures, the Fund has begun to increase its exposure to assets that better match the cash flow profile of its liabilities. The allocations to secure income, renewable infrastructure and private debt exploit alternative sources of return and generate more income to improve cash flow to provide greater stability in contribution rates. Secure Income and some infrastructure assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.

6.3 The outcome of the 2019/20 investment strategy review was to maintain the allocation to equities but, within equities, increase the allocation to global sustainable equities to 10% of assets and keep the allocation to low carbon equities. Sustainable equity portfolios seek to maximise exposure to positive pursuit companies which provide solutions to sustainability issues whilst maintaining financial returns.

6.4 The review used climate change scenario modelling to assess the financial and non-financial impact of investing on a sustainable and low carbon basis. It concluded that allocating to sustainable and low carbon equities can capture a low carbon transition 'premium' under various climate change scenarios and displays no materially greater level of downside risk versus broader equity allocations.

6.5 The review also analysed the reduction in carbon emission and reserves across the spectrum of investment approaches from fully invested to fossil free portfolios. The Fund concluded that low carbon strategies that significantly reduce exposure to fossil fuel reserves and carbon emissions across all companies, combined with robust engagement with companies regarding their climate strategies, is currently a more effective approach to meeting the Fund's climate objectives.

6.6 The portfolios offered by Brunel will typically consist of a number of underlying managers that will have complementary investment styles and approaches to investing. This results in highly diverse portfolios, carefully structured to manage stock specific risk as well as underlying manager, investment style and other financial risks.

6.7 Currently Brunel directly manages 30% of the Fund's assets across its Low Carbon passive equity portfolio, its actively managed UK, Emerging Market and High Alpha equity portfolios and private markets portfolios. A further 20% of assets relating to the Fund's risk management strategies are governed by Brunel legal agreements.

6.8 The current investment structure includes passively managed assets that deliver the market return by replicating the index in a cost and implementation efficient manner as well as actively managed assets where managers use their skill to enhance the market return and manage risk, to a greater or lesser extent.

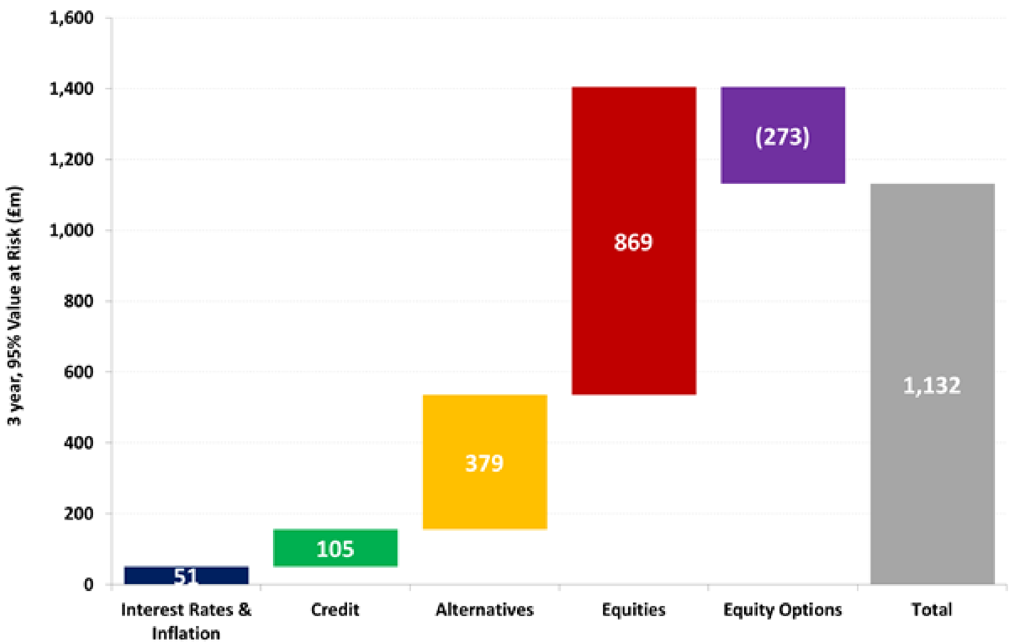
6.9 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) Policy including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.

Details of the current investment management structure can be found in Appendix 2.

7. Risk Measurement and Management

7.1 The risk and return profile of the assets is measured against the strategic objective and considered in the context of the Fund's capacity as a long-term investor. The overall risk is that the Fund's assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and affordability.

7.2 The graph below provides an indication of the main sources of investment risk to the funding position, as measured using three-year Value-at-Risk (VaR) based on the funding position and asset allocation as at 31 March 2020. This estimates how much the funding deficit could increase over a three-year period with a 1-in-20 probability.



7.3 The graph shows that if a 1-in-20 downside event occurred, in three years' time the deficit would be expected to increase by at least an additional

£1,132m on top of the expected deficit at that time. The changes to the long-term investment strategy that were agreed following the 2019/20 review are expected to reduce the 3-year VaR by £25-30m. The reduction in risk is achieved with no impact on the average expected return of CPI+2.5% per annum.

7.4 Equities remain the largest source of risk. The Fund's equity protection strategy (discussed later in this section) reduces the three-year VaR number by approximately 25% (estimated by Mercer).

7.5 Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal risks affecting the Fund and the actions to mitigate those risks are set out below.

Financial Risks	Management / Control
Investment Risk - Assets do not deliver the return required to meet the cost of benefits payable by the Fund; potential drivers: • Investment market performance/volatility • Manager underperformance • Possibility the actual return generated fails to meet the Fund's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected	• Diversification - A diverse range of asset classes and approaches to investing is designed to achieve returns in a variety of market environments. By holding a range of assets that are not overly concentrated in any one area, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns • Scenario testing - carried out as part of the strategic investment review to set strategic benchmarks. Allocation 'ranges' enable tactical positions to be implemented to reflect shorter-term market outlook • Regular monitoring of manager performance - Each manager is monitored against a three-year performance target designed to highlight any inappropriate risk-taking behaviour and address factors that may impact the ability of that manager to achieve their performance target. A number of risk metrics are monitored at the portfolio level including tracking error and active risk positions • Mitigates inflation risk by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and through regular monitoring. At the Fund level Value at Risk and correlation between asset returns are monitored. Management of strategic risks such as inflation and equity market volatility are addressed through a dedicated risk management framework. See Section 7 for further information.

