Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee

Date: **Friday, 25th September, 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

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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 Thursdays notice must be received in 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, 25th September, 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 - 26TH JUNE 2020 (Pages 7 - 18)

8. ANNUAL RESPONSIBLE INVESTING REPORT (Pages 19 - 82)

9. INVESTMENT STRATEGY STATEMENT (Pages 83 - 112)

10. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 113 - 132)

11. INVESTMENT PANEL ACTIVITY (Pages 133 - 136)

12. RISK MANAGEMENT ANNUAL REVIEW (Pages 137 - 182)

13. INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 30 JUNE 2020) (Pages 183 - 230)

14. PENSION FUND ADMINISTRATION (Pages 231 - 258)

15. BUDGET & CASH FLOW MONITORING (Pages 259 - 268)

16. PENSION BOARD ANNUAL REPORT (Pages 269 - 280)

17. WORKPLANS (Pages 281 - 302)

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, 26th June, 2020, 2.00 pm

Bath and North East Somerset Councillors: Bruce Shearn (Chair), Shaun Stephenson-McGall (Vice-Chair, in the 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) and John Finch (Independent Member)

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

Advisors: Steve Turner and Ross Palmer (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager), Kathryn Shore (Technical and Compliance Advisor) and Carolyn Morgan (Governance and Risk Advisor)

1 WELCOME & INTRODUCTIONS

The Vice-Chair of the Committee, Councillor Shaun Stephenson-McGall welcomed everyone to the meeting and stated that for the duration of the meeting he would be acting as the Chair.

He acknowledged that this was the first meeting attended by Nick Weaver, Chair of the Pension Board and Charles Gerrish, Academies Representative.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from co-opted members Wendy Weston and Councillor John Goddard.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Alasdair Yule and Elaine Ashley were both present and delivered the Unison joint statement, it is attached as an online appendix to these minutes and a summary is set out below.

Supporting a Fossil Fuel Divestment Policy for Avon Pension Fund.

In September 2019 Unison, along with six other trade unions supported a motion for a "Green New Deal" to build a prosperous zero-carbon society with good green jobs.

This came with 9 key principles:

- a commitment to zero carbon emissions by 2030
- rapidly phasing out all fossil fuels
- large scale investment in renewables
- supporting a just transition to well-paid unionised green jobs
- expanding public democratic ownership
- green integrated transport
- supporting developing countries own climate transitions
- welcoming climate refugees
- preventing displacement.

Pension funds are significant investors in the global economy and therefore hold important significance for how some of these principles can be realised. As the West of England Unison Branches representing over 10,000 members who pay into the Avon Pension Fund, we are committed to seeing the Fund lead by example as an investor in the zero-carbon economy.

We acknowledge the important steps the Fund has taken to account for climate change. This includes; identifying climate change as a long-term risk to the Fund's assets; monitoring the carbon footprint of the Fund; committing to invest 2.5% of its assets in Renewable Infrastructure Funds and investment in a low carbon fund through the "Brunel Pensions Partnership".

In setting a 5-year divestment target that takes account of the costs to the Fund over that period the Fund is best representing the long-term financial interests of scheme members, particularly its younger members.

With this target the Fund will support the rapid phasing out of all fossil fuels. In terms of "The Green New Deal" two other things are important.

One is actively investing in a decarbonised, just and sustainable future - it is not enough to just divest from fossil fuels. The Fund should continue to drive genuine impact by setting up “Green Funds” through the “Brunel Pensions Partnership”, that invest in companies helping to achieve a net zero transition including in emerging sectors such as energy efficiency, renewable energy, energy storage and smart energy systems.

The second important point is a focus on justice, not only intergenerational justice, but in securing justice in terms of equitable distribution of the costs of transition for those working in affected industries. Where possible, the Fund should take it upon itself to try and invest in local economic ventures, in well-paid unionised green jobs to replace those lost in the fossil fuel industry.

Setting a divestment target is a vital next step the Fund should take on the climate emergency, for both its members, and all citizens across the World.

The Chair thanked them both for the statement on behalf of the Committee and said that he hoped the points they had raised would be covered during the meeting.

He added that the Fund objectives are:

(1) Implement a <2°C 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°C 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’ 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 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.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

Councillor Sarah Warren, Cabinet Member for Climate Emergency addressed the Committee, a copy of her statement is attached as an online appendix to these minutes and a summary is set out below.

I'm joining you today to thank you for agreeing changes recently to reduce the carbon footprint of the fund, and invest more capital in renewables, ensuring your portfolio is aligned with limiting global warming to below 2 degrees.

As part of Brunel, you are already amongst the leaders in local government pension funds when it comes to divestment from fossil fuels, and have actively lobbied Barclays Bank for a more responsible approach to investment, and EU leaders for a green renewal, so I want to congratulate and thank you for that.

But I have come to ask you to go further. The IPCC's 2018 report into the differences between 1.5 and 2 degrees of warming was stark, and said the following:

100 million more people will be exposed to risk from water scarcity in a 2 degree world, than 1.5. 10 million more, to risk from sea level rise. GDP per capita will be reduced by 13% rather than 8%. The disadvantaged and vulnerable will be in greatest peril. Whole ecosystems will be at greater risk of destruction.

Now coronavirus has changed the world, and it has given us an opportunity that we must seize. The oil and gas sector are currently facing massive writedowns, with a threatened $17bn slash from BP, who, earlier this month, announced 10,000 job cuts. The fossil fuel sector envisages a green recovery, and falling returns. You have a fiduciary duty to the workers of Avon. No one should now be investing in fossil fuels due to the risk of stranded assets.

At current rates of emission, we have 12 years 4 months 28 days until we emit the entire remaining global carbon budget that will take us to 1.5 degrees.

Thank you for the leadership you have shown so far. In these perilous times we need people to step forward and show courage. There is no time to lose. You must now invest 100% of your fund in low carbon and sustainable assets.

The Chair thanked her for the statement on behalf of the Committee.

7 MINUTES - 6TH DECEMBER 2019

The minutes were approved as a correct record.

8 FUND GOVERNANCE FRAMEWORK

The Governance & Risk Advisor introduced the report to the Committee. She explained that the report sets out the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole. She added the Scheme of Delegations sets out how the Committee delegates some of its responsibilities to officers and details the responsibilities delegated, and the authorisation list sets out who is authorised and the limit of transaction they can authorise.

The Committee **RESOLVED** to:

(i) Note the roles and responsibilities of the members, advisors and officers
(ii) Approve Terms of Reference of the Committee and Investment Panel
(iii) Approve the Scheme of Delegation
(iv) Approve the Governance Compliance Statement

(v) Agrees the membership of the Investment Panel

- Cllr Shaun Stephenson-McGall, Cllr Bruce Shearn, Cllr Chris Dando, John Finch, Shirley Marsh-Hughes & Pauline Gordon

(vi) Agrees independent member representation of the Brunel Working Group

- Pauline Gordon

(vii) Agrees substitute of Brunel Oversight Board

- Cllr Shaun Stephenson-McGall

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

- Cllr Shaun Stephenson-McGall, Cllr Steve Pearce & Richard Orton

(ix) 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).

9 SERVICE PLAN AND BUDGET 2020 - 23

The Head of Business, Finance and Pensions introduced this report to the Committee. He explained that the Service Plan sets out the Pension Fund's objectives for the next three years and that 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.

He highlighted the following points to the Committee.

- 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.

- The need to understand the impact Covid-19 will have on current staff and how they work, projects and new staffing proposals.

- To continue the implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.
- Undertake a structural review of digital IT platform and service delivery.

Shirley Marsh-Hughes asked if there were enough resources in place should the Fund need to outsource any elements of its work.

The Head of Business, Finance and Pensions replied that money has been allocated should the need for outsourcing occur. He added that the current plan was to begin recruiting in July and to appoint two members of staff a month and operate a buddy system to help them once they commence in post.

Councillor John Cato commented that with regard to the tasks listed in Appendix 2a (Administration Strategy) it would be good to have a level of importance to the ones marked as red.

William Liew asked if the Fund would be assessing the impact and subsequent risk of Covid-19 on employers that participate in the scheme.

The Group Manager for Funding, Investment & Risk replied that they would encourage employers to have a dialogue with officers within the Fund to discuss problems. She added that they do monitor them as much as possible.

William Liew asked if the Fund pays into a Pension Protection Fund.

The Group Manager for Funding, Investment & Risk replied that it does not.

Councillor Toby Savage said that he agreed with the earlier comments relating to the RAG rating and would like to understand which reds are worse than others.

The Head of Business, Finance and Pensions replied that the RAG had not been reviewed since May and that the team would work on the document to expand on the information contained within it.

Councillor Paul May asked if the issue of Climate Change would be within the job description of at least one of the new posts that have been mentioned.

The Head of Business, Finance and Pensions replied that they were seeking for one of the posts to be Environmental, Social, and Governance (ESG) / Climate Change specific.

The Committee **RESOLVED** to approve the 3 Year Service Plan and Budget for 2020-23 for the Avon Pension Fund.

10 INVESTMENT PERFORMANCE AND STRATEGY MONITORING

The Assistant Investments Manager introduced this item to the Committee.

Steve Turner, Mercer informed the Committee that most of the losses seen in the investment funding level, due to Covid-19 had been recovered. He added that the funding level fell from c.96% to c.84% over the year to 31 March 2020 and that the deficit was estimated to have increased sharply over the year, from £283m to £863m. He stated that 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.

Pauline Gordon asked if any figures were available for what the level would have been without the LDI (Liability Driven Investment) in place and whether there had been any opportunities in inflation to increase our hedge.

Steve Turner replied that no calculations have been done so far to see if we would have been better off without the LDI. He added that he felt it was still important to have a clear inflation hedging strategy in the overall portfolio.

Ross Palmer, Mercer added that a decision had been taken in March to reduce the level of inflation hedging due to concerns over potential RPI reform. He added that they are currently recalibrating the liability benchmark for the LDI Strategy with Blackrock and so the old inflation triggers would be kept in place while that work was ongoing. He said that a real return above CPI inflation is what we are looking to achieve.

Steve Turner commented that the drop in the funding level and increase in the deficit over the short period of time was within the overall risk level set within the strategy.

Pauline Gordon asked what was the worst VaR (Value-at-Risk) that had been identified.

Steve Turner replied that the current new strategy is around £1.3bn over a three year period and that the equivalent figure over one year is around £650m.

Ross Palmer added that when you take into account equity protection the figure becomes closer to £1.1bn.

Richard Orton referred to appendix four and commented that it was noted that the transition plan was slightly delayed due to the pandemic. He said that market conditions were shown to be nowhere near stabilising and that it would be difficult to predict over the next two – three months what would happen, especially if a second spike were to occur. He asked how likely it was that any further transition would take place.

The Group Manager for Funding, Investment & Risk replied that the delay was due to the ability to transact in the market at a reasonable cost. She added that Brunel were working within these parameters and would look to take opportunities when they arise. She said that she believed that the current conditions were supportive enough to allow for some of those planned transitions to proceed.

William Liew commented to praise the good advice, robust investment strategy and equity protection implemented by Mercer

The Chair agreed and said the advice received from Mercer and our officers, coupled with the structure of the Committee was a real benefit to the fund.

The Committee **RESOLVED** to note the information set out in the report and its appendices.

11 INVESTMENT STRATEGY STATEMENT

Councillor Martin Fodor, Bristol City Council addressed the Committee, a copy of his statement is attached as an online appendix to these minutes and a summary is set out below.

I'm making this statement in the light of the recent article/letter from APF setting out the Fund's current strategy to deal with fossil fuels and the climate emergency.

My own pension is in the Local Government Pension Scheme and would be back in this fund where it started, if local councillors were offered a pension, but unfortunately we are not. Mine is currently deferred, elsewhere in the Brunel Pensions Partnership family.

For five years I've been making the case for divestment and diversification of the fund to reduce exposure to ever greater risks of stranded assets, and to ensure that the money is put to work to secure an effective transition to the economy and environment we need, not the one where old assets are preventing a just transition of workers and communities.

We know the major local government union Unison actively supports divestment of Avon Pension Fund locally as they have supported calls for this in both 2015 and 2019. All the emerging guidance and warnings point to this action.

I look forward to the Fund giving an update on its climate emergency strategy later in the summer. But action is still too slow. Having slightly lighter weighted investments with a bit less fossil fuel exposure doesn't put the money where its needed for the future. As long as the fund continues to support the fossil fuel majors they don't need to worry about their continued investments in extracting fossil fuels.

The climate breakdown warnings are ever more urgent, and all the local authorities in this area have long declared a Climate Emergency. I therefore attend today to call on this fund committee to ask for an urgent review of the opportunities for positive investment, and the pace of divestment. There are ever more opportunities to put money where it's needed, in renewables, energy efficiency, smart technologies, and energy storage. Engagement should not be an excuse for inaction; it can be achieved with minimal shareholdings not continued support for unsustainable practices.

The Chair thanked him for his statement on behalf of the Committee and said that a meeting of the Avon Pension Fund Committee Investment Panel was due to take place in early August where the issue would be discussed further.

The Group Manager for Funding, Investment & Risk introduced this item to the Committee. She stated that the Investment Strategy Statement (ISS) had been prepared in line with the statutory requirements under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and associated guidance.

She highlighted the following key changes to the ISS:

(i) 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.

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

(iii) 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.

She added that 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.

Councillor Manda Rigby said that she welcomed the comments made by Councillor Fodor and that she believed that many people were changing their views on how quickly this issue should be progressed. She stated that an inclusive consultation was required and that following that Brunel would need to achieve what the Committee requests.

The Head of Business Finance & Pensions replied that he acknowledged the sentiments that had been raised but said that returns have to be made on the investments that are carried out. He said that 2022/23 gives the Fund an opportunity to reassess its position again but was hopeful for market / Government changes to enable us to deliver a better future.

Councillor Rigby said that she acknowledged the limitations and regulations of the Fund but felt that this was a specific moment in time where an opportunity could be seized to act sooner if possible.

The Head of Business Finance & Pensions replied that consultation was about to begin and that the intention to carry this out as wide as possible and report back to the September meeting of the Committee.

Shirley Marsh-Hughes asked if a section of the statement could contain information on work that has been carried out so far.

The Group Manager for Funding, Investment & Risk that it can be difficult to include detailed information in what is a technically statutory document. She added that she could look to provide this information separately to members in due course.

Richard Orton acknowledged that extensive engagement had been carried out previously but now called for a wider and positive consultation that includes the Trade Unions (GMB, Unison & Unite). He also asked for information to be made available so that members of the public can understand the Fund's view on fossil fuels.

The Group Manager for Funding, Investment & Risk replied that with regard to the consultation they only have a small team which is why they are mindful of its scope. She said that the Unions will be included in the consultation and would work with the team on the communications relating to this. She added that she was aware that there had been a mixed response to the latest newsletter had been issued.

The Committee **RESOLVED** to approve 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.

12 PENSION FUND ADMINISTRATION

The Pensions Manager introduced this item to the Committee. He stated that the report informs 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.

He said that it had obviously been a challenging period but that year end work was almost complete and that the team have been in regular contact with the majority of employers.

He explained that they were waiting to take part in a proposed consultation by the Government on LGPS with regard to the McCloud judgement.

He stated that all risks on the register have been reviewed and updated to reflect the high impact of the Covid-19 outbreak across many aspects of the Fund. He said that a new risk had 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.

Shirley Marsh-Hughes asked if any areas of risk were more of a concern over the next 3-6 months.

The Pensions Manager replied that regular reviews were taking place with Service Managers to minimise this but that working in a degree of isolation does slow the process down for the team.

Charles Gerrish asked what impact the change to the furlough scheme would have on employers if they were required to provide larger contributions to it. He also asked how the McCloud judgement would be managed in terms of employers making voluntary additional contributions.

The Group Manager for Funding, Investment & Risk replied first of all with regard to the McCloud judgement and said that employers had to elect to pay extra or not and if they are this would then be reviewed at their next valuation. Those that decide not to at this stage will be required to pay any arrears once a remedy has been agreed.

With regard to furlough she said that there was no specific provision in place but that they were monitoring, especially smaller companies.

Councillor John Cato asked if in future editions of the risk register whether any additional metrics or direction of travel could be included.

The Pensions Manager replied that they had only recently switched to this version of the risk register and so the current document was a work in progress and therefore would look to enhance it over forthcoming editions.

The Chair, on behalf of the Committee wished to thank all staff for their work, especially over the past few difficult months. He added that there was a need to ensure that provision is in place for them to continue to work effectively as we move forward.

The Committee **RESOLVED** to note:
(i) The Fund and Employer performance for the period to 31st May 2020.
(ii) The current position regarding the developments that could affect the administration of the Fund.
(iii) The updated Risk Register and actions taken.

13 PENSION FUND BUDGET AND CASH FLOW MONITORING

The Group Manager for Funding, Investment & Risk introduced this report. She explained that the purpose of the report was to inform the Committee of administration and management expenditure incurred against budget for the year to 31 March 2020 and that this information was set out in Appendices 1 and 1A. She added that it also contains the Cash Flow for the year to 31 March 2020 and this information was set out in Appendix 2.

The Committee **RESOLVED** to note:

(i) The administration and management expenditure incurred for the year to 31 March 2020.

(ii) The Cash Flow report for the year to 31 March 2020.

14 TREASURY MANAGEMENT POLICY

The Group Manager for Funding, Investment & Risk introduced this report. She explained that the Committee are asked to approve the Treasury Management policy each year and that the policy proposed for 2020/21 as set out in Appendix 1 was the same as the policy approved in March 2019.

The Committee **RESOLVED** to approve the Treasury Management Policy as set out in Appendix 1.

The Chair thanked all members of the Committee for their attendance and contributions to the meeting and those members of the public that had made statements or who were viewing the meeting via YouTube.

The meeting ended at 4.15 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 SEPTEMBER 2020**
TITLE:	**ANNUAL RESPONSIBLE INVESTMENT REPORT**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Responsible Investment Annual Report 2019/20 Appendix 2 – Brunel RI presentation	

1. THE ISSUE

1.1. The Fund has a Responsible Investing (RI) Policy in place to address the impact of risks arising from RI issues on the investments portfolio.

1.2. Given that transparency and disclosure of the RI policy and activities is an important element of being a responsible investor, the Fund publishes an annual report demonstrating how the policy has been implemented during the year.

1.3. Brunel are our strategic partner for developing, implementing and monitoring our RI polices and priorities. For the year ending December 2019 Brunel have published a Responsible Investing and Stewardship Outcomes Report – elements of this report have been incorporated into the Fund's Annual RI report. The full Brunel document is included in the list of attachments to the report.

1.4. The draft Responsible Investment report for 2019/20 demonstrates how the Fund has implemented the policy throughout the year. The report will be published on the Fund's website once it has been approved by the Committee.