Asset Risk - • Liquidity risk: The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash • Exchange Rate risk: Foreign currency exposure is expected to be an unrewarded risk over the longer term • Collateral Management risk: Collateral - often cash - is required to support specific components of the investment strategy and protects all parties to a transaction from the risk of default	• Investing across a range of liquid assets recognises the Fund's need for some access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate the Fund's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so • Liquidity budgeting informs how much the Fund can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements. Following the extreme market volatility as a direct result of the Coronavirus pandemic, the Fund prioritised short-term cash flow requirements over private markets commitments, opting to phase in its commitments over the medium-term rather than commit the full long-term target amount at outset. • Foreign exchange hedging protects the sterling value of overseas investments and serves to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed equity holdings and a 100% hedge of currency risk for infrastructure, global property and hedge fund investments. In periods of sterling weakness the investment return will be lower than if the assets were unhedged • A robust and pro-active collateral monitoring process with prescribed minimum thresholds protect the fund from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call
Responsible Investment - • Environmental, Social & Governance (ESG) issues may have a material financial impact on the Fund if not given due consideration • Climate change	• Actively addresses ESG risks through implementation of its Responsible Investment Policy • Considers ESG risks as part of Strategic Investment Reviews • Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly • Is compliant with the UK Stewardship code for Institutional Investors Details of the Fund's approach to managing ESG risks are set out in Section 8 of this document.
Longevity Risk - the risk Members of the Fund live longer than assumed in the actuarial valuation model	• Captured within the funding strategy which is monitored by the Committee on at least a three-yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term

Operational /Other Risks	Management / Control
Investment Pooling - • Expected benefits and cost savings do not emerge over the long-term • Transition risks - unexpected costs or losses arising from transition of assets	• The Service Agreement sets out the duties and responsibilities of the Pool and the rights of the Fund as a client • A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met • Ongoing monitoring of performance, service delivery, costs and savings arising from pooling Details of the Fund's Pooling arrangement are set out in Section 2 of this document.
Employer Covenant Risk - Employers within the Fund lack the financial capacity to make good their outstanding liabilities	• Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in the Fund and the analysis is considered when setting the Funding Strategy • A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities
Regulatory and Political Risk - Across all of the Fund's investments there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty	• Ongoing horizon scanning and consideration on the Fund Risk Register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy • Ongoing review of the investment strategy and specific investment portfolios
Governance Risk - Committee Members do not have sufficient expertise to evaluate and challenge the advice they receive. Committee members are to possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duty	• Periodic Member self-assessment • Training framework based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds • Expert advice commissioned to support strategic and implementation decisions

Cash Flow Risk - Payments to pensioner members exceed contributions	• Investment strategy structured to generate investment income to help manage negative cash flow profile • Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy
Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded	• Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records
Counterparty risk - The possibility of default of a counterparty in meeting its obligations	• Counterparty exposure restrictions as relates to the risk management framework • Internal controls reporting and compliance monitoring

Risk Management Strategy

7.6 The Risk Management Framework encompasses three bespoke risk management strategies and a passive equity fund for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the 'Lower Risk' strategy (which includes a Buy-and-Maintain Corporate Bond Portfolio) are designed to hedge interest rate and inflation risks arising from the liabilities, whereas the Equity Protection Strategy (EPS) protects the Fund from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk the Fund by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the funding position.

7.7 The strategies are reviewed annually to assess whether a material change in market conditions requires an adjustment to any of the strategies to ensure they still meet the strategic objectives. This review also considers the ongoing the collateral requirements. Quarterly monitoring of the risk management strategies is delegated to the Investment Panel which considers collateral adequacy, the performance of the strategies and performance of the fund manager.

Liability Driven Investment Strategy (LDI)

7.8 The objective of the LDI strategy is to reduce volatility in the funding level by increasing exposure to lower risk assets that better match the value of the liabilities. At this time, the Fund cannot reduce its exposure to higher return growth assets (e.g. equities) and use the proceeds to purchase lower return, 'liability matching' assets (e.g. Index-Linked Gilts), as the expected future return on the assets held would fall short of the assumptions built into the funding plan. The LDI strategy allows the Fund to retain its allocation to growth assets and simultaneously increase its exposure to 'matching' assets through the use of repurchase agreements (a form of borrowing in capital markets) and/or derivatives, such as interest rate and inflation swaps[2].

7.9 In order to meet the assumed investment return in the funding strategy, the LDI strategy includes predetermined ‘real yield’ triggers, where exposure to ‘matching’ assets is only increased when they pay a sufficiently high yield to meet the Fund’s requirements. The ‘real yield’ triggers are a combination of triggers on nominal interest rates, that is the risk-free interest rate attached to conventional Government bonds (gilts), plus triggers on the market expectation for future inflation rates.

Lower Risk Investment Strategy

7.10 This lower risk investment strategy invests in corporate bonds structured to match the liabilities of the employers within it. The liabilities relating to this strategy are valued using the discount rate linked to the yields on the corporate bonds held within the portfolio. The strategy benefits from the inflation hedging undertaken within the LDI portfolio, resulting in greater stability of any funding deficit and therefore contributions for employers.

Equity Protection Strategy (EPS)

7.11 The EPS is underpinned by the funding level and protects against significant falls in developed and emerging equity markets. In order to structure the downside protection efficiently in terms of absolute protection levels and minimise transaction costs, equity gains are capped at c.9% (plus dividend income over the period the protection is in place) from the absolute market levels at which the protection strategy was struck.

Role of Collateral in Risk Management Framework

7.12 The risk management strategies are held in a Qualified Investor Fund (QIF), bespoke to the Fund, enabling collateral management to be delegated to the investment manager. The LDI and EPS both use derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis. This protects all parties to a transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.

7.13 To reduce the risk of the Fund having to sell assets at short notice if more collateral is required, a passively managed pooled equity fund is held within the QIF. The manager of the QIF will sell units in this equity fund and purchase eligible collateral (gilts or cash) to meet collateral obligations when they arise. When the investment manager sells assets to meet collateral requirements, derivatives will be used to replicate the lost physical equity exposure so that the strategic allocation to equities is maintained.

Risk Management Strategy under Pooling

7.14 The Fund retains responsibility for strategic and operational aspects attached to its risk management strategies and seeks advice from its

[2] An inflation swap is a contract used to transfer inflation risk from one party to another through an exchange of cashflows. An interest rate swap is a contract to exchange a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates.

investment advisors on the suitability of the risk management strategies. The pooling arrangement allows the Fund to determine a bespoke strategy for LDI, EPS and the low risk investment portfolio to meet its risk management objectives. Brunel does not advise on the suitability of investments made for the express purposes of efficient portfolio risk management.

7.15 Brunel contracts with the investment manager to set out the basis on which the manager will offer its services to client funds within the pool. This enables Brunel to access information so they can monitor the manager and delivery of services to clients. Clients also benefit from increased economies of scale and negotiated fee structures arising from the Brunel agreement.

8. Responsible Investment (RI)

RI Principles

8.1 The Fund has a Responsible Investing (RI) Policy where it defines RI as the integration of Environmental, Social and Corporate Governance (ESG) issues into its investment processes and ownership practices in the belief this can positively impact financial performance. The RI Policy supports the wider investment strategy and seeks to understand and manage ESG and reputational risks to which the Fund is exposed. The full policy is available at the following link:

https://www.avonpensionfund.org.uk/sites/default/files/RIP2016.pdf

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

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

8.3 The Fund's policy is to integrate RI across its investment decision-making process for the entire portfolio. When setting the investment strategy and objectives the analysis includes the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value. Scenario modelling is used where available to assess the financial risks for example, the impact of climate change scenarios on changes to asset allocation.

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

8.5 The RI Policy allows the Fund to consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to the Fund and where it can reasonably conclude that members would support the decision.

Climate Change

8.6 The Fund recognises that Climate change presents an immediate systemic and material financial risk to the Fund, as well as society more broadly. It is a strategic investment priority for the Fund and as well as developing proprietary climate change objectives, the Fund has supported Brunel in the development of its comprehensive and market leading Climate Change Policy, which sets out how they manage these risks across all of their activities. The full policy is available at the following link:

https://www.brunelpensionpartnership.org/climate-change/

8.7 The Fund considers the financial and non-financial risks of climate change when setting strategy and has set targets to ensure that the portfolios are aligned with the Paris Agreement ambition to limit global warming to below 2°C by 2050, specifically:

(1) Implement a <2^0C aligned portfolio by committing to net zero emissions by 2050 or earlier. This will be achieved by working with Brunel using the results of the industry wide project being undertaken to assess what each 2^0C asset portfolio will look like. Expect to review the findings in line with the global stocktake timeline in 2022/23.

(2) Reduce the carbon intensity of the portfolio over time with the aim of being 30% less carbon intensive by 2022.

(3) Invest sustainably to support a 'just transition[3]' to the low carbon economy with the aim of investing at least 30% of the total assets in sustainable and low carbon investments by 2025.

(4) Use the Fund's power as a shareholder to encourage change. Financial markets and companies urgently need to adapt their activities to support the transition to a low carbon economy. Collaboration as part of Brunel Pension Partnership makes our

[3] A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement. The concept builds on well-established global frameworks in terms of climate change, human rights, labour standards and inclusive growth. It focuses attention on the need to anticipate and manage the social and economic implications of the shift to a low-carbon economy and the increasing physical impacts of climate change.

influence more powerful as they manage a £30bn pool of assets. In addition, the Fund will independently support investor led initiatives such as ClimateAction100+ and Institutional Investors Group on Climate Change to increase pressure on companies and governments to align with the Paris goals. If engagement does not work ahead of the Paris Stocktake in 2023, we will consider selective divestment from laggard companies

8.8 The Fund monitors its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives.

RI and Pooling

8.9 One of the principal benefits of pooling, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship across all the Fund's assets. Brunel's Investment Principles articulate clearly its commitment and that of each client in the pool, to be responsible investors and as such recognises that ESG considerations are an integral part of portfolio construction, the selection, non-selection, retention and realisation of assets. Every Brunel portfolio explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives.

8.10 Brunel is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and accommodate the Fund's wider RI objectives and long-term asset allocation decisions. Proprietary Brunel policies covering ESG factors such as climate change, voting and stewardship have been developed in conjunction with its clients to ensure the needs of the respective client funds are adequately met in respect of RI. The Fund monitors the portfolios managed by Brunel to ensure they continue to deliver against strategy.

8.11 Brunel is a signatory to the UN backed Principles of Responsible Investment and has published a comprehensive Responsible Investment Policy. Under its policy framework Brunel publishes position statements, engagement plans, voting records and an Annual Responsible Investment and Outcomes Report. More information can be found on the Brunel website here: https://www.brunelpensionpartnership.org/responsible-investment/

Policy of the exercise of rights (including voting rights)

8.12 The FRC UK Stewardship Code (the Code) explains that "stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole." The Fund is a signatory to the Code and has outlined its approach to stewardship, including voting and engagement in its Statement of Commitment to the Code and will work with Brunel to ensure it maintains its signatory status under the Stewardship Code 2020.

8.13 The Fund believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to its investment managers including Brunel. The Fund monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, managers are required to vote in all markets and vote at all company meetings on behalf of the Fund. For legacy assets the Fund retains the right to recall stock that has been lent out under its securities lending programme to enable voting.

8.14 Brunel has a single voting policy for all assets under its management held in segregated accounts. In addition, Brunel will actively attend and vote at company meetings (AGM/ EGMs). Brunel has the right to recall stock that has been lent out in its portfolios to enable voting.

8.15 Brunel's voting and engagement service provider, Federated Hermes EOS, enables the Fund to gain access to specialist expertise and participate in a broad range of engagement themes.

8.16 Brunel will publish its voting policy and provide online voting records no less than twice a year.

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

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

Social Investments

8.19 Investments that deliver social impact as well as a financial return are often described as "social investments" which cover a wide spectrum of investment opportunities. The Fund applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy. Currently the Fund does not allocate directly to social investments.

Appendix 1 – Long-Term Asset Allocation

Asset Class	Target %	Permitted Range	Role within Strategy
Equity Portfolio	**37.5%**		
Global Equity	12.0%	7.0-17.0%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies' / income seeking, large and small market capitalisation. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets
Global Sustainable Equity	10.0%	5.0-15.0%	Seeks to maximise exposure to positive pursuit companies which provide solutions to sustainability whilst maintaining financial return. Sustainable equity portfolios comprise long-term forward-looking investment approaches which integrate ESG metrics throughout the investment process and for this reason comply with the Fund's climate change objectives and wider RI policy
Global Low Carbon Equity	10.0%	5.0-15.0%	Manages risks associated with the transition to a low carbon economy by tracking the returns of an index that assigns larger weights to companies with low carbon emissions. The index reflects a lower carbon exposure than that of the broad market and represents an approach consistent with the Fund's climate change objectives
Emerging Markets Equity	5.5%	3.0-9.0%	Possess characteristics such as rapid growth, illiquidity premium and potential for large capital growth
Liquid Growth Assets	**16.0%**		
Diversified Growth Funds	10.0%	5.0-15.0%	Builds exposure to alternative sources of return including dynamic tactical allocation and alternative risk premia derived from factors such as value, momentum, size and quality. Provides a degree of downside protection from equity risk by actively adjusting equity market beta
Multi Asset Credit	6.0%	3.0-9.0%	Provides exposure to a diversified range of credit opportunities such as high yield, leveraged and emerging market debt with limited exposure to interest rate risk
Illiquid Growth & Income Assets	**32.5%**		