1.5. At the meeting Brunel will give a short presentation on their current RI activity.

2. RECOMMENDATION

2.1. **Approves the Annual Responsible Investment Report for 2019/20 for publication.**

2.2. **Agrees the RI priorities for 2020/21**

3. FINANCIAL IMPLICATIONS

3.1. The budget includes the costs of the carbon and environmental analysis provided by Brunel as an elective service.

4. RESPONSIBLE INVESTMENT REPORT

4.1. This is the eighth annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives.

4.2. The report sets out the RI and Environmental, Social and Governance (ESG) issues that have been taken into account and how these were addressed through strategic decision making. The major strategic updates during the year were as follows:

a) The climate change modelling work undertaken by the Fund as part of the 2019/20 investment strategy review leading to a series of climate change objectives and asset allocation changes, as detailed in Appendix 1 (Strategic Developments section).

b) Transition of assets to Brunel and further policy development in collaboration with Brunel and its strategic partners.

c) Monitoring, reporting and scrutinising investment managers RI activity.

d) Active participation in several industry initiatives including Local Authority Pension Fund Forum (LAPFF) and ClimateAction 100+ (CA100+). This year the Fund joined the Institutional Investors Group on Climate Change (IIGCC) and post period-end has been working with IIGCC and Brunel to help develop a framework for investors' asset allocation to meet the Paris Agreement goal of becoming <2°C aligned.

4.3. The Fund participated in over 6,500 shareholder meetings and engaged with over 400 companies in its active equity portfolio on a range of over 1000 ESG issues. In general terms, there was an increase in environmental-related proposals winning voter support, with companies increasingly setting carbon reduction targets. In the UK and US markets executive remuneration and board structure continued to be a focus for shareholder resolutions.

4.4. The Fund is 25% less carbon intensive on a Weighted Average Carbon Intensity (WACI) basis than its benchmark. The lower carbon intensity is attributed to the low carbon passive equity strategy and active equity managers generally picking less carbon intensive stocks than the broader market; Brunel's portfolios seek a carbon intensity improvement of at least 7% year on year. This year all of their listed equity portfolios were at least 7% less carbon intensive than their respective benchmarks and in a number of cases were substantially lower. Future analysis will highlight the impact of recent asset allocation changes and how the Fund is progressing towards its aim of reducing carbon intensity of the equity portfolio over time.

4.5. The report explains how Brunel and its third-party providers have delivered against policy over the year. Among other things, the report includes engagement highlights, examples of policy advocacy work that Brunel has either led or participated in and voting data generated by Federated Hermes.

4.6. The Fund's RI priorities for 2020/21, contained in the final section of the report, are unchanged from last year as all these topics remain relevant from a strategic perspective to the Fund. There is as expected a large degree of alignment with Brunel's priority themes. The Committee are asked to agree these priorities:

a) Climate change including pollution, waste and plastics

b) Human capital

c) Diversity and inclusion

d) Cyber security

e) Cost and tax transparency

5. RISK MANAGEMENT

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

6. EQUALITIES

6.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

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

8. **OTHER OPTIONS CONSIDERED**

8.1. None

9. **CONSULTATION**

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

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

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Avon Pension Fund

Responsible Investing Annual Report 2019/20 [DRAFT]

2019/20 at a glance

£250 million
committed to investment in renewable infrastructure

>50%
of equity portfolio invested in sustainable and low carbon strategies

400
companies held in UK, EM and Global equity portfolios actively engaged with

1,075
separate ESG issues raised as part of engagement activity across active equity portfolios

25%
lower carbon footprint relative to broader equity market

£1 billion*
invested across ESG strategies

6,547
shareholder meetings voted at

>70,000
votes cast at shareholder meetings

*as at 31 March 2020; inclusive of private markets commitments

Contents

Exec Summary [section divider]

Executive Summary

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. We are pleased to publish our eighth Responsible Investment Annual Report, summarising the activities undertaken during 2019/20 by the Fund, our managers and our partners to deliver and support our Responsible Investing Policy.

This year the risk presented by climate change both in terms of transition risk and physical risk were sharply in focus for the Fund. Importantly we undertook a review of our investment strategy and dedicated significant time to looking at the risks and opportunities of climate change and the interconnectedness of the issue with other priorities such as the social implications of the transition to a low carbon economy.

The review led to the development of a series of ambitious climate change objectives, which seek to align our portfolio with the goals of the Paris Agreement and to maximise real world impact by investing sustainably and supporting those societies and communities that are most exposed to the consequences of a transition of this scale.

Amidst the unprecedented market volatility in March, companies responding positively to the challenges of climate change, environmental sustainability and social well-being were able to demonstrate their value; outperforming the wider market and supporting our view that investments that balance positive environmental and social impacts deliver better risk-adjusted returns over the long-term.

We increased our allocation to sustainable equities from 3.5% of assets to 10% of assets, or ~£500 million.

We joined the Institutional Investors Group on Climate Change (IIGCC), which presented the opportunity to participate in policy advocacy and portfolio implementation work alongside like-minded investors representing €33 trillion in assets.

Other key achievements:

- **We doubled our commitment to renewable infrastructure** from 2.5% of assets to 5%. This means ~£250 million will be deployed into areas such as wind and solar energy generation as well as emerging technologies such as bioenergy and energy storage solutions.
- We undertook our fourth carbon footprinting analysis which revealed that our equity portfolio is **25% less carbon intensive than its custom benchmark** and has reduced its carbon intensity by 12% since last year.
- During the year our emerging market and global active equity mandates, totalling £574 million, were transitioned to Brunel portfolios. **This means that at year end Brunel directly managed 30% or £1.3 billion of the Fund's assets**. A further 20% of assets (or £937 million) relating to our

risk management strategies are also managed indirectly through the pool.

Traction in the energy sector and beyond meant an increasing number of companies acknowledged the financial risk of climate change and made commitments to improve disclosures and reduce emissions in line with the Paris Agreement.

We participated in over 6,000 company meetings where we noted an increase in not only the number of shareholder resolutions (particularly in relation to climate change) but also the extent of investor and company management support for them.

Over the coming year climate change along with human capital, diversity, cyber security and tax transparency will be our focus. While our RI priorities are unchanged, it is clear that the market has evolved significantly since we began actively investing in ESG strategies nearly two decades ago.

While navigating a market which is undergoing unparalleled change in terms of ESG investment solutions is a complex task, we see it as an opportunity to create value for our beneficiaries and at the same time make a positive environmental and social impact.

We recognise the importance of investor collaboration and stakeholder engagement more broadly and seek to maintain our position as a leader in the field of responsible investment. We look forward to sharing our progress as we address each of these critical areas over the coming years.

RI Policy & Strategic Developments
[section divider]

Responsible Investment Policy and Strategic Developments

Responsible Investment Policy

As a long-term investor, the Fund seeks to deliver financially sustainable returns to meet the pension benefits of the scheme members and managing financially material Environmental, Social and Governance (ESG) risks is consistent with our fiduciary duty. Our Responsible Investing (RI) policy seeks to integrate ESG issues into the strategy in the belief this can positively impact financial performance.

Our approach to RI is based on the following RI Principles:

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

The RI Policy sets out our approach to RI and how the policy is implemented within the investment portfolio. The policy document is available from the website www.avonpensionfund.org.uk (search Responsible Investment Policy).

Strategic Developments

(i) Climate Change

Climate change is recognised by the Fund as a material financial risk. There was significant focus during the year on the strategic impact of climate change, both in terms of the risks and opportunities a transition to a low carbon economy presents and also the physical risks posed by climate change and the consequential risk to business models, for example, the operating viability of real assets such as infrastructure under extreme climate conditions.

We believe that investing to support the Paris goals that deliver a below 2°C temperature increase is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries. As part of the review of our investment strategy in 2019/20 we used evidence-based modelling of our then current portfolio, which formed the baseline for the analysis, and compared the returns to two alternative portfolios with increased allocations to sustainable equities and low carbon real assets under three climate change scenarios, a 2°C, 3°C and 4°C average warming increase on preindustrial levels, over three timeframes, 2030, 2050 and 2100.

As can be seen from the summary below, a portfolio with increased allocations to sustainable assets has the potential to improve returns under all but the most extreme scenario (+4°C). It is clear, too, that under a 4°C scenario asset allocation becomes less important as all model portfolios start to detract from expected returns as the physical risks of climate change are realised.

		Baseline Asset Allocation	Sustainable Model 1*	Sustainable Model 2**
		Total Portfolio, Annualized Returns		
2°C	2030	0.27%	0.42%	0.57%
	2050	0.07%	0.17%	0.27%
	2100	-0.01%	0.02%	0.06%
3°C	2030	0.00%	0.01%	0.02%
	2050	-0.04%	-0.03%	0.01%
	2100	-0.08%	-0.08%	-0.06%
4°C	2030	-0.06%	-0.07%	-0.06%
	2050	-0.11%	-0.13%	-0.12%
	2100	-0.15%	-0.17%	-0.16%

< -10 bps -10 – 0 bps > 0 bps

Source: Mercer
** Sustainable Model 1 based on 20% allocation to sustainable and low carbon equities*
*** Sustainable Model 2 based on 37.5% allocation to sustainable and low carbon equities*

The conclusions of this analysis were used to develop our over-arching climate change objectives, which are to;

- **Implement a <2°C 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°C asset portfolio will look like. We expect to review the findings in line with the global stocktake timeline in 2022/23.
- **Reduce the carbon intensity of the equity portfolio** over time with the aim of being 30% less carbon intensive than the benchmark by 2022.
- **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.
- **Use the Fund's power as a shareholder to encourage companies and policy makers to adapt their activities to support the transition to a low carbon economy.** *If engagement does not work ahead of the Paris Stocktake in 2023, we will consider selective divestment from laggard companies.*

(ii) Asset Allocation

We continued to build on the positive steps taken in previous years by increasing our strategic allocation to sustainable equities from 3.5% (~£175m) to 10% (~ £500m) of assets during 2020. Sustainable equities seek to invest in well managed companies that are leading the transition to a more sustainable world. We believe that companies that balance positive environmental and social impact to be in a better position to deliver more attractive risk adjusted returns over the long-term.

Our increased allocation to sustainable equities is in addition to the 10% of assets already invested in a low carbon equity fund with the aim of more efficiently managing the potential risks associated with the transition to a low carbon economy. The strategy mirrors the wider market while minimising carbon exposure. Taken together, this means of the 37.5% of assets we have allocated to equities, over half are invested in dedicated sustainable and low carbon stocks.

Achieving a 2°C aligned portfolio

Working alongside the Institutional Investors on Climate Change (IIGCC) and Brunel, we are part of a pilot programme designed to support the research and modelling that is needed for investors to progress towards Paris Alignment.

The Paris Aligned Investor Initiative (PAII) aims to help develop a common understanding of the concepts relating to alignment with the Paris Agreement, and explore options for approaches, methods and metrics that can be used by investors who wish to align their portfolios to the Paris Agreement.

Our ambition is to invest all equity assets in sustainable and low carbon equities recognising that they will allow us to capitalise on opportunities and minimise risk by having greatest alignment to a <2^0C economy; however further analysis is required to assess the overall viability of making such a change and the impact it is likely to have on the risk and return profile of the Fund.

Turning to our real asset portfolios, our allocation to renewable infrastructure doubled over the year. We are now committed to investing 5% of assets (~£250m) in established forms of alternative energy generation such as wind and solar as well as emerging technologies that facilitate energy generation without the need to burn fossil fuels.

(iii) Engagement

As we noted in our last annual RI report, the level of engagement from external and internal stakeholders on various ESG issues continues to build; we welcome this interaction and see it as a valuable input in shaping our overall policy. The discussion is becoming more nuanced, particularly in respect of climate change where companies that have historically been significant carbon emitters have begun to take steps to adjust their business models, to become less reliant on fossil fuels and to support the renewables sector, thereby becoming a part of the solution rather than the problem.

As part of the recent investment strategy review, we considered how best to progress the Fund's climate change goals, without compromising potential returns. We considered the relative advantages and disadvantages of divesting from certain companies and concluded that divestment and engagement should not be viewed as mutually exclusive. Our preferred route is to engage constructively with companies to effect change, but where companies are unable to demonstrate how they are delivering against our expectations we will consider selective divestment ahead of the 2023 Paris stocktake.

Seeking to maximise our real-world impact with respect to climate change we became a member of the Institutional Investors Group on Climate Change (IIGCC); a body for investor collaboration on climate change which uses the collective voice of over 240 members, representing €33 trillion in AUM to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by working with businesses, policy makers and fellow investors.

We expect our strategic partnerships and affiliations, which also includes membership of the Local Authority Pension Fund Forum (LAPFF) and ClimateAction100+ (CA100+), to drive change at company and policy-level through constructive and meaningful dialogue across the entire ESG spectrum.

IIGCC Institutional Investors Group on Climate Change

Local Authority Pension Fund Forum

Climate Action 100+

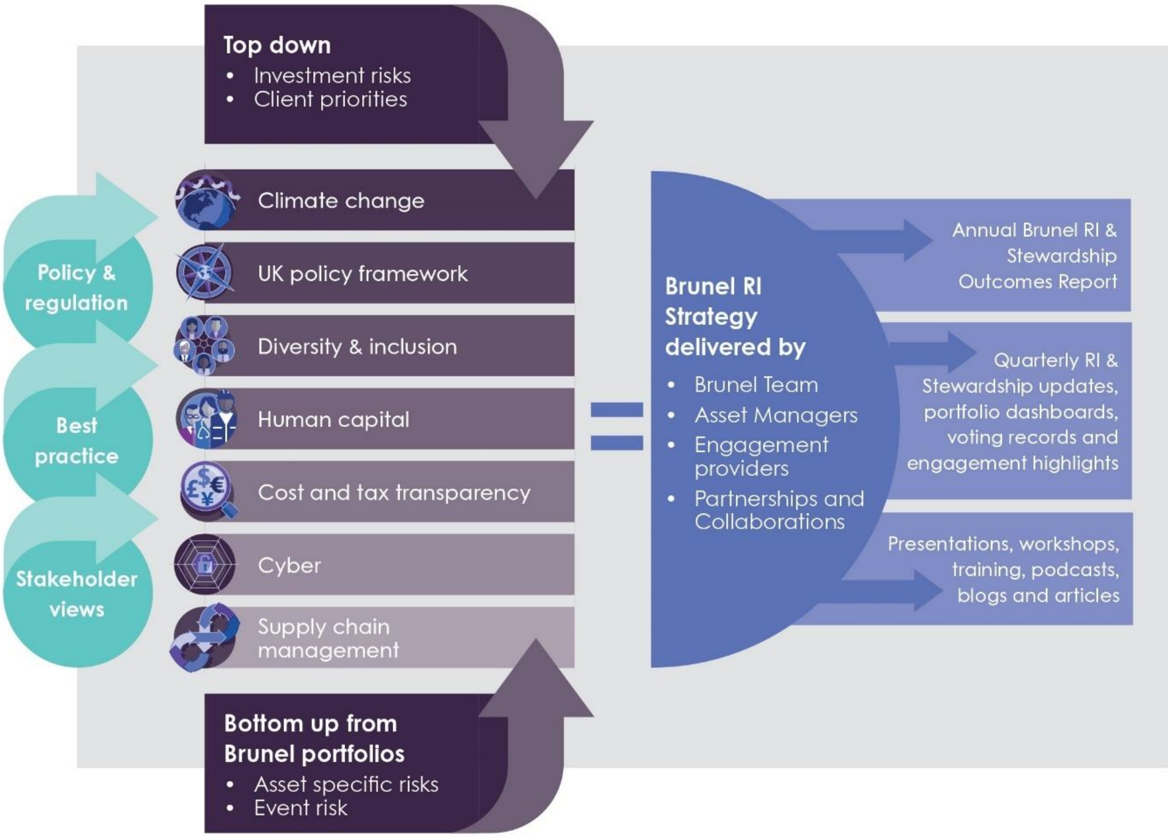
Pooling of Assets with Brunel [section divider]

Pooling of Assets with Brunel

The transition of assets to Brunel continued apace this year as our emerging market and global active equity mandates, totalling £574 million, were transitioned to Brunel portfolios. At the end of the year Brunel directly managed 30% or ~£1.3 billion of the Fund's assets including low carbon passive equities, UK, emerging market and global equity portfolios and private markets portfolios. A further 20% of assets (or £937 million) relating to our risk management strategies are now governed indirectly through the Pool.

Over time Brunel will manage all of the Fund's assets and as such their policies which span climate change, stewardship and RI more broadly, will determine how the Fund's own approach to RI is implemented and monitored. Brunel's policies and priorities are informed by its investment beliefs which have been developed with their clients together with regulations and statutory guidance. Brunel's guiding principle is to deliver stronger investment returns over the long-term and to protect its clients' interests by contributing to a more sustainable and resilient financial system, which supports sustainable economic growth.

Brunel's seven priority themes as part of an integrated responsible investment process are illustrated in the diagram below.

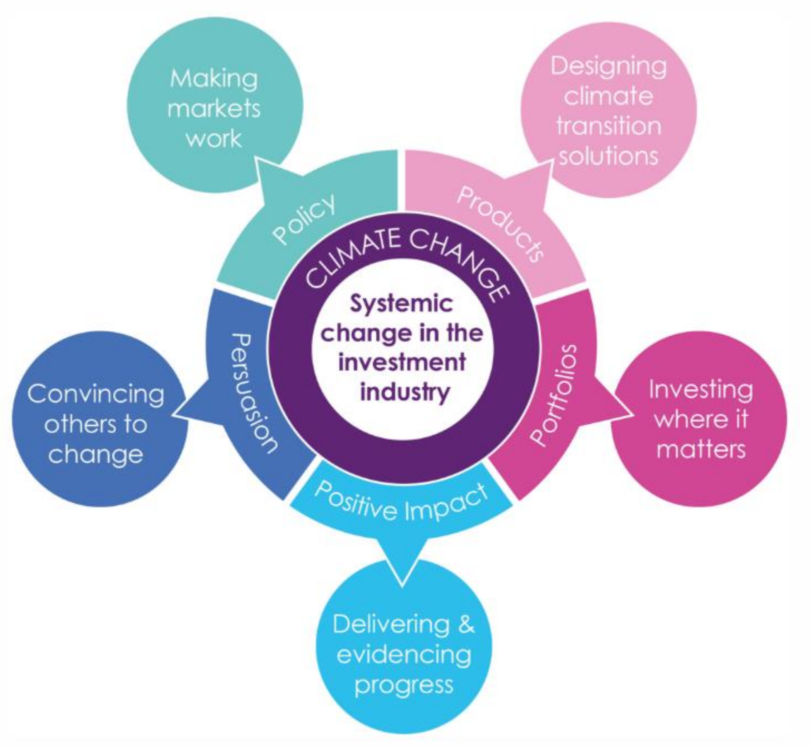


While putting in place a strategy to address climate change has been our immediate priority this year, our exposure to best-in-class investment managers in addition to Brunel's internal dedicated team has allowed Avon to make a contribution in all of these areas over the year.