Core Property	7.5%	5.0-10%	Provides further diversification within the Growth portfolio. Includes both UK and overseas real estate as well as private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium- to long-term
Secured Income	10.0%	5.0-15%	Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These assets generate contractually secure income streams that provide greater stability of returns, explicit inflation linkage and generate cash flows over time
Core Infrastructure	5.0%	2.5-7.5%	Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered
Renewable Infrastructure	5.0%	2.5-7.5%	Provides a source of contractual income from an opportunity set that benefits from the drive toward alternative energy sources. Displays lower levels of correlation with traditional assets than other infrastructure sub-sectors. Allocation consistent with the Fund's climate change objectives
Private Debt	5.0%	0.0-7.5%	Provides a source of contractual income with minimal interest rate sensitivity, high return potential through active management and diversification away from listed public market performance. Credit risk is managed via a well-diversified portfolio with a high number of individual credits
Protection Strategies	**14.0%**		
Corporate Bonds	2.0%	No set range	Expected to generate returns commensurate with credit risk. Held to broadly match a specific portion of the liabilities
LDI	12.0%	No set range	A risk reduction tool designed to provide more certainty of real investment returns vs inflation with the ultimate aim of stabilising employer contribution rates. The primary ‘matching’ instruments used in this strategy include physical instruments such as fixed interest and index-linked Government bonds (financed through “repurchase” agreements) and derivative

			instruments such as interest-rate and inflation swaps
Equity Protection	Overlay on 100% of equity portfolio		Protects against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability in employer deficit contributions in the event of a significant equity market fall
Currency Hedging	Overlay on 50% overseas equities and 100% of alternatives		Currency hedging is employed on assets that are traded in overseas markets, in order to reduce the risk of adverse currency movements eroding returns. Asset classes where a significant portion of the return is linked to currency (e.g. emerging markets) are not hedged
Cash	**0.0%**	**0.0-5.0%**	Cash is exposed to credit risk and is generally a very low yielding asset. The Fund aims to be fully invested where possible. To efficiently manage cash the Fund uses a combination of money market funds with daily liquidity and a basket of highly liquid ETFs that are structured to replicate the return of the Fund's benchmark asset allocation
Total	**100%**		

Appendix 2 – Investment Manager Structure as at 31 March 2020

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Brunel Pension Partnership	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	11.10%	Jul-18
Brunel Pension Partnership	UK Equities	Active	FTSE All Share +2% p.a.	3.30%	Nov-18
Brunel Pension Partnership	Emerging Market Equities	Active	MSCI EM +2-3% p.a.	4.40%	Nov-19
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	8.40%	Dec-19
Brunel Pension Partnership	Secured Income	Active	CPI+2% p.a.	1.50%	Apr-18
Brunel Pension Partnership	Renewable Infrastructure	Active	CPI+4% p.a.	0.50%	Apr-18
BlackRock	Corporate Bonds	Bespoke	In line with customised benchmark	2.50%	Apr-19
BlackRock	Liability Driven Investments	Bespoke	In line with customised benchmark	6.40%	Jul-17
BlackRock	Equity Protection Strategy & Global Equities	Passive	MSCI World (for Global Equity Fund)	11.90%	Nov-17
BlackRock	Liquidity Management Strategy	Passive	In line with customised benchmark	0.90%	Feb-19
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	Active	FTSE All Share +2% p.a.	3.60%	Apr-01
Jupiter Asset Management	Global Sustainable Equities	Active	MSCI ACWI +2-4%	0.30%	Jun-18
Pyrford International	Diversified Growth Funds	Active	RPI +5% p.a.	4.80%	Nov-13
Ruffer	Diversified Growth Funds	Active	Cash +5% p.a.	8.70%	Sep-17
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of Cash+3%, or 6% p.a.	5.80%	Jul-15
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	5.10%	Feb-09
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	4.70%	Sep-09
IFM	Infrastructure	Active	Gilts +2.5% p.a.	7.40%	Sep-14
Loomis	Multi Asset Credit	Active	In line with customised benchmark	6.50%	Sep-17
Record Currency Management	Currency hedge (equity exposure)	Passive	N/A	0.50%	Jul-11
Cash (Internal)	Cash	Passive	N/A	2.10%	N/A

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 JUNE 2020**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) Overview & Summary Performance Report TO 31st May 2020** **(2) Update on Legislation** **(3) Update to Risk Register**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Update on Legislation Appendix 2a – Risk Register Appendix 2b – Risk Dashboard	

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of the performance for Fund Administration for the period up to 31st May 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23rd March 2020.

1.2 To update the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration is included in Appendix 1.

1.3 To update the current position of the Avon Pension Fund Risk Register and its top risks

2 RECOMMENDATION

The Committee is asked to Note:-

2.1 Fund and Employer performance for the period to 31st May 2020.

2.2 The current position regarding the developments that could affect the administration of the Fund.

2.3 The updated Risk Register and actions taken

3 COVID-19 AND FUND BUSINESS CONTINUITY

3.1 With the UK lockdown in place from 23rd March, the initial response from the Fund was focussed on communications, ensuring all staff officers had capability to undertake business operations remotely from home.

3.2 Secure communications were established for scheme members including the implementation of digital online tracing and member identification checking capability, mitigating the requirement for certificates to be sent by post.

3.3 Direct personal engagement with all key employers has been established and is ongoing to review and monitor ongoing business as usual capability. All other employers have been surveyed to establish BAU capabilities with no significant issues being reported at the outset.

4 GOVERNANCE

4.1 Advice and guidance for scheme administrators has been received from numerous sources since the COVID-19 outbreak, including operational guidance from the Scheme Advisory Board and the Pensions Regulator in relation to the prioritisation of critical administration work to support scheme members and dependents by focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases.

4.2 Recommended communications for members highlighting transfer risk from DB to DC schemes and the suspected increase in pension scams and fraud during the outbreak have been noted and issued.

5 EMPLOYER PERFORMANCE – YEAR END

5.1 Officers are currently engaging with employers to undertake the 2019/2020 financial year end and data reconciliation process.

5.2 Across the Funds employer portfolio; 269 employers are providing data on an automated monthly basis through i-Connect with the remaining 163 employers supplying a manual annual data return.

5.3 All required i-Connect returns up to 31st March have been received. There are 10 manual returns outstanding and work is ongoing to obtain this information.

5.4 Officers are now working to reconcile data returns and liaise with employers further where an error has been identified. The aim is to complete the work ahead of the statutory deadline to provide member Annual Benefit Statements and Pension Saving Statements.

5.5 The Pensions Regulator has advised that it expects all schemes to follow statutory legal requirements, however, they will be more flexible and relaxed in their approach if Funds experience delays in meeting these as a result of COVID-19 providing there is a plan in place to resolve issues. A further update will be provided at the next Committee meeting in September.

6 APF PERFORMANCE

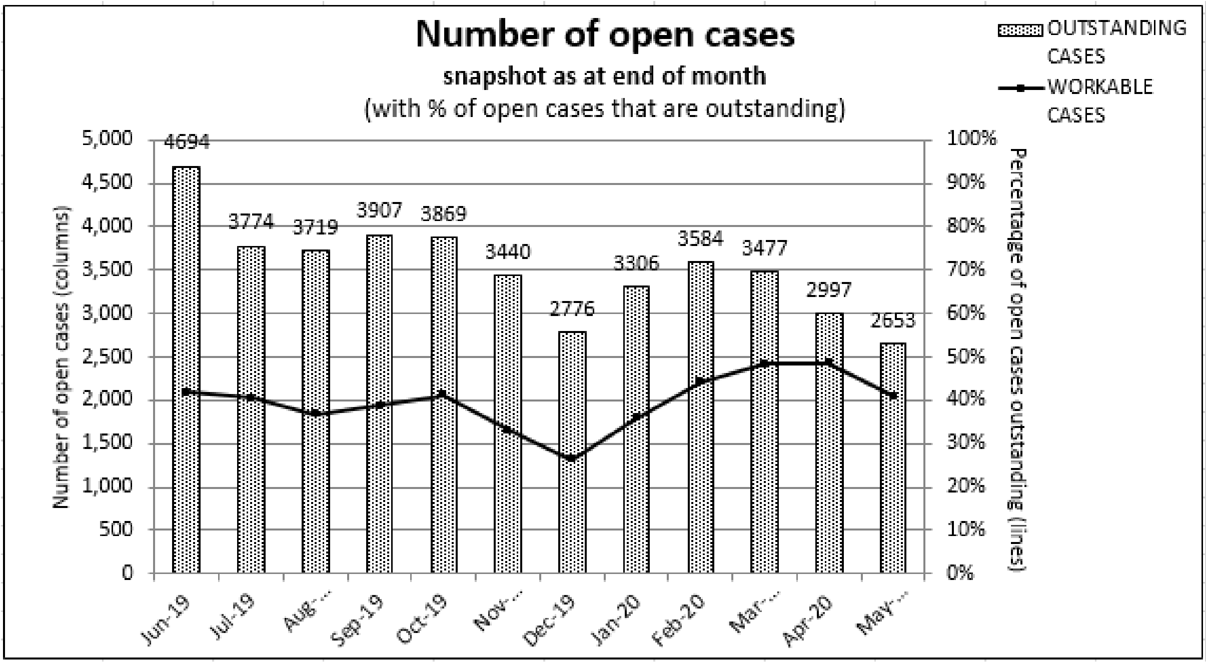
6.1 As per TPR guidance the Fund has focussed on critical member processes including the processing of retirement and death benefits.

6.2 The table below reflects the performance against these processes

SLA Target		1 Jan-20 to 22 Mar-20			23 Mar-20 - 31 May-20		
		Total Processed	Total in Target	% in Target	Total Processed	Total in Target	% in Target
Retirement (from active)	Quote – 15 days	167	122	73.05%	174	163	93.68%
	Pay – 15 days	161	153	95.03%	122	119	97.54%
Retirement (from deferred)	Quote – 30 days	83	38	45.78%	60	36	60.00%
	Pay – 15 days	220	209	95.00%	234	230	98.29%
Deaths	Notify - 5 days	112	111	99.11%	81	79	97.53%
	Pay - 10 days	95	94	98.95%	83	77	92.77%

6.3 Administration work has continued in all other areas and KPI performance is monitored and reported to the Pensions Manager for review on a bi-weekly basis. The table below reflects the situation at the end of May with an overall 2,563 cases outstanding of which 1,025 (40%) are workable. This represents an overall improvement in outstanding workable cases over the previous twelve months and this trend has continued since COVID-19 outbreak reflecting a downturn in new work cases coming through. However, any additional workload created by the year end reconciliation process is still to be recognised in the data and a likely upturn is expected over the next quarter.

6.4



7 REGULATORY AND LEGISLATIVE MATTERS

7.1 Limited work has been undertaken due to the COVID-19 outbreak. A summary of the key issues has been outlined at **Appendix 1**.

8 RISK REGISTER

8.1 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.

8.2 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

8.3 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

The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in May 2020.

8.4 The management of the risk register has been updated with the introduction of a more robust process for identifying and managing risks. The new look register including likelihood, impact and mitigating actions and overview dashboard are attached at **Appendix 2a and 2b.**

8.5 All risks have been reviewed and updated to reflect the high impact of the Covid 19 outbreak across many aspects of the Fund. A new risk has been added focusing on the sustainability of remote working so that the Fund is able to continue to deliver the service to members and employers.

8.6 Following the quarterly review several risks have increased including:

a) Failure to earn investment returns has become more likely in the short term but markets have already started to stabilise.

b) Deterioration in employers' financial stability and late or non-payment of contributions are particular risks at this time. Contribution returns and employer covenance are being monitored more closely.

c) The risk of not delivering an efficient service to members and employers has increased. Work is being prioritised to ensure retirements and deaths are processed and pensioner payments continue to be made.

d) In March 2020 the government confirmed that there will be changes to all public sector schemes to remove any age discrimination as a result of McCloud. MHCLG confirm that they expect to consult on regulatory changes to address McCloud, for the LGPS only, in Summer 2020.

9 RISK MANAGEMENT

9.1 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.

10 CLIMATE CHANGE

10.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. 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.

11 OTHER OPTIONS CONSIDERED

11.1 There are no issues to consider not mentioned in this report.

12 CONSULTATION

12.1 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	*Geoff Cleak, Pensions Manager; Tel 01225 395277*
Background papers	*Various statistical documents.*
Please contact the report author if you need to access this report in an alternative format	

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Regulatory Update

Pension Committee meeting June 2020

Covid-19

There has been guidance and advice issued from numerous sources over the course of the last couple of months in relation to pension schemes and how they should operate during the Covid-19 pandemic and as a result of the lockdown restrictions the government have put in place. We have taken on board all guidance that has been issued, paying particular attention to requests from both the SAB, in relation to the relaxation of our abatement policy for those returning to work as a result of the pandemic, and the Pensions Regulator in relation to prioritisation of work, communication to members, transfers from DB to DC schemes and the rise in pension scams during this time. We have also completed numerous surveys that have been issued by the LGA and TPR.

McCloud Judgement

At the SAB meeting in February, the Board agreed to create two working groups to help implement the outcome of the McCloud judgment for the LGPS. These will be a small policy group to help MHCLG consider areas of policy not determined by HMT and a larger implementation group made up of practitioners, member representatives, actuaries, software providers and employers. They will consider the challenges of implementing and communicating the scheme changes.

Due to differences in LGPS transitional protection, MHCLG are planning to undertake an LGPS specific consultation on the regulatory changes required to address McCloud. We are expecting the consultation to begin late June / early July 2020.