The below section includes highlights from Brunel's first Responsible Investment & Stewardship Outcomes Report.

(i) Climate Change

Brunel's policy development and implementation directly affects the Fund. With over 50% of our assets now managed by Brunel and the remaining assets expected to transition over the next two years, it was important that their Climate Change policy, published in January, reflected our priorities and served to facilitate our climate change goals. The policy identifies five areas where there is critical need for action and where Brunel believe they can make a significant difference.



Central to Brunel's approach to climate change is establishing a comprehensive and robust policy framework to deliver significant reductions in greenhouse gas emissions, accelerate progress towards the low carbon economy and enable effective adaptation to the impacts of climate change. Specifically, Brunel will look to play an active role in encouraging policy makers to adopt material carbon pricing (i.e. carbon pricing sufficient to drive change at the scale and rate required to meet the Paris goals) and will be supportive of policy measures that accelerate the move away from high impact activities and sectors such as low carbon technology subsidies. Recognising the importance of disclosure at individual company level, Brunel will encourage policy makers to introduce mandatory climate change disclosure requirements, with a focus on providing information with a clear articulation of the risks that companies and their investors face.

Equally, there needs to be a push by the investment industry to ensure there are adequate products investors can utilise in order to fulfil their climate change objectives. Brunel will work directly with managers to drive product development and innovation.

For instance, Brunel's portfolio construction process allows them to assess companies on an individual basis and to pinpoint undesirable sources of risk. When constructing one of the equity portfolios, they identified that 70% of the carbon intensity of the prospective holdings was attributable to a single stock – one of the world's largest cement producers. Transition Pathway Initiative (TPI) data revealed that this company scored highly in terms of management quality and despite not being 2°C aligned, could clearly demonstrate, through direct engagement, a strategy that would see it aligned with the Paris target.

The Transition Pathway Initiative (TPI) Tool

Asset owner led; the Transition Pathway Initiative is the leading corporate climate action benchmark.

Aimed at investors and free to use, it assesses companies' preparedness for the transition to a low-carbon economy through robust and independent research designed to drive real world emission reduction.

(ii) Diversity and Inclusion

Brunel expect UK companies to already have achieved a minimum of 30% female representation on company boards and 25% on executive teams and have developed a baseline for monitoring and reporting the percentage of female board appointments. In addition, during the year Brunel co-signed letters alongside the 30% Club writing to companies such as Centrica, Millennium & Copthorne Hotels and Daejan Holdings around their approaches to gender diversity.

Brunel encourage companies with below 250 employees to consider gender pay gap disclosure where practical. In the UK, they will vote against the financial statements and statutory reports of qualifying companies (250 or more UK employees) that fail to disclose their gender pay gap.

Brunel support the recommendations of Sir John Parker that from 2021 FTSE 100 Boards should have at least one director of colour with a target date of 2024 for FTSE 250 Boards. There is an expectation on companies to disclose how they promote and encourage diversity and Brunel will consider voting against the re-election of the chair of the nomination committee of companies that are not on track to achieve the recommendations of the Parker review.

Furthermore, Brunel will vote against the financial statements and statutory reports of companies that provide inadequate disclosure on diversity and may escalate this to withdraw support for the chair's re-election.

Brunel have pledged their support for the Diversity Project's five-year programme which aims to achieve diversity across all dimensions, including gender, ethnicity, socioeconomic background, LGBTI+, age and disability across the finance industry.

(iii) Tax & Cost Transparency

Openness on investment costs and tax is a key step to building understanding and trust. For the Fund it is vital that its appointed managers, including Brunel, deliver value for money for the good of our beneficiaries. To this end, we encourage all of our managers to comply with the LGPS Cost Transparency Initiative (CTI), which includes disclosures such as portfolio investment activity and transaction costs, ongoing fund charges, performance fees (where applicable) and other incidental costs. This year significant advances were made in the level of disclosure rates by investment managers, with full disclosure increasing from 70% to 87%, reflective of the fact private markets investments are now in scope.

Brunel is a signatory to the Code of Transparency and requires all underlying managers, where appropriate, to be signatories too.

Separately, Brunel supports the Tax Engagement Programme coordinated by the United Nations-backed Principles for Responsible Investment (PRI) and monitors research and initiatives undertaken by key policy makers, using those insights to evaluate regulatory risk at both a country and corporate level.

(iv) Cyber Security

Given the significant financial consequences of poor cybersecurity, and the growing threat it presents as well as increase in regulation worldwide, we believe it is imperative that companies are fully aware and take appropriate action on cyber security issues. Brunel use the Ranking Digital Rights Corporate Accountability Index to evaluate companies held in their portfolios across 35 indicators, specifically on their disclosure commitments and policies affecting freedom of expression and privacy. Analysis over the year revealed that two holdings (Tencent and Samsung Electronics) held in Brunel's portfolios ranked in the bottom half of the index. As a result both companies have been prioritised by Brunel and their appointed voting and engagement provider, Federated Hermes, for engagement.

(v) Reporting

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

A full list of Brunel's policies, partnerships and affiliations are included in the list of appendices to this report.

Positive Impact in Private Markets [section divider]

Positive Impact in Private Markets: Focus on Renewables

Investing in renewable energy investments is a core component of our strategy to align our portfolio with the Paris goals. We have doubled our strategic allocation to wind, solar and biomass projects as well as energy storage solutions to 5% of our assets (~£250m). A further £95m commitment to the UK's largest renewables focussed investor, Greencoat Capital has helped channel capital into established forms of renewable energy (i.e. wind and solar) as well as emerging technologies such as bioenergy and low-carbon farming techniques; all of which are consistent with our over-arching objective of increasing portfolio exposure to sustainable assets that deliver the return prospects required to pay beneficiaries of the scheme.

During the market turmoil in March our renewable infrastructure assets offset the sharp contraction in core infrastructure assets. Where airports, seaports and toll roads experienced the greatest impact of lockdown restrictions, our exposure to renewable energy assets across the UK and Europe benefitted from the 'essential services' status that allowed key sites to remain open and operational as the pandemic escalated.

Further, the reduction in industrial demand for power was mitigated to an extent given many underlying portfolio investments have contractual tariffs or long-term power purchase agreements in place and, in Europe, renewable energy is required to be called first ahead of conventional power, ensuring demand stability. These attributes and the fact the fundamentals of the energy transition remain as before means we are well positioned as opportunities are identified to begin investing the increased capital we have allocated to the sector.

Climate Action + Social Inclusion = Just Transition

As we move to a resilient, low-carbon economy there will be transitional challenges, for workers, communities and countries as this shift takes place. As investors, we can make an important contribution to achieving a *just transition*, as stewards of assets, allocators of capital, and as influential voices in public policy.

The *just transition* highlights the social consequences of climate change and provides the framework for connecting climate action with inclusive growth and sustainable development. We join investors representing more than $5 trillion in pledging our support for the *just transition*.

The merits of a transition to renewable energy have to be considered in the context of the inevitable social consequences that large-scale construction and operation of these assets leads to. Whilst renewable energy generation is very much a part of the solution designed to tackle climate change and move to a low carbon future, we acknowledge the huge impact the transition can have on local communities. One of our key objectives is to invest sustainably while supporting the Just Transition.

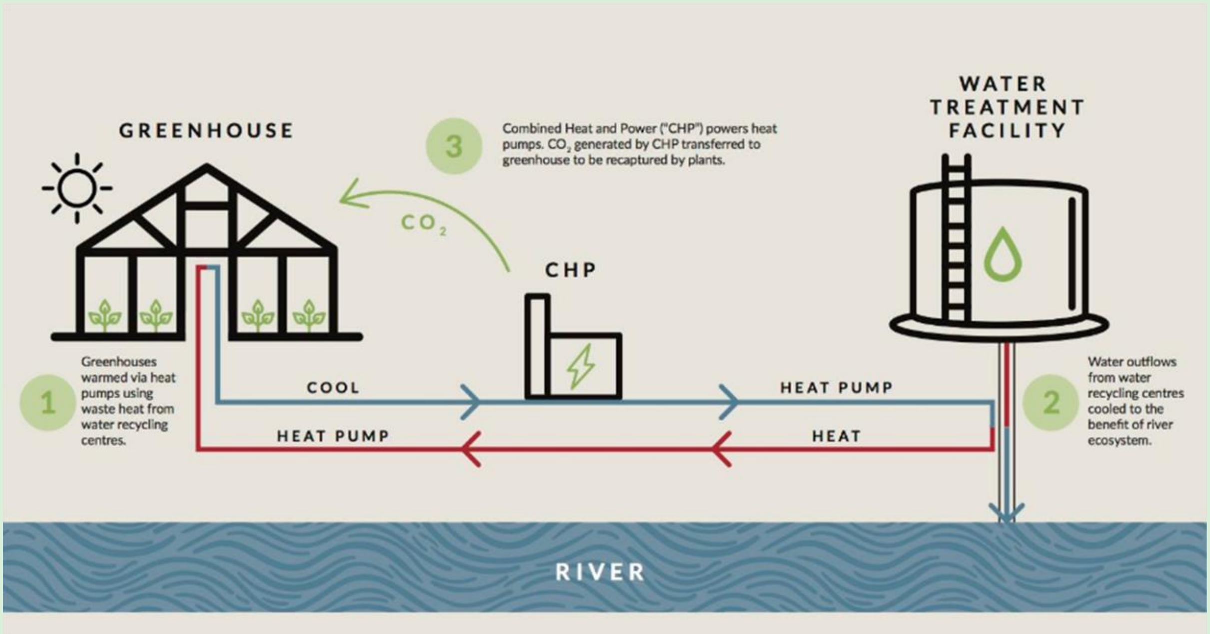
Enhanced due diligence and ongoing monitoring serves to ensure we are generating the return required as well as making both an environmental and social contribution.

Case Study: Sustainable Agriculture

During the year the Fund’s Secured Income portfolio committed capital to a project that will see the construction and operation of two of the UK’s largest greenhouses, warmed by waste heat from water treatment facilities.

Project highlights:

- Ground-breaking sustainable greenhouses provide a model for decarbonising agriculture and heat; reducing carbon footprint of produce by 75% versus a comparable gas heated facility
- 360 permanent new green economy jobs in the UK, and an additional 120 seasonal jobs
- Boost for UK food industry; the development which covers 72 acres will be capable of producing 1 in 10 of the UK’s tomatoes
- Innovative renewable heating solution solves a number of environmental challenges;
  - Greenhouses warmed via heat pumps using waste heat from water recycling centres, displacing the conventional gas heating need
  - Co2 generated by gas-fired generators used to power the heat pumps is captured, filtered and transferred back into the greenhouses to further accelerate plant growth, acting as a natural carbon offset

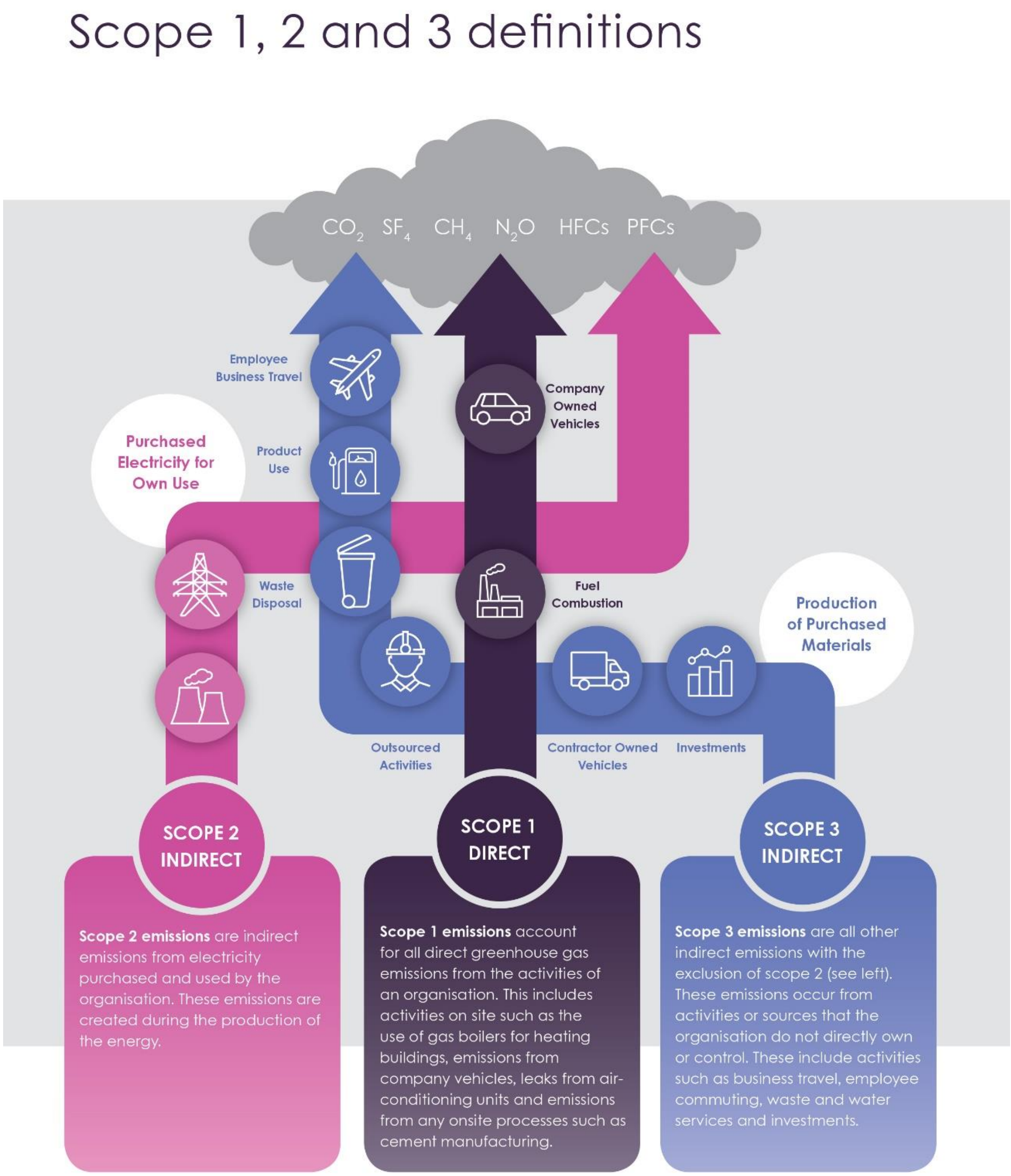


Carbon Metrics [section divider]

Carbon Metrics Reporting

We report on a variety of carbon metrics, including the carbon intensity, energy mix and disclosure rates for the aggregate equity portfolio on an annual basis. This is the fourth year we have undertaken this analysis and the findings are reported relative to a customised benchmark composed in the same proportions as the investments we hold.

Our carbon footprinting analysis, facilitated by Brunel, includes scope 1, scope 2 and first tier scope 3 emissions.



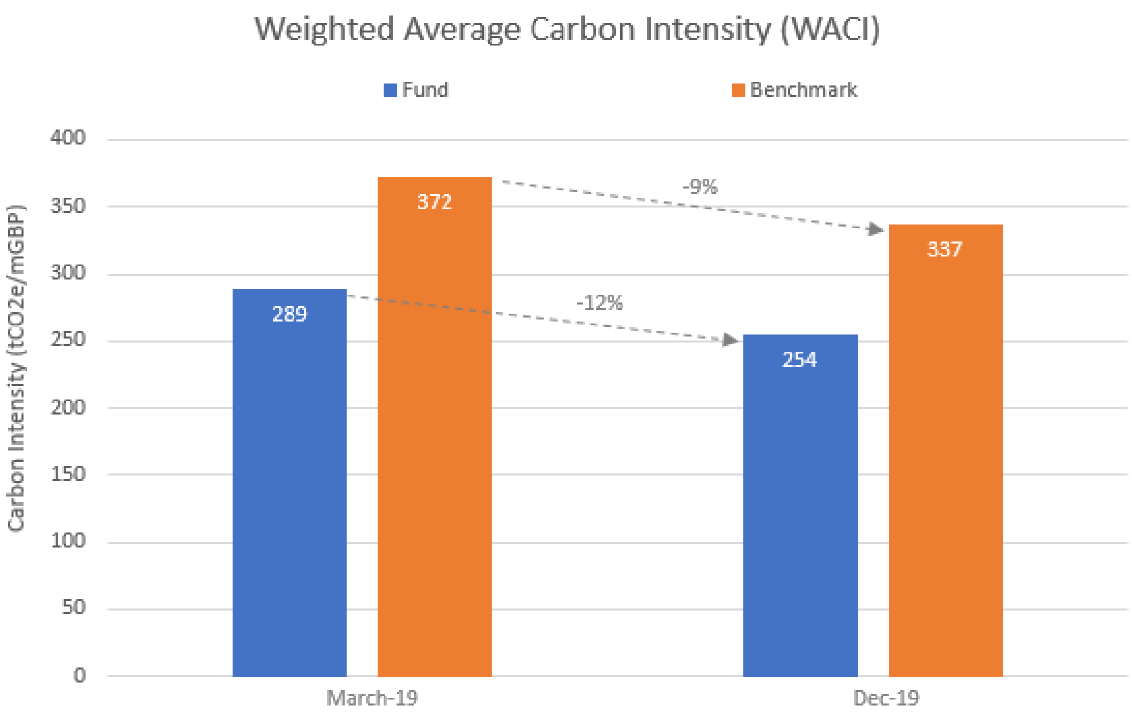
We use carbon footprinting to understand the equity portfolios' exposure to carbon. It shows us the relative carbon performance of holdings within a sector, identifies large contributors and outliers as well as identifying engagement opportunities.