Cost Management Process

As previously reported the 2016 valuation found that the cost of providing public service pension schemes was below target and improvements to benefits for members would therefore be required. However, in January 2019, the Government announced a pause in the cost control mechanism process due to the McCloud decision.

In April 2020, four unions, including the FBU and the GMB, filed court proceedings against the Government claiming that the pause in the cost control mechanism is unlawful. The unions are arguing for an improvement in member benefits as a result of the valuation results. The Government plans a new valuation once the remedies to remove the age discrimination, as a result of the McCloud court case, have been finalised and the true cost of providing public service pension schemes can be assessed.

Responsible Investment Guidance

On 24 February 2020 SAB published a statement on the draft responsible investment guidance. They advised that responses to the earlier consultation were generally positive, however, some respondents raised concerns about fiduciary duty in the context of the LGPS.

The issue of fiduciary duty was discussed in the Supreme Court hearing involving the Palestine Solidarity Campaign and MHCLG on which the Supreme Court has since handed down its judgment, on 29 April 2020, finding in favour of the appellants.

Also, the Government recently introduced amendments to the Pension Schemes Bill 2020 which could also impact how investment strategy statements are prepared in relation to issues like ESG and climate change.

For these reasons, the SAB had decided not to offer definitive advice or guidance on how the fiduciary duty test applies in the LGPS at this time. It will change direction and restructure the draft guidance to explain and clarify the terminology associated with responsible investment and provide investment decision makers with a range of information, case studies and tools to help them meet the challenges associated with responsible investment. SAB will circulate the revised draft guidance to scheme stakeholders for comment in the normal way.

On 11 May 2020, SAB issued the following statement in response to the Supreme Court judgement:-

‘The SAB welcomes the clarity brought by the judgement of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board’s view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters’

The Board's secretariat and legal advisor have commenced work on a draft summary of the judgement which was published on the SAB website on 8 June 2020.

Good Governance

A virtual meeting of the chairs of the SAB and its two committees was held on 6 April 2020 and it was agreed that Hymans Robertson’s work on Phase three of the Good Governance project should proceed on a limited basis. They should continue to prepare papers for the SAB’s consideration based on discussions already undertaken with the implementation group. However, they should avoid engaging with members of the implementation group, or local government in general at this time.

Code of transparency compliance system

On 1 April 2020, the SAB and Byhiras issued a press statement to announce that the Cost Transparency compliance and validation system is now live.

Risk Number	Risk	Impact	RAG	Trend	Mitigating Action (For Committee / Board report)
R28	Recruitment of staff	Fund's ability to develop & implement service plan and administer the Fund		◀▶	Delay in recruitment of vacant admin posts (9.5 FTE's) due to Coronavirus outbreak. Arrangements being put in place to commence process remotely from June 2020 with staggard appointments to spread impact on existing resource. Temporary internal training resource being identified to support new rectuitment staff into business operations.
R63	McCloud/Sargeant Judgements resulting in the extension of protections	Increase in workload on administration side and for scheme employers		▲	Data quality preparation at Fund and employer level. Government confirmed that there will be changes to all public sector schemes to remove any age discrimination as a reuslt of McCloud. MHCLG confirm that they expect to consult on regulatory changes to address McCloud, for the LGPS only, in Summer 2020. However, there is likely to be changes required to primary legislation which could cause long delays before the new regulations come into force. Possibly can get third party assistance
R26	Failure to earn investment returns	scheme cannot meet liabilities, employer conts could rise		▲	Review of Investment Strategy, risk management strategies,specialist advisors used. Due to Coronavirus outbreak a revised ISS has been approved under emergency powers by Chief Exec in consultation with officers. ST risk of not achieving expected returns has increased; however, markets have stabilised and volatility abated
R56	Increase in employers	increased resources needed to support more employers		◀▶	Additional resources have been put into Employer Services to support & train employers. Recruitment delayed due to COVID outbreak. Arrangements to commence process remotely from June 2020 with staggard appointments.
R23	Deterioration in financial stability of employers (employer Covenants)	employers not able to meet their liabilities impact on rest of Fund		▲	Policy in place re admission and exiting employers. Covenant assessment monitoring in place. Employer covenant being monitored in Coronavirus outbreak; expect 3rd sector to be most affected but not finacially material for Fund. For other employers affordability issues will become more pressing and overall contributions may reduce. Discussing possible policy options with actuary.
R42	Political Pressure to reform the scheme & direct investment decisions eg ESG	National decisions are not in best intersests of the scheme		◀▶	Participate in Brunel pool, ISS aligned with Fund's Climate Change policy. Recent supreme court judgement against SoS re ESG guidance clarifies that government only has power over how funds invests, not what they invest in. Have good local governance but national decisions could impact/
R60	Climate Change Emergency	Significant financial risk to the investments assets		▼	ISS revised to a higher allocation to climate friendly investments. Unable to control global markets in general only through strategy.
R05	Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	Personal data is corrupted, compromised or illegally shared resulting in fines & reputational damage.		◀▶	Working through Data Protection project plan with assistance of Banes DPO. New processes put in place for remote working due to Coronavirus (DPIA assessment carried out) Cyber Security E-Learning for all staff
R47	Implementation of changes arising from scheme cost cap mechanism	Additional burden on administration. Awareness of members & employers		◀▶	Cost cap improvements continue to be paused until the McCloud remedy is implemented, following which a further valuation of the cost of the scheme will be carried out. In April four unions filed court proceedings against the Government claiming that the pause in the cost control mechanism is unlawful and arguing for an improvement in member benefits as a result of the valuation results.
R59	Iconnect data from employers	Incorrect member data on records and valuation of employer liabilities		◀▶	Iconnect Team has been set up and extracts are now loaded inhouse, controls are being reviewed
R25	Inadequate knowledge of those charged with governance. Committee Members knowledge is impacted by re-election process. Failure to comply with statutory regulations	delays in decision making for the Committee & Fund. Failure to meet MIFID & TPR regs		◀▶	Training plan in place and independent members appointed. Taking part in Hymans National Knowledge Assessment for Committee & Board members.
R54	Delays in transition of assets to Brunel or Brunel fails to deliver its objectives	delays could impact pool's ability to deliver savings or pool could fail if objectives are not met		◀▶	Brunel Transition Plan monitored by Client Group & BOB. Investment Panel & Committee monitor. Slight delay forcurrent 2020 transitions due to COVID. Too early to know how affects next phase phase but APF transitioning fewer assets in that phase. Loss of CIO means less senior management resources for 3- 6 months
R64	Sustainability of working arrangements during Covid 19 outbreak	Unable to deliver service to members and employers		▲	Fund has put in place many steps to mitigate the risk of Coronavirus impacting on the service as set out in our business continuity update report circulated to Committee members June 2020
R29	Service delivery efficiency & customer service	poor member outcomes		▲	Monitoring & reporting of Fund performance against statutory & TPR requirements. Admin & Comms strategy. Procedures have been updated for remote working and priority work has been identified, but currently risk of backlogs & complaints.
R10	Late / incorrect contributions from employers	cashflow, employer funding position, TPR breach		▲	Monthly reconciliation, follow up in line with TPR code and late payers reported to Committee & Board. Contributions being monitored and reported if any employers are not able to pay due to Coronavirus effects on their business.
R53	The introduction of the exit payment cap	This will place an additional burden on the administration resource		◀▶	Once implementation detail received a project team will review comms, training, processes, resources. MHCLG advise they will be progressing this and subsequently, on a slower timescale.

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Governance Risks

Impact	Rare	Unlikely	Possible	Likely	Almost Certain
Negligible	0	0	0	0	0
Low	1	0	0	0	0
Medium	1	0	0	1	0
High	0	0	0	0	0
Critical	0	0	0	0	1

Total 4

Investment & Funding Risks

Impact	Almost Certain	Likely	Possible	Unlikely	Rare
Negligible	0	0	0	0	0
Low	0	0	2	1	2
Medium	0	1	0	0	0
High	0	3	0	0	1
Critical	0	0	1	0	0

Total 11

Administration Risks

Impact	Rare	Unlikely	Possible	Likely	Almost Certain
Critical	0	0	0	0	0
High	0	0	4	1	1
Medium	2	2	1	0	0
Low	0	0	1	1	0
Negligible	0	1	0	0	0

Total 14

Financial Risks

Impact	Almost Certain	Likely	Possible	Unlikely	Rare
Critical	0	0	0	0	0
High	0	0	0	0	0
Medium	0	0	1	0	1
Low	0	0	0	0	0
Negligible	0	0	0	0	1

Total 3

The above tables show the number of risks, broken down by type, and their current risk exposure

Key:- Based on Risk Score

Green	1-6
Amber	7-14
Red	15-25

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**		
MEETING DATE:	**26 JUNE 2020**	**AGENDA ITEM NUMBER**	**13**
TITLE:	**Pension Fund Budget and Cash Flow Monitoring** **(1) EXPENDITURE FOR YEAR TO 31 MARCH 2020** **(2) CASHFLOW FOR YEAR TO 31 MARCH 2020**		
WARD:	**ALL**		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 March 2020 Appendix 1A Summary Budget Variances: Year to 31 March 2020 Appendix 2 Cash Flow for year to 31 March 2020			

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the year to 31 March 2020. This information is set out in Appendices 1 and 1A**.**

1.2 This report also contains the Cash Flow for the year to 31 March 2020. This information is set out in Appendix 2

2 RECOMMENDATION

That the Committee notes:

2.1 The administration and management expenditure incurred for the year to 31 March 2020.

2.3 The Cash Flow report for the year to 31 March 2020.

3 FINANCIAL IMPLICATIONS

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

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the year to 31 March 2020 are contained in **Appendix 1.**

4.2 The expenditure for the year to 31 March 2020 was £538,700 under budget.

4.3 Within the directly controlled Administration budget expenditure was £380,300 under budget. This was largely due to a £281,400 underspend on salaries as a result of delays in filling vacant posts (the majority of which were for managerial position changes). There were also further underspends relating to IT Strategy (£56,300) and new server costs of (£55,300). The new server cost budget is proposed to be carried forward into the 20/21 budget and the IT Strategy is to be reallocated to consultancy on IT systems review.

4.4 In the part of the budget that is not directly controlled expenditure there was an underspend of £158,400 compared to budget. Predominantly this underspend was in relation to an underspend on compliance costs (£116,350). This underspend can be attributed to contingency set aside for ad-hoc work that didn't materialise in the valuation period.

4.5 Explanations of the most significant variances are contained in Appendix 1A to this Report.

4 CASH FLOW FORECAST

5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows are managed by divestments and taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The 2019 - 2022 Service Plan included a cash flow forecast showing a gross in-flow of c£190.0m and a gross out-flow of c£190.6m giving a net inflow in 2019/20 of £0.6m. The forecast gross inflow included £34m divestments and investment income.

The actual cash flow to 31 March was an inflow of c£17.2m against a budgeted outflow of £0.6m for the same period. The difference was mainly due to higher than budgeted contributions received (£5.6m) and an increase in the minimum cash balance held from £10m to £20m. The minimum cash balance was increased as a precautionary measure in the light of the COVID-19 pandemic.

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 appropriate investment, funding and administration strategies in place and that they are regularly monitored. In addition, it monitors the risk register, annual budget and compliance with relevant investment, finance and administration regulations.

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 There are no other issues to consider not mentioned in this Report

9 CONSULTATION

9.1 The Council's Monitoring Officer (Head of Legal & Democratic Services) and Section 151 Officer (Director of Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	David Richards Finance & Systems Manager (Pensions)) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT: FULL YEAR ENDING 31 MARCH 2020

	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	23,043	26,645	3,602
Administration Costs	78,031	63,476	(14,555)
Communication Costs	85,091	107,339	22,248
Payroll Communication Costs	51,169	49,114	(2,055)
Information Systems	398,137	365,229	(32,908)
Salaries	2,400,943	2,119,535	(281,408)
Central Allocated Costs	527,699	517,662	(10,037)
IT Strategy	72,202	15,897	(56,305)
Miscellaneous Recoveries/Income	(196,000)	(204,915)	(8,915)
Total Administration	**3,440,315**	**3,059,982**	**(380,333)**
Governance & Compliance			
Investment Governance & Member Training	415,170	437,371	22,201
Members' Allowances	39,025	35,403	(3,622)
Independent Members' Costs	65,000	45,627	(19,373)
Compliance Costs	932,520	816,167	(116,353)
Brunel Expenses	25,000	18,327	(6,673)
Compliance Costs recharged	(225,000)	(244,082)	(19,082)
Total Governance & Compliance	**1,251,715**	**1,108,813**	**(142,902)**
Pensions Board	**20,000**	**7,865**	**(12,135)**
Global Custodian Fees	0	36,874	36,874
Brunel Management Fees	1,477,000	1,436,784	(40,216)
Investment Fees	28,916,269	25,451,559	
	30,393,269	**26,925,218**	**(3,342)**
NET TOTAL COSTS	**35,105,299**	**31,101,878**	**(538,711)**