Our equity portfolio at a glance

- On a Weighted Average Carbon Intensity (WACI) basis, **the portfolio is 25% less carbon intensive than its custom benchmark** and has reduced its carbon intensity by 12% since last year
- The aggregate equity portfolio is **less exposed to both fossil fuel revenues** (6.1% vs 11.7%) and disclosed reserves (3.3% vs 7.1%) than its benchmark
- Energy mix of aggregate portfolio contains a lower share from fossil fuels versus the benchmark, in particular coal (17% vs 31%), and a **higher share from renewables** (11% vs 7%)
- All active **Brunel sub-portfolios that the Fund invests in have a lower carbon intensity** than their respective benchmarks
- **>50% of the Fund's equity holdings fully disclose their carbon data** on a carbon weighted measure. On an investment weighted measure 66% of companies fully disclose

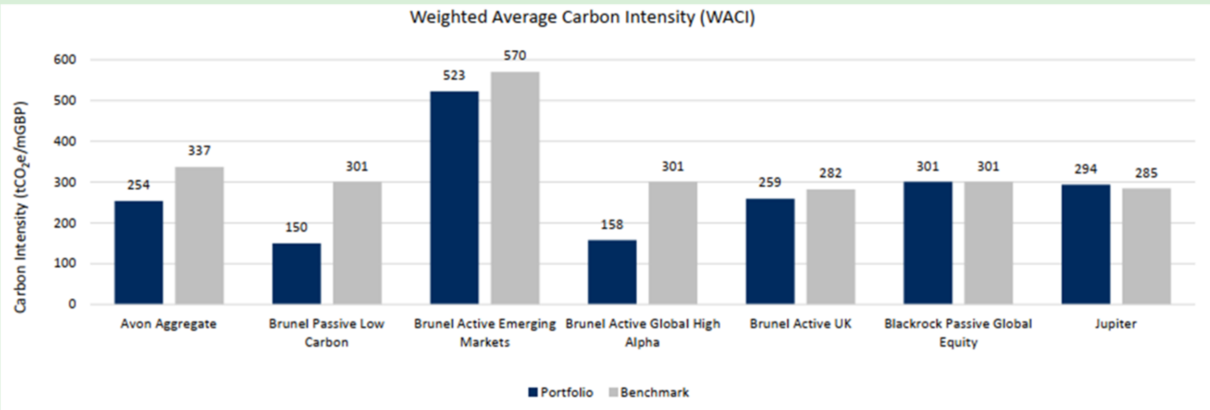
(i) Weighted Average Carbon Intensity (WACI)

The WACI shows a portfolio's exposure to carbon intensive companies. Because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy intervention and changing consumer behaviour. We illustrate the WACI of our aggregate equity portfolio (and its respective benchmark) below.



WACI rates for Brunel portfolios

Each of the Brunel Sub-Portfolios that the Fund invests in have a WACI below their respective benchmarks and actively seek to reduce the carbon intensity of their portfolios by 7% each year until 2022 (relative to the benchmark), consistent with our own objective of becoming 30% less carbon intensive than the benchmark by 2022.

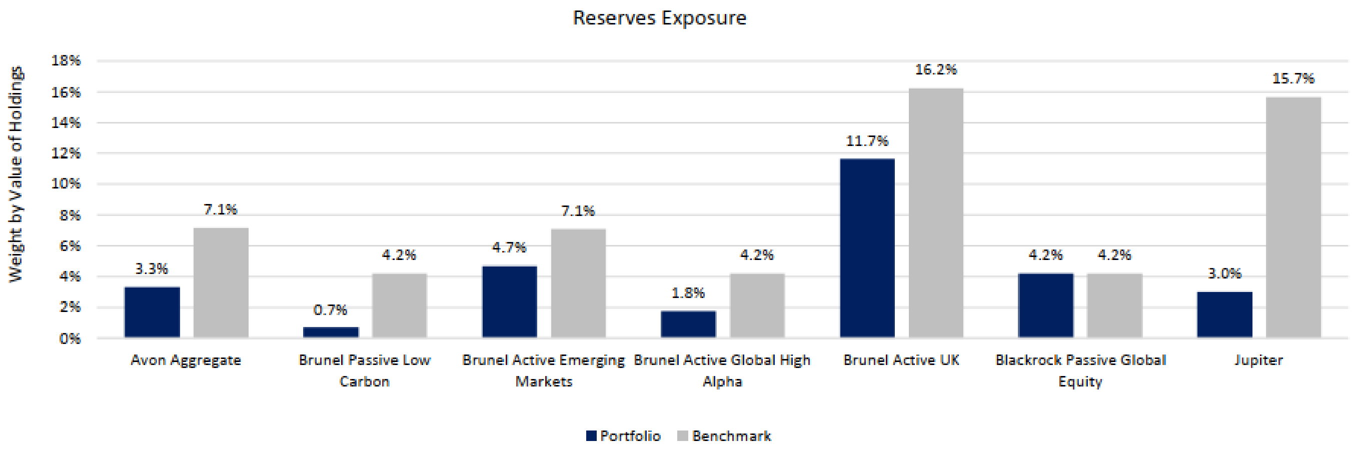


During the year Brunel worked with an underlying manager in the Active UK Equity Portfolio in order to reduce the carbon intensity of investments made. With significant capital allocated to this portfolio, we supported the action taken by Brunel to improve the carbon exposure both in terms of achieving an absolute reduction and a relative improvement versus its benchmark.

(ii) Exposure to Extractive Industries

It is important to identify exposure to business activities in extractives industries[1] in order to assess the potential risk of 'stranded assets'. 'Stranded assets' are assets that may suffer from premature write-downs and may even become obsolete due to changes in policy or consumer behaviour. This is a real potential risk for assets in extractive industries as we transition to a lower carbon future.

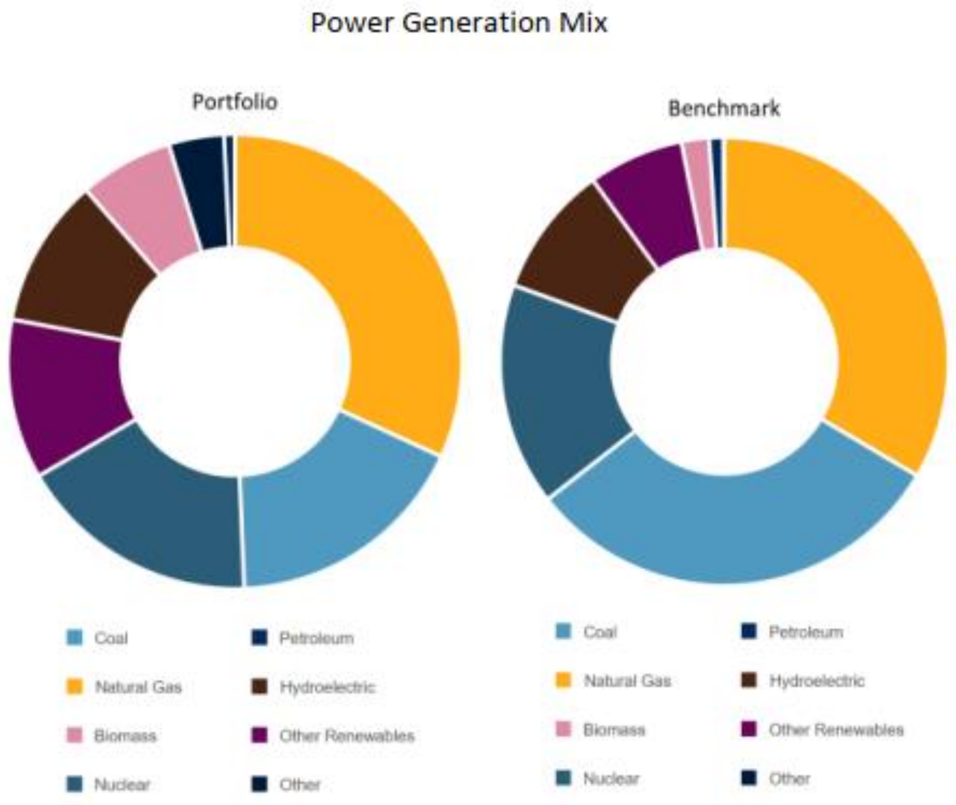
We can identify the exposure to extraction-related activities by analysing the Reserves Exposure for each equity portfolio. As can be seen from the below chart, all of our equity portfolios have lower reserves exposure than their respective benchmarks. The exception being the BlackRock passive global equity portfolio which is mandated to track its benchmark.



(iii) Power Generation Mix

We can also illustrate the power generation mix of our equity portfolio against its custom benchmark. The level of energy generated from fossil fuels, specifically coal is lower (17% vs 31%) than the benchmark, whereas the proportion of renewables, in particular biomass and other renewables such as solar, wind, tidal and geothermal, is higher.

[1] Extraction-related activities include crude petroleum and natural gas extraction; tar sands extraction; natural liquified gas extraction; bituminous coal and lignite mining; drilling oil and gas wells and support activities for oil and gas operations


Power Generation Mix
Portfolio
Benchmark
Coal
Petroleum
Natural Gas
Hydroelectric
Biomass
Other Renewables
Nuclear
Other
Coal
Petroleum
Natural Gas
Hydroelectric
Biomass
Other Renewables
Nuclear
Other

Stewardship [section divider]

Stewardship

One of our key RI beliefs is that we have a duty to exercise our stewardship and active ownership responsibilities effectively by using our influence as a long-term investor to encourage responsible investment behaviour. In order to achieve this, we recognise that working collaboratively with other investors will drive the most effective outcomes. The following sections outline how the Fund has fulfilled its role as a responsible steward and how successful the engagements have been over the year.

While engagement is not an exact science and the effectiveness of each engagement must be judged on its own merits, our managers and affiliates can draw on a set of tools to maximise the impact they have. We have seen managers employ a combination of the below strategies through the course of the year:

- **Collaborative engagement** – As a signatory to CA100+, we are leveraging a combined $35 trillion under management to spur change at over 100 of the world's biggest greenhouse emitters.
- **Public statements** – including open letters to companies and policy makers alike. For example, we participated in IIGCCs letter-writing campaign to UK and EU leaders calling for a sustainable recovery to the COVID-19 pandemic.
- **Annual shareholder meeting statements** – we expect our managers to raise concerns at shareholder meetings and to put questions to management of companies on behalf of the Fund. This has the advantage of engaging with company boards in the public arena to raise awareness of key issues.
- **Voting** – we expect our managers to vote at company meetings and disclose where votes have been cast in opposition to management or certain shareholder resolutions.
- **Shareholder resolutions -** there has been a marked increase in the number of shareholder resolutions filed over the past year, as investors seek to increase pressure on companies, particularly with respect to climate change.

Measuring the success of voting and engagement is critical to being able to establish the rate of change within a certain company and provides valuable insights into how a company is performing relative to its peers.

The Fund directly benefits from the engagement framework developed by Federated Hermes, which is applied to all of the listed holdings within Brunel portfolios. This allows Federated Hermes to track progress in engagements relative to objectives set at the beginning of direct company interaction. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can be broadly defined as follows:

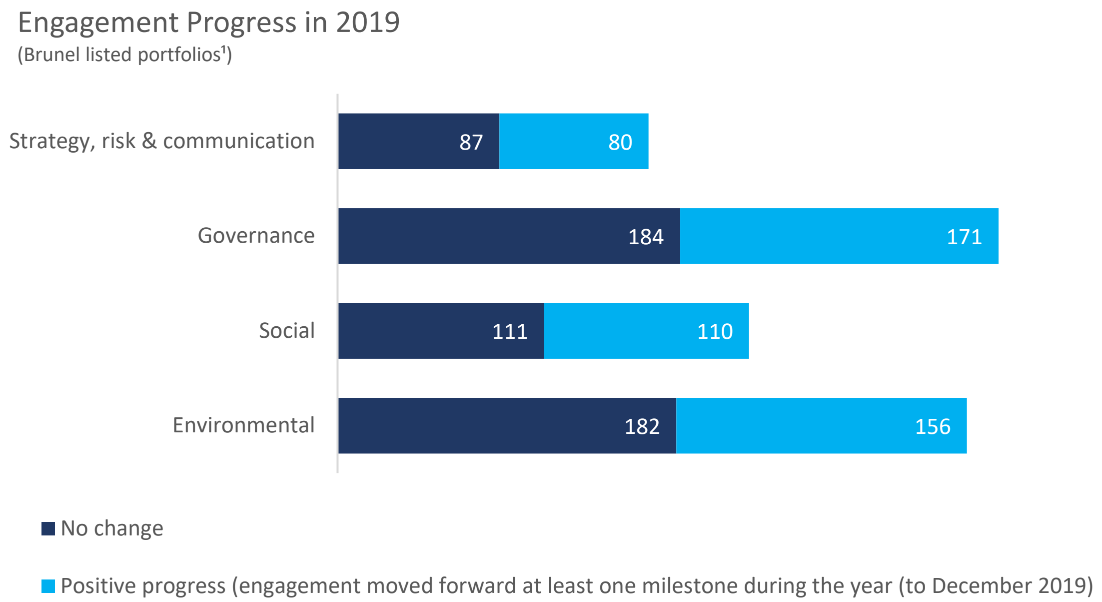
Milestone 1: Concern raised with the company at the appropriate level

Milestone 2: The company acknowledges the issue as a serious investor concern

Milestone 3: Development of a credible strategy/ Stretching targets set to address the concern

Milestone 4: Implementation of a strategy or measures to address the concern

Across all Brunel portfolios Federated Hermes were able to move at least one milestone forward for over half of the objectives set during the year to December 2019. The following chart describes how much progress has been made in achieving the milestones set for each engagement:



Source: Brunel/Federated Hermes
[1]Milestones shown for all Brunel portfolios including those that Avon does not invest in

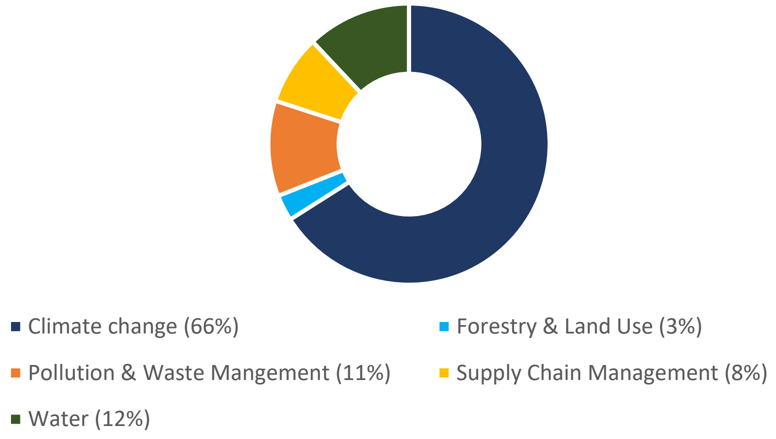
Engagement Activity

(i) Brunel portfolios

Over the year to March Federated Hermes has engaged with **393** companies held by Avon in Brunel's UK, Emerging Market and Global Equity portfolios on a range of **1,075** ESG issues.

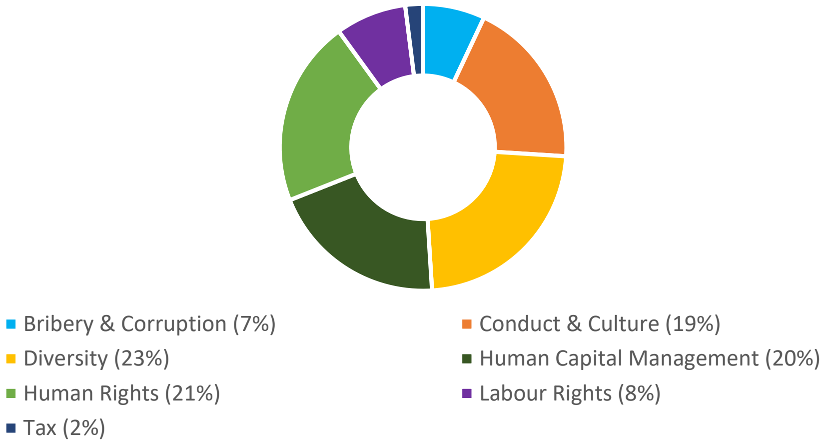
Environmental

Environmental topics featured in 27.4% of engagements over the year



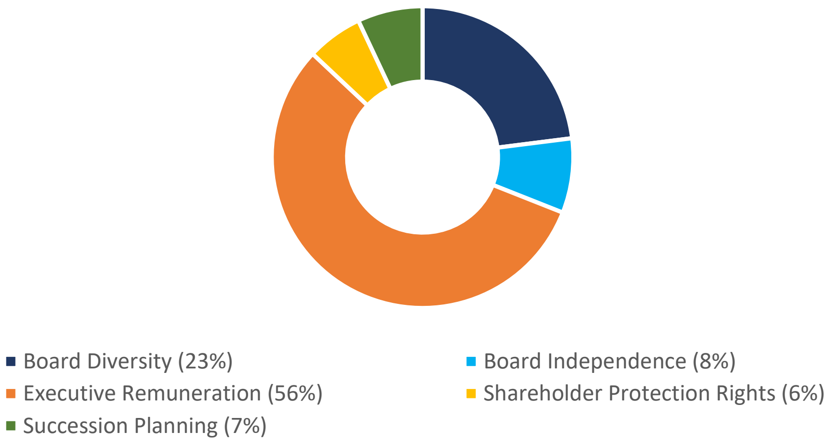
Social

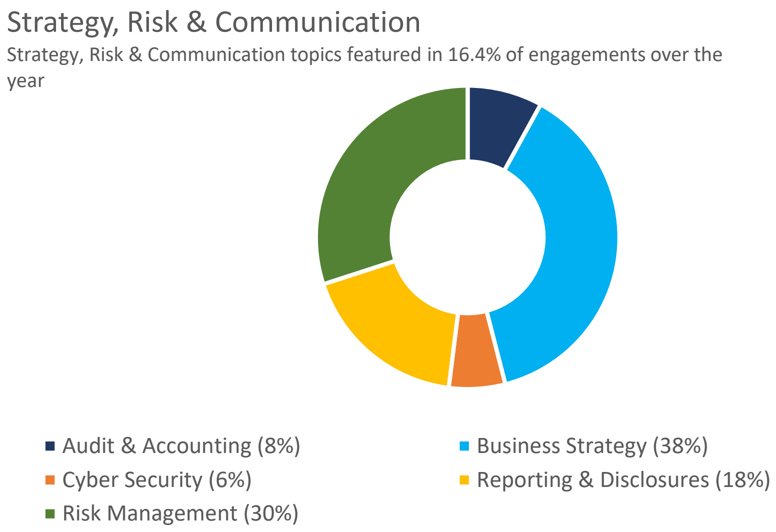
Social topics featured in 19.5% of engagements over the year



Governance

Governance topics featured in 36.7% of engagements over the year





(ii) LAPFF

275 company engagements were undertaken through the course of the year by the Local Authority Pension Fund Forum (LAPFF) which we have been a member of since 2005. The forum continues to provide a platform for us to engage with companies on a broad range of ESG issues. This year environmental topics featured in over half of the engagements undertaken; governance topics represented approximately a quarter, where executive remuneration featured prominently; social topics, in particular diversity and human rights, featured in approximately 15% with the remaining engagements focussed on reliable accounts and audit risk.

(iii) Engagement Highlights

Company: Tencent (China)	Held: EM & Global Active Equity Portfolios
Issue: Social (diversity)	**Engagement Lead: Federated Hermes**

Since listing the company in 2004, Tencent has had a 100% male-dominated board, despite having female senior management in vice president roles. Federated Hermes renewed engagement on board diversity in 2019 with the aim of having at least one female director on the board by 2019 and a 20% representation in 2020.

Engagement began with a meeting with the company's senior legal counsel and a letter sent to the company's chair. Recommendations were made on how to specify talent search criteria to encourage fairer and non-discriminatory practices. Federated Hermes also leveraged state media reporting in their discussions, which had pointed to the high percentage of women establishing online businesses in China.

Ahead of a meeting with company management, Federated Hermes recommended voting against a member of the nomination committee at the 2019 AGM. At the meeting confirmation was received that the board acknowledged that gender diversity throughout the organisation should be improved and later in 2019 the company successfully appointed a female director. Tencent continues to implement a board diversity policy designed to ensure that the board has the appropriate balance of skills, experience and diversity of perspective, to grow the company. Tencent also aims to ensure that a certain percentage of promotions each year go to emerging internal talent to maintain dynamism.

Company: General Motors (US)	Held: Diversified Growth Portfolio
Issue: Governance (Trade Associations)	**Engagement Lead: Ruffer**

For this manager it is important that a company's stated policy, particularly on climate change, is aligned with its lobbying activities and practices and has been engaging with companies on this contentious issue for several years.

This year, they have sought the public disclosure of political contributions and trade association memberships and have voted for a number of shareholder resolutions asking for additional disclosure of lobbying-related activities. In discussions with General Motors it was revealed that the company is conducting a review of its trade associations and will be providing information to investors by the end of 2020. While engagement is ongoing, the manager supported a shareholder resolution at the AGM, as they had done in 2018, calling for additional disclosure of the company's lobbying-related activities.

Company: BP (UK) **Held: Passive, UK Active Equity & DGF Portfolios;**
Issue: Environmental (climate change) **Engagement Lead: CA100+**

As a Climate Action100+ signatory the Fund participated in a shareholder resolution calling on BP to set out a business strategy that is consistent with the goals of the Paris Agreement on climate change. It followed sustained and constructive dialogue with the company co-ordinated by CA100+ and delivered with the support of the IIGCC. The resolution made a number of robust reporting requirements, including:

- How the company evaluates the consistency of each new material capital investment with the goals of the Paris Agreement
- Related metrics and targets, consistent with the goals of the Paris Agreement, together with the anticipated levels of investment in oil and gas and other energy technologies
- Targets to promote operational greenhouse gas reductions and the estimates carbon intensity of energy products
- The linkage of the company's targets with executive remuneration

With 99.14% of shareholders voting in favour of the resolution, including the BP board, the company now needs to set out a business strategy consistent with the goals of the Paris Agreement. The scale of support for the resolution reflects the growing importance investors place on climate change as a matter of corporate strategy and governance. Similar shareholder resolutions targeting companies including Royal Dutch Shell, Equinor and Glencore were withdrawn following commitments made as a result of ongoing engagement.

Company: Multiple **Held: Multiple Portfolios**
Issue: Social (human rights - tailings dams) **Engagement Lead: LAPFF**

The Investor Mining & Tailings Safety Initiative was created following the failure of a tailings dam facility in Brazil in 2019 which led to serious loss of life. LAPFF has played a significant role in supporting and liaising with the affected communities through this initiative, ensuring that the community voice forms part of an ongoing narrative.

LAPFF was a signatory to a letter campaign that targeted 683 companies requesting data on tailings storage facilities for which they are responsible. 197 companies have submitted data so far and a further 114 companies have stated that they are not responsible for the operation of tailings dams. Furthermore, this sustained campaign has led to a number of mining companies to publicly disclose their tailings dam data on their websites, including Anglo American, Glencore and Rio Tinto.

LAPFF continues to play an active role in the investor initiative liaising directly with representatives from the affected communities. As Vale, Anglo American and Arcelor Mittal all have significant tailings dam exposure in Brazil, LAPFF has approached all three to gain assurance that they have taken adequate steps to prevent further tailings dam collapses. As part of the engagement and to build credibility at company meetings, LAPFF have engaged with affected community members to determine their main concerns; these exchanges have proven invaluable in highlighting issues and questions to pose to the companies about the security of their assets and any threats from an investment perspective. LAPFF continue to engage intensively on this issue.

Company: Woolworths Group (Australia) | **Held: Diversified Growth Portfolio**

Issue: Environmental (Pollution & Plastics) | **Engagement Lead: Pyrford**

As awareness of the negative impact of single-use plastics and the ensuing shift in consumer expectations and behaviour unfolded in Australia, this manager was keen to engage with the country's largest supermarket brand on their use of lightweight plastic carrier bags and pre-packed food products. Following the voluntary removal of free lightweight plastic bags, the manager asked the company for details on further initiatives to build on this initial success. In October 2019 the company disclosed to the manager that they had removed ~300 tonnes of plastic from fruit and vegetable packaging since engagement began in 2017; in addition, other single-use plastics such as straws and black plastic meat-product packaging has been replaced with sustainable alternatives. By prioritising the materials used in its supply chain the company has become a market leader in retail sustainability in Australia.

Institutional Investors Group on Climate Change (IIGCC) – Policy Advocacy

We joined over 100 investors, representing over €11 trillion in assets, to call on EU leaders to ensure a sustainable economic recovery from COVID-19 which supports the EU Green Deal & upholds the Paris Agreement. The letter, prepared by the Institutional Investors Group on Climate Change (IIGCC) followed a similar approach at the domestic level where we pledged our support for a letter to the UK Government along with over 200 businesses, investors and business groups, requesting a recovery from the pandemic which builds a more sustainable, inclusive and resilient UK economy.

Voting Activity

The Fund delegates voting to its investment managers and monitors how each manager undertakes voting activities in comparison to relevant codes of practice.

Through our underlying managers we participated in 6,547 company meetings, casting over 70,000 votes demonstrating the scale and range of topics covered at company Annual General Meetings (AGMs).

We have seen continued, gradual growth in support for shareholder resolutions on environmental and social issues. According to ISS, support for these resolutions averaged 26.8% in 2019, compared with 25.1% in 2018 and 21.9% in 2017. Despite often failing to gain majority support, shareholder resolutions can be a useful tool to improve the outcome of engagement with management and the increase in support levels does point to the increasing quality and relevance of resolutions.

In 2019 European companies came under increasing pressure to improve governance standards, particularly with the introduction of the EU Shareholder Rights Directive II, which meant companies have to comply with more stringent disclosure requirements in relation to executive remuneration and related party transactions. This pressure manifested as an increase in shareholder activism and a decrease in shareholder support during the 2019 AGM season. The year also saw the highest percentage of support for shareholder resolutions to remove a board director; 69.1% compared to 35.6% in 2018[1].

One of our equity managers used its voting rights more frequently to escalate issues where engagement had been unsuccessful with votes against company management increasing from 9.8% in 2018 to 11.5% in 2019. A particular area of focus for this manager was the appointment of non-independent audit committee chairs which is not in line with UK best practice. Over the year their support for audit committee members fell from 82% to 65%.

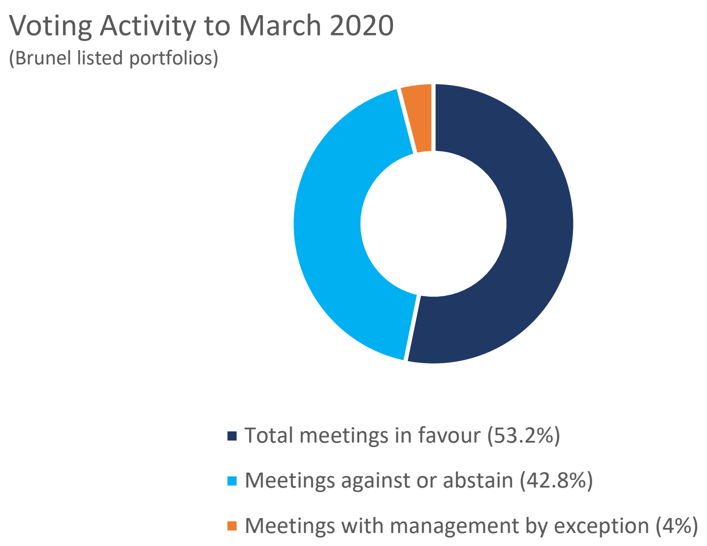
Among our DGF managers the number of company meetings voted at has expanded significantly over the past few years: from 233 in 2017 to 282 in 2019, an increase of 21%. Of the resolutions voted 155 were against management, compared to 107 the prior year, an increase both in absolute terms and as a proportion of votes cast.

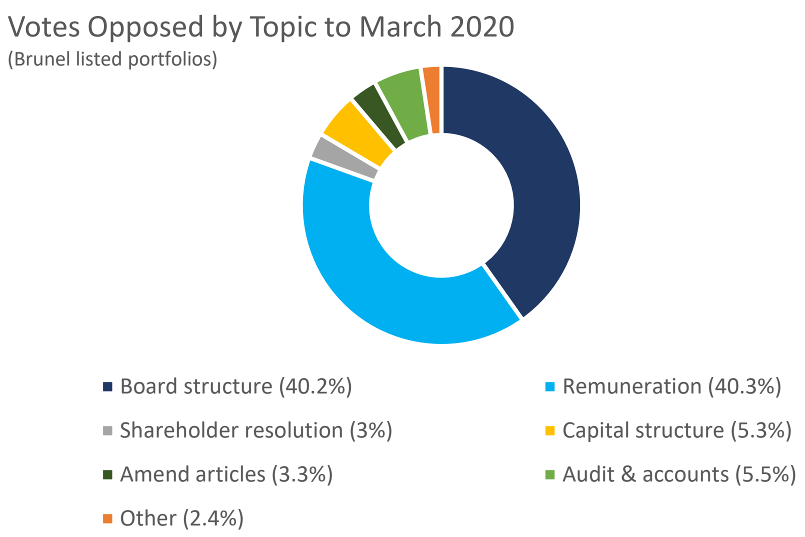
Elsewhere, “overboarding” (where directors sit on too many boards) remained a concern with material increases in votes cast against individual re-election of board members. Overboarding will likely be prominent in forthcoming engagements and voting activity partly as a result of the COVID-19 pandemic which has led to an increase in the frequency of exceptional board meetings, putting pressure on those individuals with a portfolio of board-level commitments.

With respect to Avon’s holdings in the Brunel UK, Emerging Market and Global Active equity portfolios, Federated Hermes made voting recommendations at 299

[1] Source: Schroders / Proxy Insight

meetings covering over 4,000 resolutions. At 43% of those meetings Federated Hermes recommended opposing one or more resolutions. The majority of resolutions where Federated Hermes recommended voting against management related to board structure and executive remuneration.





Case Study: Brunel Pension Partnership co-file a shareholder resolution at Barclays AGM

Led by ShareAction and in collaboration with institutional investors managing over £130billion, Brunel co-filed a shareholder resolution at Barclays 2020 AGM. This landmark resolution – the first climate change resolution filed at a European bank – requested that Barclays publish a plan to gradually stop the provision of financial services to companies in the energy sector, and to gas and electric utilities that are not aligned with the goals of the Paris Agreement.

Since the Paris Agreement was signed in 2015, Barclays have provided more than $85 billion of finance to fossil fuel companies, making it the world's sixth largest backer of fossil fuels, and constitutes the highest level of fossil fuel financing of any European bank, exceeding its peers by over $27 billion.

The proposal also encouraged Barclays to consider the social dimension of the transition to a resilient and low-carbon economy, as per the Paris Agreement. This made it the first climate change resolution to refer to a just transition. This resolution represented a significant opportunity for Barclays to bring its lending practices in line with global climate ambition and play an active role in accelerating the low-carbon transition.

The outcome of the meeting was hailed a success with Barclays' own management resolution winning majority support and committing them to becoming net carbon zero by 2050. The shareholder resolution won significant minority support, prompting the bank to consult with shareholders and explain the views received and actions taken publicly within a set period of time. The result is a great example of the power of collaboration and highlights the value of shareholder engagement.

RI Priorities 2020/21 [section divider]

2020/21 RI Priorities

Our 2020/21 engagement priorities will be informed by our internal policy, Brunel's policy and its strategic partnerships with Federated Hermes and the wider investment management community.

There is expected to be a large degree of alignment with Brunel's seven priority themes. The additional resources available to Brunel mean they can dedicate time to emerging environmental and societal themes too, which are captured in Federated Hermes' 2020 engagement plan:

The main priorities for the Fund remain as before, namely:

- **Climate change including pollution, waste and plastics**
- **Human Capital**
- **Diversity and Inclusion**
- **Cyber security**
- **Cost and tax transparency**

As part of Federated Hermes' annual review process where clients work collaboratively to research, forecast, discuss and agree the plan over a series of touchpoints (including client surveys, feedback sessions and organised discussions) emerging themes are added to the engagement plan. Last year for instance

sustainable protein sources, artificial intelligence and plastics were added and continue to be a source of focus. Over the past year Federated Hermes' have published a series of thought pieces covering sustainable land use and biodiversity loss and the environmental impact of fast fashion; themes that are likely to shape future thinking and that we are wholly supportive of.

Finally, we support efforts to focus improving regional and sector disclosure levels by engaging with companies that currently provide little in the way of transparency. Brunel and our strategic partners will be instrumental in determining the best engagement approaches to use to achieve the greatest impact.

List of Appendices

1. Avon Pension Fund Responsible Investing Policy

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

2. Brunel Pension Partnership Climate Change Policy

https://www.brunelpensionpartnership.org/wp-content/uploads/2020/01/Brunel-Climate-Change-Policy-rev01.pdf

3. Brunel Pension Partnership Responsible Investment and Stewardship Outcomes Report 2019

https://www.brunelpensionpartnership.org/wp-content/uploads/2020/06/Brunel-2020-Responsible-Investment-and-Stewardship-Outcomes-Report.pdf

4. Brunel Pension Partnership Voting and Engagement Annual Review 2019

https://www.brunelpensionpartnership.org/wp-content/uploads/2020/03/Brunel-Annual-Report-2019.pdf

5. Local Authority Pension Fund Forum Annual Report 2019

https://lapfforum.org/wp-content/uploads/2020/07/LAPFF-Annual-Report-2019.pdf

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Brunel Pension Partnership

Avon Pension Fund

Forging better futures
Public

Authorised and regulated by the Financial Conduct Authority No. 790168

25 Sept 2020

Brunel overview

- Brunel Pension Partnership (Brunel) is one of the eight national Local Government Pension Scheme (LGPS) pools, bringing together circa £30 billion investments of 10 likeminded funds.

- Brunel formally began its operations on 18 July 2017 upon the execution of the current shareholders agreement and its subsequent annexes, such as the services agreement

- Brunel is authorised by the Financial Conduct authority as a full-service MiFID firm since March 2018.

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BRUNEL
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Responsible Investment Update

Covid-19 Pandemic and RI

The Covid-19 pandemic has fired up Responsible Investment activity

Pandemic stirs Wall Street's social conscience

Institutional investors say COVID-19 pushed ESG to forefront

Covid-19 shows why ESG matters;

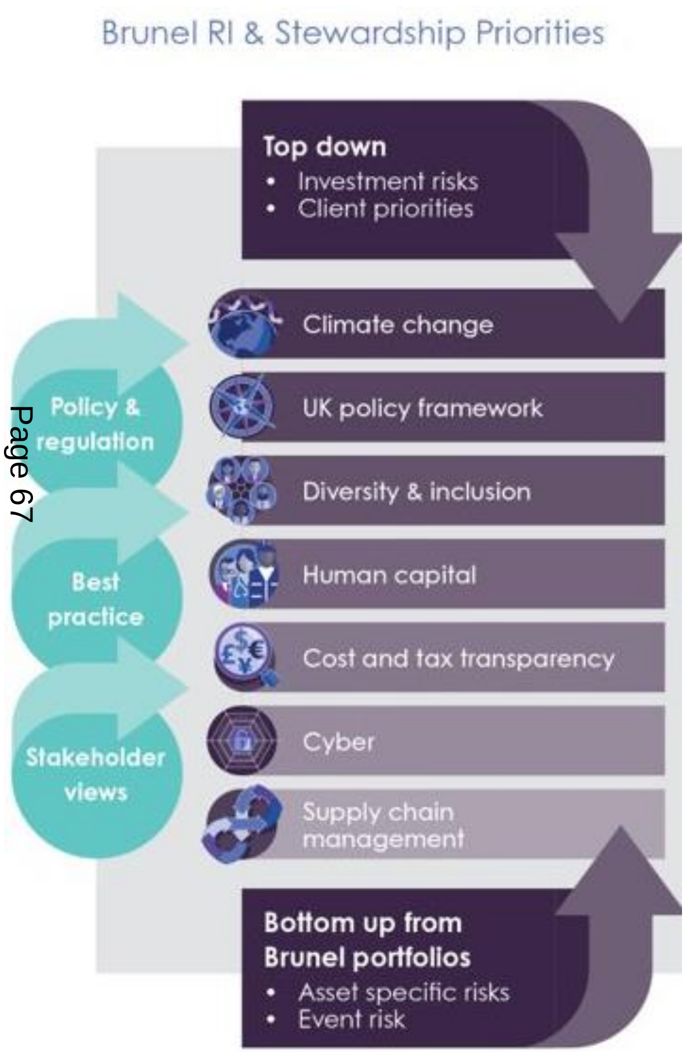
Letter: Covid-19 has put fresh focus on ESG investing

'Covid-19 and Black Lives Matter show why companies have to govern from the front'

ESG passes the Covid challenge

Investment with a sustainable focus is only likely to grow, wealth managers believe

Responsible Investment Update



Covid-19 Pandemic and RI

- COVID has heightened almost every area of our work and uncovered important new topics
- Climate change remains a focus
- Increased spotlight on the 'S' of ESG

Responsible Investment Update

Climate Change – Barclays update

- Brunel co-filed the first ever shareholder climate resolution at a major European bank in December 2019

- 23.95% of votes supported the resolution at the Barclays AGM in May 2020
- Demonstrating clear shareholder backing for the bank to become net zero by 2050

Climate Change – Blackrock update and TCFD

- Following extensive engagement with Blackrock, we welcomed their public stance over **voting against 53 companies** and putting another **244 on 'watch**' for inadequate action over climate risk

- TCFD could be embedded in UK pensions law

- Net Zero Framework – IIGCC project to pilot new tools to assess our portfolios' alignment with climate goals

Responsible Investment Update

Climate Change - Net Zero Investment Framework

- The framework has been developed with over **70 global investors**, representing more than **$16 trillion**, through the Institutional Investors Group on Climate Change (IIGCC)

  - Aims to maximise investor contribution to decarbonisation, helping to keep global temperature rises below 1.5°C
  - Brunel are encouraging the industry to respond to the consultation phase

- Brunel is among a group of 5 investors that are testing the framework, by modelling the impact of real-world portfolios

IIGCC
Institutional Investors Group on Climate Change

Responsible Investment Update

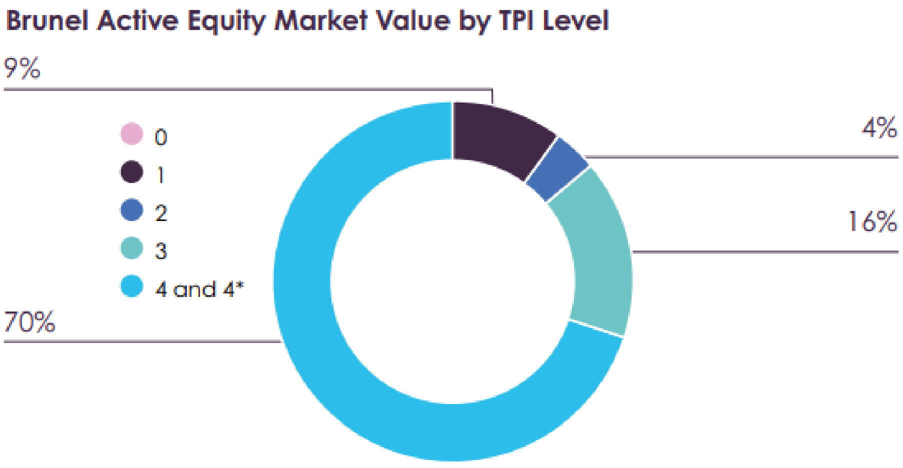
Climate Change - Net Zero Investment Framework cont.