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Appendix 1A

Summary of main budget variances: Year ending 31st March 2020

Variances Analysis of the forecast full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most significant reasons for variance
Salaries	(281,400)	Reduced salaries expenditure due to delays in filling vacant posts against budget in both Investments and Benefits teams. A significant portion of the underspend has arisen from vacant management positions which were filled later than expected
IT Strategy	(56,300)	Brought forward budget not spent. Not due to be carried forward into 2020/21 as due to being reallocated to consultancy on IT systems review
New Server	(55,000)	Budget/Underspend to be carried forward to fund new server.
Payroll communication costs	15,000	Overspend due to additional mailout relating to the pensions increase. This was delayed and would normally have gone with the P60 payslips.
Other	(2,633)	
Administration	**(380,333)**	
Compliance Costs	(116,350)	Predominantly relating to risk management underspend in comparison to budget
Compliance costs recharged	(19,100)	Higher than budgeted rechargeable new employer related actuarial costs
New independent member appointments	(20,000)	Budget for recruitment of new independent member not spent
Other	(2,928)	
Expenditure outside direct control	**(158,378)**	
Total	**(538,711)**	

***() variance represents an under-spend, or recovery of income over budget**
+ve variance represents an over-spend, or recovery of income below budget

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Appendix 2

Cash Flow Forecast

		FULL YEAR 2019/20		
		Forecast Per Service Plan	**Out-turn**	**Variance**
		£'000	**£'000**	**£'000**
Benefits Outflows				
Benefits	Pensions	(146,732)	(153,729)	(6,997)
	Lump sums	(32,524)	(26,463)	6,061
Total Benefits Outflows		**(179,255)**	**(180,192)**	**(937)**
Inflows				
Deficit recovery		17,994	17,198	(796)
Future service Contributions		138,023	144,450	6,427
Total Contributions		**156,017**	**161,648**	**5,631**
Net Cash Flow (excluding Administration & Investment costs)		**(23,238)**	**(18,544)**	**4,694**
Divestments & Investment income received as cash		34,000	40,136	6,136
Net Transfers In & Out (budgetted as zero)		0	7,634	7,634
Administration costs		(11,362)	(11,984)	(622)
Net Cash Flow (Out-Flow)		**(600)**	**17,242**	**17,842**

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	**14**
MEETING DATE:	**26 JUNE 2020**		
TITLE:	**TREASURY MANAGEMENT POLICY**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			
List of attachments to this report: **Appendix 1** The proposed Treasury Management Policy **Appendix 2** Counter parties acceptable under the policy and their Credit ratings			

1. THE ISSUE

1.1 The Fund's Treasury Management policy was approved in March 2019. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management & Investment Strategy.

1.2 The Committee are asked to approve the Treasury Management policy each year.

1.3 The policy proposed for 2020/21 set out in Appendix 1 is the same as the policy approved in March 2019. Counterparties acceptable under the policy and their Credit ratings are shown in Appendix 2.

2. RECOMMENDATION

2.1 That the Committee approves the Treasury Management Policy as set out in Appendix 1.

3 FINANCIAL IMPLICATIONS

3.1 The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short-term investment of up to £50m earns interest and incurs transfer costs. However, the significance of an efficient means of short-term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

4 THE REPORT

4.1 The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Treasury Management & Investment Strategy. The Pension Fund's Treasury Management is managed by the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it reflects the different cash flow requirements and the amounts of cash that need to be invested.

4.2 The Fund makes extensive use of the Handelsbanken call account. It also uses Money Market Funds at Goldman Sachs, Aberdeen Asset management, Federated Investors, Amundi and State Street. The rules of access to these accounts particularly suit the Fund's cash flow requirements.

4.3 The Treasury Management Policy is in line with the advice of the Council's Treasury management advisers ArlingClose. All potential counterparties are continuously monitored using the advice of external consultants.

4.4 The Fund aims to retain a minimum working balance of £10m.

4.4 The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria as a result of the policy.

5. RISK MANAGEMENT

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

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 in line with the Council's Climate Strategy. 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	David Richards Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting and Statistical Records

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2020

1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	**Time limit**
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

[1] Banks within the same group ownership are treated as one bank for limit purposes.
[2] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
[3] as defined in the Local Government Act 2003

8 The cash retained as the required working balance will target £10 million.

9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.

10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

Fitch	Moody's	S&P
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality - denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
B	Highly speculative - indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.

CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired.
RD	Restricted default - indicate an issuer that in Fitch's opinion has experienced: a. an uncured payment default or distressed debt exchange on a bond, loan or other material financial obligation, but b. has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and c. has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business.

12 The current credit ratings of counterparties that would be accepted under the proposed policy are given in Appendix 2.

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APPENDIX 2

Proposed Counterparty List - Unsecured Bank Investements

2020/21

CRITERIA									
			FITCH RATINGS			Moody's Ratings		S&P Ratings	
	Duration	Fund Limit	S/Term	L/Term	Outlook	S/Term	L/Term	S/Term	L/Term
UK Banks	**Sovereign Rating**			**AA**			**Aa2**		**AA**
Barclays Bank plc	2 months	10	F1	A+	STABLE	P-1	A2	A-1	A
Close Brothers Ltd	2 months	10	F1	A	STABLE	P-1	Aa3		
Goldman Sachs International	2 months	10	F1	A	STABLE	P-1	A1	A-1	A+
HSBC Bank plc	2 months	10	F1+	A+	STABLE	P-1	Aa3	A-1+	AA-
Lloyds Banking Group									
Lloyds Bank plc	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1	A+
Bank of Scotland plc	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1	A+
Royal Bank of Scotland Group									
National Westminster Bank plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Royal Bank of Scotland plc	2 months	10	F1	A+	STABLE	(P)P-1	A1	A-1	A
Ulster Bank Limited		10	F1	A+	STABLE	P-1	A1	A-1	A
Handelsbanken		10	F1+	AA	STABLE			A-1+	AA-
Santander UK plc **(domiciled in UK)**	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1	A
Standard Chartered Bank	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
UK Building Societies									
Nationwide	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1	A
Coventry	2 months	10	F1	A-	STABLE	P-1	A2		
Leeds	2 months	10	F1	A-	STABLE	P-2	A3		
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAAu**
Australia & New Zealand Banking Group	2 months	10	F1+	AA-	NEG	P-1	Aa3	A-1+	AA-
Commonwealth Bank of Australia	2 months	10	F1+	AA-	NEG	P-1	Aa3	A-1+	AA-
National Australia Bank Group									
National Australia Bank Ltd	2 months	10	F1+	AA-	NEG	P-1	Aa3	A-1+	AA-
Westpac Banking Corporation	2 months	10	F1+	AA-	NEG	P-1	Aa3	A-1+	AA-
Canada	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of Montreal	2 months	10	F1+	AA-	STABLE	P-1	Aa2	A-1	A+
Bank of Nova Scotia	2 months	10	F1+	AA-	STABLE	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce	2 months	10	F1+	AA-	STABLE	P-1	Aa2	A-1	A+
Royal Bank of Canada	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1+	AA-
Toronto-Dominion Bank	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAAu**
Development Bank of Singapore Ltd	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-

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