- Working with Avon, we submitted three portfolios for modelling:
  - ‘Benchmark Portfolio’ – passive portfolio with no climate considerations integrated
  - ‘Current Portfolio’ – the listed portion of Avon’s current investment portfolio
  - ‘Future Aligned Portfolio’ – hypothetical portfolio applying the Net Zero methodology to Avon’s portfolio
- We look forward to sharing the results of the modelling with analysis and the final framework before the end of 2020.

Responsible Investment Update

Climate Change – how do we measure our progress?

- We aim to have all of our material holdings on **TPI** level 4 or above by 2022
- We aim to reduce the **carbon intensity** of our Portfolios by 7% each year vs the benchmark
- Product governance – 2022 **stocktake.** Client agreed metrics to be developed



- PAII Project will help us to define what a Paris Aligned Portfolio looks like and inform how we progress towards **alignment**
- **Public Policy outcomes** - e.g DWP Climate amendment to Pension Bill
- **Persuasion and engagement - company commitments** : e.g Barclays, Blackrock, BP, Shell
- **Positive impact** reporting and metrics – developing first phase in line with Business Plan to be delivered in 2021

Responsible Investment Update

COVID has created a spotlight on the 'S' of ESG

- Racial inequality – Talk About Black
- Labour standards and modern human slavery
- Workplace mental health

- We have been engaging across all of these topics, both directly with companies and through our asset managers, working collaboratively with other investors in the industry

Responsible Investment Update

Racial Inequality - Talk About Black

- Helen Price published a public blog on Talk About Black

- We are members of the Diversity Project and contributed to guidance around how asset owners can integrate diversity into the selection process

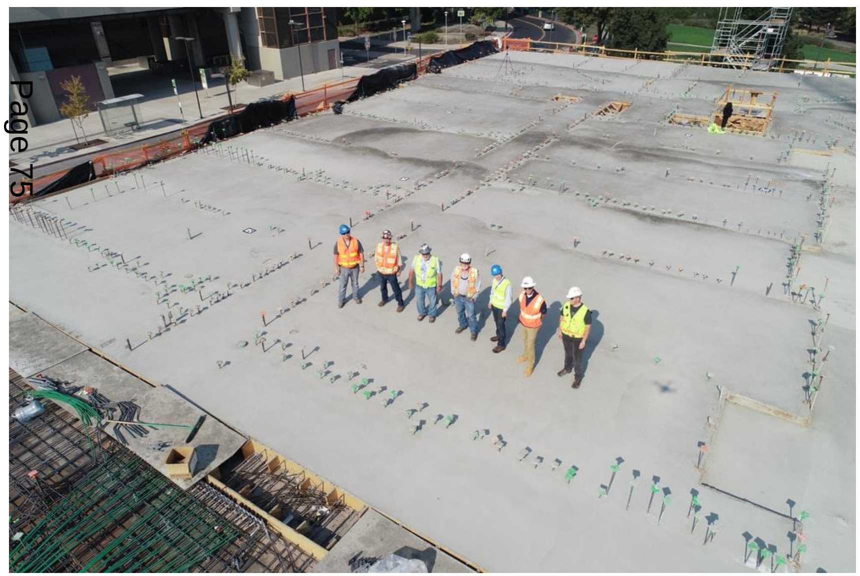
- We are seeking to improve the amount of data available around diversity and inclusion, working with data and engagement providers

DIVERSITY PROJECT

Responsible Investment Update

Migrant Labour and Modern Human Slavery

The COVID pandemic has created a migrant labour crisis, particularly in the Middle East



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Alongside **38 other investors**, comprising $3 trillion we have written to **54 companies** who have operations in The Gulf, focusing on high risk sectors of hospitality, construction and oil and gas.

We are asking companies to:

- Engage independent specialists to perform exit interviews
- Commit to reimbursing recruitment fees and adopt the 'employer pays principle'
- Perform best practice due diligence on labour outsourcing companies

Responsible Investment Update

Workplace Mental Health

- Before the pandemic, mental ill-health was costing UK employers £33-42 billion every year

- We wrote to all **FTSE 100 companies** alongside a coalition of investors with **£2.2 trillion**.

- Urging companies to develop a specific 'mental health during COVID-19 action plans', with items such as:

    - Training for all line managers on how to spot signs of poor mental health and assist vulnerable employees
    - Increased flexibility in job design and performance appraisals
    - Clear details for employees on how to access support

Responsible Investment Update

Brunel's PRI Assessment

BRUNEL PENSION PARTNERSHIP (BPP)

Submitted Year: 2020

† Asset classes were aggregated to four ranges: 0%; <10%; 10-50% and >50%

Summary Scorecard

AUM	Module Name	Your Score	Median Score
	01.Strategy & Governance	A+	A
Indirect - Manager Sel., App. & Mon			
>50%	02. Listed Equity	A+	A
<10%	07. Private Equity	A+	A
<10%	08. Property	A+	A
<10%	09. Infrastructure	A+	A
Direct & Active Ownership Modules			
0	11. Listed Equity - Active Ownership	A	B

The full report is published on our website.

Responsible Investment Update

Time for your questions

BRUNEL
Pension Partnership

Thank you for your time and attention.
Any questions?

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 September 2020**	**AGENDA ITEM NUMBER**
TITLE:	**Investment Strategy Statement**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Investment Strategy Statement Appendix 2 – Consultation Responses Appendix 3 – Checklist against regulations and guidance		

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 There has been a consultation with scheme employers and Trade Unions as well as publishing it on the website for wider comments. In addition, the Pension Board has reviewed the draft statement for compliance with the regulations. The Committee is asked to consider the Board's comments and those from the consultation respondents before agreeing the final version of the ISS for publication.

2 RECOMMENDATION

That the Committee:

2.1 **Notes the conclusion from the Pension Board that the Draft ISS complies with the regulations and statutory guidance.**

2.2 **Notes the comments from those that responded to the Consultation.**

2.3 **Approves the ISS for publication.**

3 FINANCIAL IMPLICATIONS

3.1 This report contains no direct financial implications.

4 INVESTMENT STRATEGY STATEMENT

4.1 The regulations provide a prudential framework within which the Fund is required to manage the investment assets in the best long-term interests of scheme members and other stakeholders.

4.2 The ISS must be consistent with the Funding Strategy Statement to ensure that there will be sufficient funds to meet the pension benefit payments as they fall due over time. To comply with the regulations and guidance, the ISS must include:

- (i) A requirement to invest money in a wide variety of investments;
- (ii) The assessment of the suitability of particular investments and types of investments;
- (iii) The approach to risk, including the ways in which risks are to be measured and managed;
- (iv) The approach to pooling investments, including the use of collective investment vehicles and shared services;
- (v) 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
- (vi) The policy on the exercise of rights (including voting rights) attaching to investments.

4.3 The ISS is reviewed regularly in between the formal 3 year reviews. Officers will update the investment structure (Appendix 2 to the ISS) and any other implementation aspects as required.

5 REVIEW BY PENSION BOARD

5.1 The Pension Board is responsible for ensuring the Fund complies with the regulations, including those relating to its statutory documents such as the ISS.

5.2 A session to discuss the ISS with the Board was held during the consultation period. Following this session, the Board concluded as follows:

"The Avon Local Pension Board (LPB) has concluded that the revised Investment Strategy Statement complies with scheme rules.

The Board has reached this decision by:

- (i) Reviewing the draft revised ISS the alongside the "Guidance on Preparing and Maintaining an Investment Strategy Statement" issued by DCLG in July 2017
- (ii) Preparing a list of written questions for the Group Manager, Funding, Investments & Risk
- (iii) Participating in a dedicated Training session, prepared and run by the Group Manager, Funding, Investments & Risk
- (iv) Comprehensively working through all the LPB member questions, in the session with the Group Manager, Funding, Investments & Risk
- (v) Reflecting and feeding back to the LPB Chair that there are no outstanding questions or concerns."

5.3 A checklist against the regulations and guidance is set out in Appendix 3

6 CONSULTATION RESPONSES

6.1 There were three responses to the consultation. The responses are set out in Appendix 2. The consultation was undertaken against the backdrop of uncertain economic and market environments; as a result, the employers support the risk aware and cautious strategy currently adopted in order to protect members pensions and affordability for employers. The key risks highlighted by respondents are all included in the risk register and are closely monitored. Scrutiny of Brunel will evolve as the relationship progresses from a focus on asset transition and strategic development of the partnership will be key to delivering investment returns in the longer term.

6.2 Unison's response calls for the Fund to divest from fossil fuel companies within 5 years to align with the Paris goals. The Fund's strategy does not commit to such divestment; however, the ISS sets out the clear direction of travel regarding alignment with the Paris goals and clear milestones for review. In addition, the Committee will be undertaking the following over the next 2-3 years with the intention that the portfolio will be aligned with the Paris goals:

a) A review of the equity portfolio to explore options to invest all equities on a sustainable or low carbon basis

b) Assess what $<2^{0}$C equity portfolios will look like ahead of the Paris Stocktake in 2022/23

c) Where engagement does not succeed ahead of the Paris stocktake, begin selective divestment from laggard companies.

6.3 Having review the feedback from the respondents, there are no changes to the draft ISS following the consultation. Therefore, the Committee is asked to approve the ISS set out in Appendix 1 for publication.

7 RISK MANAGEMENT

7.1 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.

7.2 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.

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

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is 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.

9 EQUALITIES

9.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

10 OTHER OPTIONS CONSIDERED

10.1 None.

11 CONSULTATION

11.1 Formal consultation with Pension Board, scheme employers and members, investment consultant.

11.2 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, Group Manager, Funding, Investments & Risk: 01225 395306
Background papers	LGPS Regulations and Government Guidance
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

for you, for now, for the future

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AVON PENSION FUND

Avon Pension Fund

Investment Strategy Statement

July 2020

Avon Pension Fund - Investment Strategy Statement 2020

1. 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 Fund's investment objectives
- To define the fund's To set out the governance arrangements for investment
- 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 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 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 returns consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

4.2 An assessment by the Fund's investment consultant generates 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.

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[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

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 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.

5.2 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

5.3 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.

5.4 Currently 37.5% of assets are allocated to equities of which 20% is targeted to be invested in sustainable and low carbon equities. Sustainable equity portfolios seek to maximise exposure to companies that are responding positively to the challenges of climate change, environmental sustainability or social well-being, whilst maintaining financial returns. 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.

5.5 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.

5.6 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.

5.7 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 including quoted equity, government and non-government bonds and less liquid private market assets such as infrastructure, property and private debt. Derivatives are used for the purpose of efficient portfolio management and to hedge specific risks. The Fund implements these strategies using a combination of passive and active investment managers.

6.2 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 Climate change scenario modelling indicates 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.

6.4 The most recent investment strategy review 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.

6.5 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.

6.6 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.

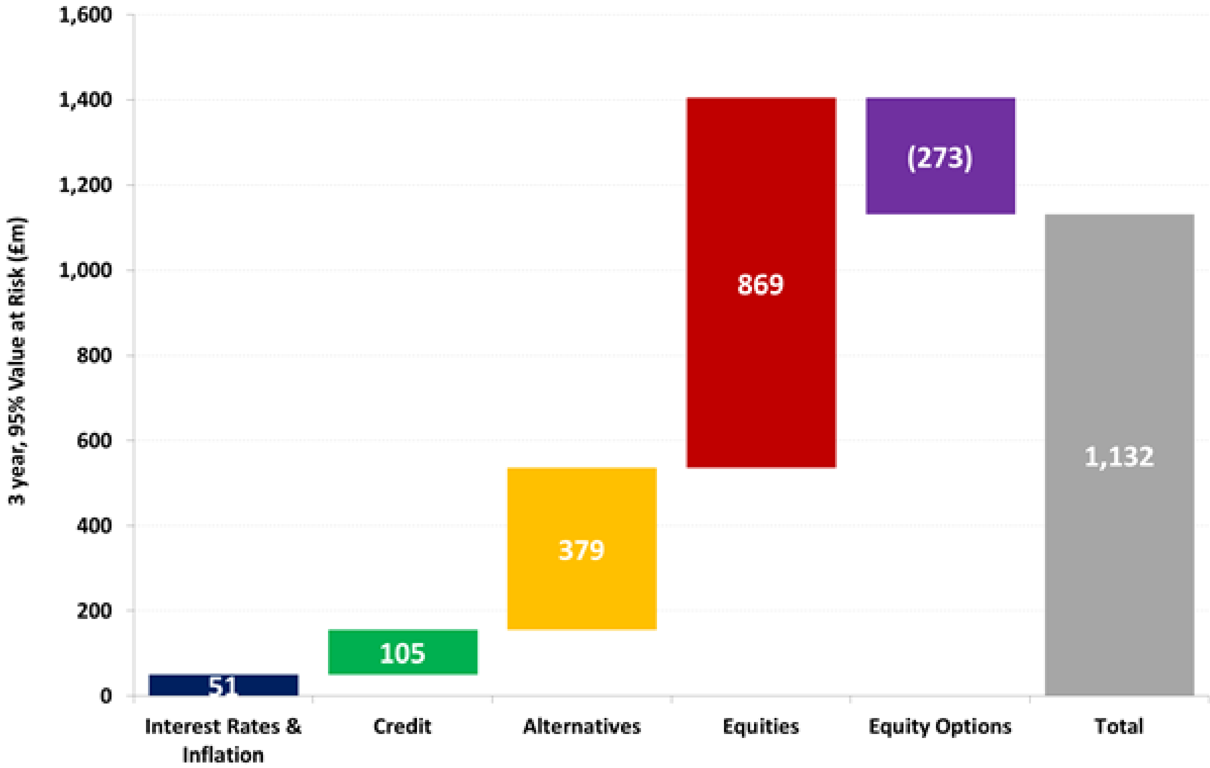
6.7 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) Policy including an assessment of the Environmental, 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 primary risk to the Fund is that its 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.



Source: Mercer

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 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 Fund is not in a position to 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, therefore, 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 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.

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[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.

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 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.

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 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 equity portfolio over time with the aim of being 30% less carbon intensive than the benchmark 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 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

[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.

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%**	**+/-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%**	**+/-5%**	
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%**	**n/a**	
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%	0.0-15%	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%	0.0-7.5%	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%**	**n/a**	
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

Appendix 2

Responses to Investment Strategy Statement (ISS)

The Consultation asked specific questions of the employers given that the investment strategy directly impacts their contribution plans. Other consultees were asked for general comments. The views expressed are those of the responders; in some cases they have been paraphrased. The intention has been to represent the comments concisely and as accurately as possible. Inevitably some of the detailed supporting material has had to be omitted.

University of the West of England

1) Whether you think that the strategy will enable employers to sustain contributions at their present levels or do you think the Fund should take on more risk in an effort to reduce potential contributions?

No, the Fund should not take on more risks. Given the profile of our members, which is maturing, the balance of risks, growth against income generation is broadly acceptable.

We have to ensure the on-going long-term affordability of the Fund.

Affordability of a pension fund is of two parameters, investments and liabilities - arguably the more crucial part. Whilst we accept that the Fund's liability is mainly driven by the benefit structure, which is beyond the remit of the Committee, we would advocate that the Committee should review its strategies in managing other aspects of the Fund's liabilities, including legacy issues, protection from failing employer members, trivial commutations, transfer values and buyouts.

2) Would you be prepared to pay for a more aggressive divestment approach or do you support the Paris alignment and the rationale of a 'Just Transition' approach?

No. It will bring into the question of the long-term affordability of the Fund for the University.

We would also advocate that the Fund to continue to take good governance and investment advice, so as investment strategy and asset allocation decisions are continued to be taking with professionalism, with evidence and sound reasoning, and not based on any particularly Committee member, members of the Fund (employees or employers) nor any political or pressure groups' persuasion or agenda.

3) Do you think the Fund is overly diversified and if so why?

No

4) Do you think that the Fund is too heavily invested in illiquid assets and if so why?

No. Most large employer members are committed to the Fund on a long term basis. However, at each ISS review point, reference should be taken with respect to the potential increasing maturity of the Fund as a whole.

5) What do you think the key risk is to the Fund's investment objectives and how do you think it should be addressed?

We note the increasing role that the Brunel Pension Partnership (BPP) will play in the management of the Fund's assets. As the portfolio under BPP management increases, individual fund members might find their influence and authority eroded. It is imperative that the Fund ensures that, particularly of the delegated oversight Committee members, are appropriate trained and equipped to scrutinise, extract safeguarding and accountability of the BPP.

Yate Town Council

1. Whether employers think that the strategy will enable employers to sustain contributions at their present levels or do employers think the Fund should take on more risk in an effort to reduce potential contributions?

It is the considered view from Yate Town Council that this is a very difficult question to answer in light of the present COVID-19 environment and its impact, now and ongoing, on the world's economies. However, based on what information is available at the moment, and on best 'guesstimate' of the present investment environment, the strategy is as suitable as it can be, in this rather remarkable period of time. But with the present world/economic 'unknowns' that exist now and will be ongoing, Yate Town Council do not believe that the Fund should take on more risk at this moment in time - there are simply too many uncertainties to be playing with Risk with pension funds. However, in six months time, this may well change.

2. Would employers be prepared to pay for a more aggressive divestment approach or do employers support the Paris Alignment and the rationale of a 'Just Transition' approach?

Bearing in mind the present financial environment, with the impact of COVID-19 crisis, this is more difficult to answer. It depends on a great number of factors, of which not all of them have been presently revealed in the aftermath of COVID-19 at the moment.

So would currently not support quite an aggressive approach.

3. Do Employers think the Fund is overly diversified?

Yate Town Council do not believe that the Fund is overly diversified - the Fund, quite rightly, has been cautious in it's strategy, and while past performance is no indication of future performance, this has proved to be a safe and steady approach.

For a Pension Fund responsible for pensions for some of the most low paid/vulnerable individuals in the country, the responsibility for the Fund should be to protect the Fund from any unnecessary risk for those members.

4. Do Employers think that the Fund is too heavily invested in illiquid assets and if so, why?

Yate Town Council's initial answer is no, it's about the right balance – but with the impact of COVID on the economies around the world, it is difficult to judge whether, in hindsight, it is/will be the right decision at the time.

5. What do Employers think the key risk to the Fund's investment objectives and how do Employers think it should be addressed?

Yate Town Council believe the impact of COVID-19 and its effect on the world's economies is a major key risk given it is something that we’ve not had to deal with before.

The risk of the far reaching impact of COVID-19 will be quite devastating, not just for financial economies, but for political and social implications, such as political upheaval and social unrest.

The Fund should be monitoring the situation on a frequent basis, to be alert for upcoming events, and trends developing, and have appropriate strategies to deal with its impact and contingency plans.

Yate Town Council appreciate that this is a challenge, but with flexibilities in its potential options, the impact can be lessened on the Fund.

Unison (B&NES, Bristol and North Somerset Branches)
The Unison response focussed on the Fund's policy for investments in and engagement with fossil fuel companies as follows: *The draft 2020 Investment Strategy Statement as it currently stands continues the fund's policy of engagement with fossil fuel companies as a shareholder. Item 6.4 of the Investment Strategy Statement states that;* *"The most recent investment strategy review 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."* *Furthermore, Item 8.7 states that the Fund will use its* *"… power as a shareholder to encourage change' and '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."* *We are fully supportive of the Fund using its power as a shareholder to press for a just transition to a low carbon economy. Alongside this, we continue to support the Fund adopting a target to divest entirely from fossil fuel companies over a 5-year period. We believe the fossil-free investment portfolio is the approach that fully aligns with the goals of the Paris Agreement.* *We would like to highlight our justification for taking this position.* *1. Burning all the oil and gas from currently operating fields would take global warming beyond 1.5°C (ref Price of Oil). Therefore, it is imperative that we stop all new fossil fuel infrastructure and fossil fuel industry expansion.* *2. A recent report by the Carbon Tracker shows that fossil fuel companies are still opening new fossil fuel sites. The company Shell, which Avon Pension Fund is invested, plans to greenlight more that 35 new oil and gas projects by 2025 (according to an investor presentation from June 2019). Engagement has so far failed to stop this.* *3. Successful engagement with the fossil fuel industry would require no new extraction sites and the winding down of fossil fuel production of those companies. Instead, Shell has advocated 'net zero' emissions. This implies the continuation of fossil fuel extraction, relying on unreliable technologies such as carbon capture and storage, or vast tree plantations to suck carbon out of the atmosphere.* *4. Whilst they have some renewable assets, fossil fuel companies are not leading the transition to renewable energy. Most of the global capital investment in low-carbon technologies is coming from other companies (ref IEA)* *There is a strong financial case for divestment from fossil fuels to avoid future losses. Carbon Tracker has shown that fossil fuel use will peak in the 2020s, after which investors in the industry can expect to see significant losses. There are an increasing number of investors divesting from fossil fuels, purely on financial grounds.* *We therefore consider full divestment from fossil fuel companies to be aligned with the fiduciary duty of the Fund to scheme members.*

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Appendix 3

Investment Strategy Statement Checklist 2020

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

Requirements	Complied	Comments and reference to ISS section
a) A requirement to invest money in a wide variety of investments	✓	Section 5 & 6
b) The authority's assessment of the suitability of particular investments and types of investments	✓	Section 6
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	✓	Section 7
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	✓	Section 2. In addition, aspects of pooling are referred to later in the statement where appropriate
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments	✓	Section 8
f) The authority's policy on the exercise of rights	✓	Section 8

More Specifically	Complied	Comments and reference to ISS section
7 (2) (a) Wide variety of investments • Must take proper advice	✓	Section 1.6
• Must set out clearly the balance between different types of investments	✓	Section 5 & 6 discusses in general; asset allocation set out in Appendix 1, this explains the role of each asset class
• Must identify the risks associated with their overall investment strategy	✓	Section 7.1-7.4 sets out overall risk including VaR; Section 7 discusses all risks more fully; Section 4 explains the link between the Fund's solvency and investment strategy
• Must periodically review their policy to mitigate against any such risks	✓	Section 1.5 explains monitoring and review policy; Section 5.6 explains the use of allocation ranges to mitigate market and cash flow risks.

7 (2) (b) Suitability of Investments • Must take proper advice	✓	Section 1.6
• Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target	✓	Section 4 links ISS and FSS; Section 6 discusses the suitability of assets classes within the portfolio, in terms of hedging risks, income/ cashflow requirements, sustainable and low carbon assets
• Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy	✓	Section 1.5 explains monitoring and review policy
7 (2) (c) Approach to Risk • Must take proper advice	✓	Section 1.6
• Should clearly state their appetite for risk	✓	Section 7.1 relates appetite for risk to the FSS
• Should be aware of the risks that may impact on their overall funding and investment strategies	✓	Section 7 identifies all risks and how managed
• Should take measures to counter those risks	✓	Section 7 identifies all risks and how managed
• Should periodically review the assumptions on which their investment strategy is based	✓	Section 1.5 explains monitoring and review policy
• Should formulate contingency plans to limit the impact of risks that might materialise	✓	Section 7 explains where strategies are in place, specifically the Risk Management Strategies that manage the most financially material risks. See Appendix 1 for ranges around allocations which allow tactical deviation to take place
7 (2) (d) Approach to pooling • Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance	✓	Section 2.1 for compliance with government guidance
• Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria	✓	n/a

• Set out the proportion of assets that will be invested through pooling	✓	Section 2.7 and 6.6
• Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account	✓	Section 2
• Set out the services that will be shared or jointly procured	✓	2.2
• Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money.	✓	2.7 All will be managed within pool. Legacy private market assets will be invested by Brunel as the current investments mature
• Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money	✓	n/a
• Submit an annual report on the progress of asset transfers to the Scheme Advisory Board	✓	From 2018/19; this is done by Brunel on behalf of the pool.
7 (2) (e) ESG • Must take proper advice	✓	Section 1.6
• Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors	✓	Section 8 sets out Responsible Investing approach in more detail. RI risks also covered as part of Section 7. Compliant as stakeholders are represented on Committee. The Fund has an RI policy (to support the Investment strategy) which considers non-financial factors in detail. This is approved by the Committee. Draft ISS is discussed by Pension Committee. LPB reviews it for compliance with regulations. Wider consultation with employers and TUs as well as members.
• Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments	✓	Section 8 sets out approach to such matters at both strategic and portfolio/manager level. Section 8.9 sets out how Brunel apply their RI policy; as most of the portfolios

		are managed by Brunel their approach to RI at the portfolio level is critical.
• Should explain their approach to social investments	✓	Section 8.19
7 (2) (f) Voting • Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments	✓	Section 8.12-8.18
• Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code	✓	Section 8.12
• Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)	✓	Section 8.13-8.14
• May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority	✓	Voting delegated to legacy managers Brunel appointed Federated Hermes EOS for its portfolios
• Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations	✓	Section 8.18 Annual reporting

<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>25 September 2020</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">Brunel Pension Partnership – Update on pooling</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Exempt Appendix 1 – Project plan for transition of Avon’s assets to Brunel portfolios
Exempt Appendix 2 – Risk Register for transition of Avon’s assets to Brunel portfolios
Appendix 3 – APF Risk Dashboard March 2019ow
Appendix 4 – Brunel Oversight Board Minutes</td></tr>
</table>

1 THE ISSUE

1.1 This report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.

1.2 The Investment Panel reviews specific investment aspects at its regular meetings.

1.3 The Fund has its own project plan for transitioning its assets to Brunel, consistent with the Brunel project plan. The Fund’s plan identifies governance and risks for the Fund and Committee.

1.4 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee notes:

2.1 **the progress made on pooling of assets.**

2.2 **the updated project plan for the transition of assets.**

3 FINANCIAL IMPLICATIONS

3.1 The management fees that Avon will pay to Brunel are included in the budget for 2020/21. They have been calculated in line with the current pricing policy. The fees and pricing policy have been approved by the Shareholders.

4 PROGRESS UPDATE

4.1 **Governance:**

a) Brunel Oversight Board (BOB) has met twice in recent months, in June and September. The minutes of the September meeting are not yet available; June minutes are in Appendix 4. The next BOB meeting is in December.

b) The Client Group (CG) meets monthly with mid-month update calls as required. Five sub-groups work with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at each meeting/call.

c) Quarterly performance and KPI reporting is reviewed by BOB consisting of

(i) RAG reporting on agreed metrics and commentary on action taken by Brunel if there is underperformance or areas of concern for each portfolio,

(ii) Performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.

CG reviews each portfolio in more depth on a quarterly basis and will highlight any issues/ areas of concern to BOB. Any issues raised by BOB will be reported back to committee (verbal update due to timing). To summarise 2Q20 RAG reporting:

(i) The listed active and passive portfolios are all rated green meaning there are no concerns with the portfolios

(ii) The private market portfolios are rated green; however, deployment of capital in some asset classes is slower than anticipated due to COVID-19.

(iii) There are no RED rated strategic risks.

d) During the quarter an operational survey was issued to Clients by the Client Operations subgroup. The results were generally positive with an average rating of good in terms of overall service provision. Importantly it identified areas for development and a workplan has been agreed and will be taken forward by the client subgroups. This survey will be undertaken annually and the next survey will gauge the success of the work done on the items identified.

e) The recruitment process for the new CIO is in progress.

f) Client Group and Brunel are reviewing the governance arrangements. The objective of the review is to ensure communications between the relevant parties are effective and arrangements are updated for regulatory/legal changes. BOB have been updated as to progress. Any changes to the governance arrangements will require shareholder approval.

g) A verbal update of the September BOB meeting will be given at the meeting.

4.2 **Investments:**

a) No assets transferred in 2Q2020. The transition remains on track with the revised plan that allowed for slight delays during 2Q20 due to market volatility as a result of COVID-19. Transitions resumed in July with Avon's DGF funds transitioning to the Diversified Returns Fund. The Global Small Cap Equity and Sustainable Equity portfolio transitions are due to complete in 4Q20. As at 30/06/20 Brunel managed £12.7bn of listed assets and commitments of £5.8bn in private markets on behalf of its clients.

b) Avon's project plan for the transition of its assets (see Exempt Appendix 1) is based on the timeline agreed by Client Group and Brunel for transitioning the assets. The slight delay in the transition plan due to COVID-19 does not materially affect the overall transition timeline for Avon. The timing of transitioning of assets is continuously reviewed by Brunel and CG to ensure client priorities are considered. Actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Please note that this plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. Avon will only be responsible for the transition costs relating to the portfolios the Fund invests in.

c) Avon's assets that have transitioned now total £2.96bn (using 30/06/20 values). In addition, Brunel invests in private assets on behalf of the Fund.

Brunel portfolio	**Value at 30/6/20**	**Transitioning Mandates / Managers**	**Date transitioned**
Passive Equities	£596m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£167m	UK Equities - TT International	Nov 2018
Emerging Market Equities (EM)	£233m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£468m	Global Equities - Schroders	Nov 2019
Risk Management Strategies [1]	£1,000m	Blackrock LDI & EPS	Oct 2019
Diversified Returns Fund	£495m	DGFs – Pyrford, Ruffer [2]	July 2020
Secured Income	*£110m*	*n/a*	*n/a*
Renewable Infrastructure	*£40m*	*n/a*	*n/a*

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

[2] The allocation to DRFs has been reduced; therefore, part of the allocation to Ruffer has been retained and will be sold down to fund the private market allocations

d) Brunel's quarterly investment performance and stewardship activity reports are now included in the Investment Panel meeting paper; Panel will highlight any issues or areas of concern via its normal reporting (covering all our managers) to Committee. The portfolios are all in line with expectations. Performance of the UK Equity portfolio has improved in recent quarters.

e) Brunel have been assessed by PRI as part of their annual appraisal programme, achieving above average scores of A/A+ for relevant modules. In addition, Brunel Pension Partnership (the pool) has been awarded Environmental Finance's Pension Fund of the Year award. This is in recognition of the successful efforts of the pool to take effective leadership on responsible investment.

f) Avon's project plan includes a Risk Register (see Exempt Appendix 2) of risks specific to the transition for Avon. There is no change in the risks.

4.3 **Operational/Financial:**

a) Brunel provides BOB with a business update at each meeting which includes high level monitoring of the budget and the transition plan. CG monitors the budget variances in detail on a quarterly basis, raising any issues with BOB. The projected outturn for current year is an underspend of £115k.

b) Brunel is reviewing its level of regulatory capital to ensure it continues to meet FCA Regulatory Capital requirements sand still maintaining an efficient balance sheet. The main issue is the short-term volatility of the pension deficit on the accounting basis, which is included in the regulatory capital calculation.

c) The Business Case for pooling is updated following each transition, once fees and costs are known, and is reviewed by CG. Brunel as a pool is on target to deliver savings in the OBC (£550m), with the break-even in 2023. To date 5 listed market portfolios have transitioned: UK, passive, Low Volatility, Emerging Markets and Global High Alpha Equities with the Diversified Returns Fund transition yet to complete. In addition, Brunel have appointed a manager for LDI strategies on a bespoke basis. The actual fee savings and transition costs realised to date are ahead of the budget (i.e. fee savings on portfolios that have transitioned are greater than estimated; transition costs are lower than expected but mainly due to timing).

d) Following Avon's transition to each portfolio, the Committee is provided with an update on fee savings and transition costs; the next update will be after DRF and Sustainable Equities complete.

e) Avon's net savings achieved to date against the Original Business Case is reported in the Annual Report and Statement of Accounts in line with CIPFA guidance. For 2019/20 the disclosure is:

	2019/20			
	Budget		Actual	
	In year	*Cumulative*	In year	Cumulative
	£000s	*£000s*	£000s	£000s
Set Up Costs	-	*1,265*	-	1,072
Ongoing Brunel Costs	*893*	*1,568*	1,389	2,425
Avon internal savings	*(267)*	*(525)*	(215)	(430)
Transition Costs	*4,067*	*7,024*	2,824	3,796
Fee saving	*(1,216)*	*(1,340)*	(1,384)	(1,629)
Net cost /(saving)	***3,478***	***7,991***	**2,614**	**5,234**

The current position is that the Fund is ahead of the OBC despite higher ongoing costs of Brunel. Significant fee savings have been achieved on transitioned assets; however, transition costs, which is the least predictable variable are currently below expected costs.

4.4 There are no changes to the Avon Brunel Risk dashboard (see Appendix 3).

5 BRUNEL WORKING GROUP

5.1 The Brunel Working Group met ahead of the June and September BOB meetings.

6 RISK MANAGEMENT

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

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is 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 EQUALITIES

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

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

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	Client Group and BOB papers
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East
Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1031/20

Meeting / Decision: Avon Pension Fund Committee
Date: 25 September 2020

Author: Liz Woodyard
Report Title: Brunel Pension Partnership – Update on pooling **Exempt Appendix 1 –** Project plan for transition of Avon's assets to Brunel portfolios **Exempt Appendix 2 –** Risk Register for transition of Avon's assets to Brunel portfolios Appendix 3 – APF Risk Dashboard March 2019ow Appendix 4 – Brunel Oversight Board Minutes

The Appendices to the Report contain exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: *3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and would prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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

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Appendix 3

Brunel – Avon Pension Fund Risk Dashboard

Governance & Legal

Risk Area	Aspects	Status
Council sign off of Full Business Case	• 1Q2017	Complete
Key legal documents	• Articles of Association, Shareholders Agreement, Services Agreement, Pricing Policy, Remuneration Policy, Exit Policy, Funding Policy	Completed; Limited review in progress
Avon representation	• Committee representative on Oversight Board • Officer representatives on Client Group	Complete

People & Resources

Risk Area	Aspects	Status
Staffing implications	• Brunel Staff recruitment • Resourcing of APF team ○ Governance and Risk Manager ○ Senior Investment Officer	Amber Complete Amber – in progress

Processes and providers

Risk Area	Aspects	Status
Relationship management	• Identify all contract and specification changes (advisors, managers, custodian during transition)	Green - Ongoing
Custody contract	• Transitioned to new custodian Dec 2017	Complete
Client Group activity (CG)	• Portfolios • CG sub groups to focus on key areas: ○ Financial ○ Operations ○ Investments ○ Responsible Investing ○ Strategic & Governance	Green Avon is represented on the financial, investments and RI subgroups
Internal process /policy change	• Cash Management, Rebalancing, Custody processes, Investment management and reporting	Green – in progress
Transition of assets	• Transition plan • Monitor transition plan, transitions, risks and costs/savings • Avon plan for transitioning legacy assets	Green – on track Green – Avon project plan; Brunel providing reports to capture costs and analyse transitions to Brunel portfolios Amber – due late 2020/21

Budget & expenditure

Risk Area	Aspects	Status
Clarity on budget agreed as part of Original Business Case	• Budget update reported to Oversight Board and Client Group • 2020/21 Budget & 3 year Business Plan agreed by Shareholders	Green – ongoing
APF budget for Brunel costs	• Investment and operational costs of Brunel included in APF 2020/21 budget • Governance costs of supporting Client side work included separately	Green – Brunel investment management fees in fee budget; CG support in governance costs
Delivery of OBC objectives - costs/savings	• Will be monitored as part of client reporting suite • Client Group to review costs against OBC	Green – reporting includes actual costs vs. budget, transition costs & fee savings, investment performance Green – ongoing after each transition

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Brunel Pension Partnership

BOB

Brunel Oversight Board Meeting Minutes

Purpose:	To review Brunel/Client progress agree next steps
Date and time:	Thursday 25 June 2020, 10:30 – 12:00
Location:	Conference Call
Dial-in details:	CC: +442034438728/// ID: 879699995

Pension Committee Representatives		
Shaun Stephenson-McGall	Avon	
Tim Butcher	Buckinghamshire	
Derek Holley	Cornwall	
Ray Bloxham	Devon	
John Beesley	Dorset	
Robert Gould	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice Chair
Mark Simmonds (MSim)	Somerset	
Tony Deane	Wiltshire	

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

Fund Officers and Representatives		
Liz Woodyard	Avon	
Julie Edwards	Buckinghamshire	
Sean Johns	Cornwall	
Mark Gayler	Devon	
David Wilkes	Dorset	
Craig Martin	EAPF	
Paul Blacker	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Daniel Wilson	Mercer – Minutes	

Brunel Pension Partnership Ltd		
Denise Le Gal	Brunel, Chair	
James Russell-Stracey	Brunel, CSO	
Faith Ward	Brunel, CRIO	
Matthew Trebilcock	Brunel, CRD	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Anthony	Brunel, HoF & CS	
Richard Fanshawe	Brunel, HOPM	

Item	Agenda	Paper provided	Action
1	Confirm agenda Requests for Urgent or items for Information Any new declarations of conflicts of interest	Agenda Verbal C of Interest policy	
	No urgent items or conflicts of interests were noted.		
2	Review of 19 March 2020 BOB minutes	Minutes	
	The minutes from the 19th March were reviewed. Both actions on the minutes have been completed. No concerns were noted and they were signed virtually.		
3	Client Assurance Framework (including investment update)	Paper	
	SJ, as Chair of the Operations Sub-group of the Client Group, presented the client assurance framework documents. He provided a reminder of the assurance framework; the client group reviews these reports on a quarterly basis and the condensed document is presented to BOB. SJ discussed Appendix 1 and explained that the group have added arrows to show how these scores have changed over the quarter. He highlighted the RI metrics on the UK equity portfolio on page one. He explained that this has improved as a result of work from Brunel with the manager to improve processes that factor in the level of carbon risk in the portfolio. MT explained that Brunel are actively working to improve reporting on private markets. This will be added in the future and these improvements may be seen next quarter. SSM queried the one UK active equity manager that is on watch and what this means. SJ explained that the performance remains on track meaning that the colour remains green. DS explained that the manager was Aberdeen standard, and that they are continuing to meet with the manager on a regular basis to address the concerns. RT queried to the time horizon for a return to better performance for AS (Aberdeen Standard). DS explained that it would be usual		

	to allow a whole market cycle but if the outcomes are not what Brunel expect then action can be taken. DS explained that AS are taking reasonable steps and processes that Brunel are comfortable at present. RT queried that the same stocks are appearing in multiple portfolios, and asked whether there is a system for measuring the exposure to a particular stock. DS explained that this is something that Brunel need to do in terms of exposure reporting. He explained that this is something, which is simple for Brunel and happens quite regularly, FW explained that this is part of the risk management approach. *BOB noted the paper.* Asset transition MT explained that the asset transition is sticking to schedule despite little transition activity since March.		
4	Budget outturn	Paper	
	MG, as Chair of the Financial Sub-group (FSG) of the Client Group, provided an update to the Budget outturn report. He commented that the FSG have discussed the report and the under-spend of £1.662million with Brunel. The discussions resulted in a time adjustment of £0.521million as these are capped at 5% of the budget. The FSG and CG were content and supported the carry forward and the under-spend. TD commented that he did not support the decision for Brunel to retain hold of the under-spend to support the regulatory capital requirements but would like to know the reasoning behind this in the later part of the agenda. SSM queried to the impact of the 2020/21 budget and whether Brunel will be able to spend all the funding given the current situation. LC explained that given where Brunel are now, there has been underspend and overspend in different areas. She added that some transitions are going to be delayed as a result of markets and transitioning costs. The budget is broadly, where Brunel want it to be given the current situation and the market volatility. PB queried the robustness of the budget and the various fluctuations especially the under-spend in the admin and custodian section. MG explained that as FSG had gone through all of this and that the lower than expected custodian costs are as a result of looking after less assets than expected. MG added that FSG and CG are happy with this under-spend and LC added that there will be continual review by FSG despite the complexities as a result of COVID-19.		

	PB also queried to how underspend would be used and whether it would be split as he was concerned about the whole £937,000 being transferred to the RC (regulatory capital). JW explained that the pooling regulations mean that they have to be FCA regulated. 7 of the 8 pools are FCA regulated. JW explained that there is a buffer and there is a lot of uncertainty to what is needed especially with changes coming into place in 2021, this amount is only small compared to other pooled funds. *BOB noted the paper.* The following were agreed after discussions later on the agenda *BOB:* *Agreed the variance on the budget.* *Agreed the timing adjustment.* *Agreed the support to the regulatory capital.*		
5	Brunel CEO Report	Paper	
	LC presented the paper and highlighted the progress Brunel was making with regard to the 5 key objectives that had been set, and explained that despite the current markets they are still on track. LC explained that Brunel have made light of the challenges they have faced as a result of the COVID-19 situation. She explained that the team is working really well and very productively and working as business as usual despite working from home. SSM asked for clarity on section 3 of the report on RI and stewardship. He questioned to the 867 engagements with companies during 2019. LC explained that this only relates to the engagement from Hermes. An engagement plan was set for the investments with the highest exposure; this means it had a strong capitalisation bias and takes investment risk and likeliness into account. FW explained that this does not take into account all the companies that Brunel owns as there are too many. On the Brunel website there are updates to the 867 engagements. JB provided appreciation for the work that Brunel have done. He queried whether there were any opportunities to work more closely with the SAB (Scheme advisory Board). They are trying to reduce the tax on the US real assets. JW explained that the pool's COO's meet often and that there will be lots of opportunities arising in the future. RT asked what progress was being made with the CIO replacement. LC explained that the job-advert is live on the website and so far, the candidates are promising. The advert will be open for 4 weeks and conversations with candidates will begin before the formal process starts. The responses will be reviewed at the beginning of the following week. *BOB noted the paper.*		

6	Regulatory Capital	Paper	
	MG provided an update to the Regulatory Capital Recharge Agreement. He explained that Brunel must needs to have some regulatory capital as a result of being FCA regulated and that this is calculation includes the pension deficit. It was explained that an increase in pension liabilities would mean that an increase in regulatory capital needed. Brunel are proposing a pension recharge agreement which would be shared between the 10 funds, this would effectively take the liability off the Brunel balance sheet and remove the need for increased regulatory capital. The agreement is currently being reviewed by each funds legal teams but this has been agreed unanimously in principle by the Client Group. TD explained that he believed that the size of regulatory capital was never needed before pooling, and that this was an additional un-planned cost of pooling. He queried whether the FCA are correct in asking this. JW explained that the FCA rules needed to be followed and what was being presented was a solution to this. MG noted that the value of Brunel goes onto the fund's net asset statements, and that if Brunel holds more regulatory capital then the value of Brunel goes up meaning that net assets will not change. The net effect on each of the underlying shareholders was zero. TB questioned whether the shareholders are liable to pay Brunel's pension deficit. JW explained that if they had more head count this would likely increase the liability and therefore increase the contribution rate from the shareholders. MG explained that it is the funds obligation but is individual to each fund. The admissions agreement outlines these risks. RB feels that this is a very prudent measure, and a sensible solution. He is happy with the proposal put forward. This was supported by JB who agreed that the solution is reasonable and neat. He thanked MG and the FSG for producing this suggestion. JB explained that there is a need to keep a sense of proportionality in these discussions and a need to pick which battles, if any, to fight with the FCA. The regulatory capital could increase to £5m as the value of funds increases under Brunel's management. RT queried to whether there is a document which outlines this and must be agreed. JW confirmed there was and this would be shared. RT stated that it was his understanding that new joiners to Brunel would not receive the same "gold plated" LGPS benefits as the current employees. DLG explained that this is not correct and that the LGPS is offered to all Brunel employees. It had been agreed previously that this would be reviewed after three years, and this review was currently ongoing. The LGPS was offered to attract		Brunel

	and retain talent and has proven a useful tool to Brunel. RT agreed that this is an attractive scheme to offer but explained that this is an extremely expensive scheme and this is an added liability to the authorities. RT explained that he believe that you can negotiate with the FCA around regulatory capital. He explained that local authorities are going to have a tough time over the next few years and that these additional costs were not welcome. RT asked that negotiations should be opened with the FCA. LC explained that the FCA do not negotiate around these matters and that Brunel were discussing with SAB, however she felt that a sense of proportion had to be taken when considering the issue. LC explained that the other LGPS pools were very well capitalised unlike Brunel and these other pools would not share these concerns, and Brunel would be a lone voice if discussions arose with the FCA. JB repeated the points he made earlier around proportionality and taking a battle to the FCA, he explained that this topic and issue is not shared with the other pools and would be a difficult fight. *BOB noted the paper.* *BOB supported:* *The pension re-charge agreements to be taken to each funds legal teams for endorsement.* *Note: It was agreed to support the pension re-charge agreement in principle, on the basis that the documents will need to be signed by each shareholder individually.*		
7	Any other urgent or items for information		
	No other urgent items were noted.		
8	Meeting Close		
	Meeting close: 12.00		

<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>25 SEPTEMBER 2020</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">INVESTMENT PANEL ACTIVITY</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Minutes from Investment Panel meeting held 11 September 2020 – TO FOLLOW
EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 11 September 2020 – TO FOLLOW</td></tr>
</table>

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel's last formal meeting was held on 11 September 2020. The draft minutes of this meeting provide a record of the Panel's debate before reaching any decisions or recommendations.

2 RECOMMENDATION

2.1 Notes the decisions as summarised in paragraph 4.1

2.2 Notes the minutes of the Investment Panel meeting on 6 March at Appendix 1 and Exempt Appendix 2.

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 UK Property Portfolio Proposal from Brunel: Panel considered target sector exposure, the estimated cost of realigning the existing portfolio and how Brunel utilise third party advisors to ensure the team can access relevant sector/fund research and enhanced due diligence. Having considered the transition process and proposed sector changes, Panel concluded that Brunel's approach was reasonable and cost efficient. Panel also acknowledged that the legacy UK property manager will be retained to manage the residual portfolio (c.£100m) and this relationship will continue to be held by Avon, until the positions have been wound down (in line with strategic allocation to UK property).

4.2 Risk Management recommendation to Committee is covered in Agenda Item 12.

5 INVESTMENT PANEL DELEGATION

5.1 The activity was undertaken under the delegation set out in the Fund's Terms of Reference:

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 matter 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 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.*

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

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

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

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

Contact person	Nathan Rollinson, Investments Manager (Tel: 01225 395357)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 SEPTEMBER 2020**
TITLE:	**RISK MANAGEMENT FRAMEWORK ANNUAL REVIEW**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Mercer Report: Risk Management Framework Review & Report on the Quarter to 30 June 2020	

1. THE ISSUE

1.1. The Risk Management Framework encompasses three dedicated risk management strategies and a passive equity fund for collateral management purposes, namely the Liability Driven Investment (LDI) Strategy, Buy-and-Maintain Corporate Bond (CB) Portfolio and the Equity Protection Strategy (EPS). 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 Fund's current funding position.

1.2. The Committee reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to any of the strategies to ensure they meet the strategic objectives. The annual review also considers any financial implications on the portfolio, specifically an increase in the collateral requirements.

1.3. Monitoring of the framework has been delegated to the Investment Panel who monitor the collateral adequacy of the pooled vehicle that contains the strategies, the performance of the strategies and the performance of the manager, Blackrock.

1.4. At its meeting on 11 September 2020, the Panel reviewed each of the Risk Management Strategies and considered whether any changes should be recommended to Committee.

2. RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1. **Note Mercer's report reviewing the strategies and collateral position**

2.2. **Agree the Panel's recommendation to maintain the existing trigger framework for the LDI strategy**

2.3. **Agree the Panel's recommendation that the inflation hedge be reinstated outside of the trigger framework to the level it was prior to the restructure that took place in March, and to further examine the implementation of restoring the hedge, then consider further increasing the hedge following**

the outcome of the RPI reform consultation, delegating these actions to Officers and Mercer.

3. FINANCIAL IMPLICATIONS

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

4. ANNUAL REVIEW OF LDI STRATEGY

4.1. The LDI strategy seeks to hedge real interest rates, in order to increase the certainty that the real returns assumed in the funding plan will be achieved.

4.2. The aim is to lock in attractive real yields ('trigger points'). As the real yield is determined by nominal interest rates and inflation expectations – which move independently of one another – it is important to keep these under review for appropriateness as each can be hedged independently. The current objective is to hedge up to 70% of the assets as market conditions allow and there is a trigger framework in place, reflecting the market conditions when set, to achieve this hedge ratio.

4.3. The strategy utilises unfunded hedging instruments meaning there is limited or no initial outlay of capital to put the hedging in place. However, these instruments fluctuate in (mark-to-market) value through their life to maturity and must be supported by collateral, in the form of assets that can be sold to meet mark-to-market requirements. The collateral held by the Fund must be monitored to ensure there is enough to support the strategy.

4.4. In March Panel agreed to switch the index-linked gilts with maturities post 2030 into conventional gilts in order to mitigate the risk of falling inflation following an announcement around the RPI reform consultation. Further, Panel agreed to downwardly revise the trigger framework to account for this potential change. The changes to the trigger framework took place in June and remain appropriate.

4.5. The Liability Benchmark Portfolio (LBP), which is used by BlackRock to hedge against movements in the value of the Fund's liabilities arising from changes in interest rates and inflation, has been updated based on the assumptions and member data underlying the 2019 actuarial valuation. Further information on the construction of the LBP can be found at Exempt Appendix 1.

4.6. Due to significant event risk the future path of inflation is uncertain. However, the market expectation is for inflation to rise in the short to medium term**; therefore, the recommendation is to increase the inflation hedge in anticipation of a rise in inflation.** In order to mitigate timing risk the recommendation is to reinstate the hedge ratio to the level it was at prior to the restructure in March with immediate effect (i.e. outside the trigger framework) and then once the outcome of RPI reform is known to further increase the hedge ratio to the maximum allowable under the mandate guidelines. This would involve capturing inflation at less attractive levels than what is currently built into the trigger framework. There is an opportunity cost if inflation falls following RPI reform as the Fund would have already locked in higher inflation levels. On balance the risks point to inflation increasing and the phasing in of the inflation hedge acts to reduce this opportunity cost. Further, if the existing triggers were hit in the interim these would be actioned as normal.

5. ANNUAL REVIEW OF EQUITY PROTECTION STRATEGY

5.1. The Fund currently employs a static equity protection strategy (EPS), encompassing both developed and emerging market exposure designed to protect from a large drawdown in the value of its underlying equity holdings. The level of the upside cap is set to allow the Fund to participate in equity gains sufficient to support the actuarial valuation assumptions. Further, the parameters of the structure are set so as to incur little or no upfront cost, otherwise known as a 'nil-premium structure'.

5.2. During the 1Q20 the EPS expired and was rolled over in three tranches for an interim period allowing the Panel, under delegated authority from Committee, time to consider dynamic equity protection in further detail. The third tranche expired in March and due the unprecedented volatility the decision was made to roll this portion of the hedge for a shorter duration to limit the risk of not being able to participate in equity gains in a sustained market recovery. Post period-end, Panel resolved to further extend tranche 3 to align with tranches 1 and 2, delegating implementation to Officers and Mercer. The underlying regional exposures to rollover are currently under discussion in line with the upcoming restructure of the equity portfolio due to the allocation to global sustainable equities.

5.3. In August, Panel assessed the governance, cost and risk implications of switching to a dynamic strategy. Having looked at two implementation options Panel resolved to implement a dynamic EPS using a total return swap on a custom index when the current static strategy expires next year. The implementation of the dynamic EPS has been delegated to Officers and Mercer. A proposal detailing the design and structure of the new dynamic EPS will be presented to Panel at its November meeting.

5.4. There are no recommendations for Committee to consider.

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

6.1. The primary objective of this strategy is to reduce the funding risk in respect of the 'low risk' bucket of liabilities, which are valued on a corporate bond discount basis. The low-risk bucket includes orphan employers and those employers looking to exit the Fund. The strategy was structured so that the liabilities are fully funded at outset and residual interest rate and inflation risk is covered by the broader LDI mandate.

6.2. Over the year the average credit rating of securities held in the portfolio has not changed, despite an increase in downgrades in 2Q20 as a result of the pandemic. Turnover within the portfolio has remained below 1% and there has been minimal change to the level of cashflow matching within the portfolio since inception.

6.3. The expectation is for the strategy to grow over time as either more employers can afford to move to a lower risk strategy or if more employers look to exit the fund.

6.4. There are no recommendations to rebalance this portfolio at present.

7. RISK MANAGEMENT

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

8. EQUALITIES

8.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9. CLIMATE CHANGE

9.1. 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 addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

10. OTHER OPTIONS CONSIDERED

10.1. NONE

11. CONSULTATION

11.1. 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, Investments Manager (Tel. 01225 395357)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1032/20

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 25th September 2020

Author: Nathan Rollinson
Report Title: Risk Management Annual Review **Exempt Appendix 1** – Mercer Report: Risk Management Framework Review & Report on the Quarter to 30 June 2020

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 Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 SEPTEMBER 2020**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 June 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

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level; and policy and operational aspects of the Fund.

1.2 This report contains performance statistics for periods ending 30 June 2020.

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 increased from 84% to 92% over the quarter to 30 June 2020. Based on investment returns and net cashflows into the Fund, the deficit was estimated to have recovered over 2Q20, from £864m to £420m.

b) The increase in the funding level occurred as the value of the assets rose by more than the present value of the liabilities over the period.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £489m (c.10.9%) over the quarter ending 30 June 2020 giving a value for the Fund of £4,955m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and manager. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to the benchmark is summarised below. The Fund's currency hedge detracted -0.1% over the quarter.

Table 1: Fund Investment Returns (Periods to 30 June 2020)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	8.6%	-0.9%	3.5%
Avon Pension Fund (excl. currency hedging)	8.7%	-0.5%	3.9%
Strategic benchmark (no currency hedging)	9.1%	-0.3%	4.3%
Currency hedge impact	-0.1%	-0.4%	-0.4%

5.2 **Fund Investment Return:** The second quarter of this year saw a strong rebound in markets. Risk assets, with the exception of property, performed strongly as a whole and defensive assets delivered low single digit returns, Sterling weakened marginally over the quarter against the US Dollar, Yen and Euro. Further information on asset class performance can be found on page 8 of Appendix 2.

5.3 **Fund Performance, exclusive of currency hedging and LDI, was 7.7% over the quarter versus a benchmark return of 8.7% on the same basis. The relative -1.0% over the quarter is attributed to;**

a) **Asset Allocation (excluding equity protection):** Asset allocation contributed +**0.4%** over the quarter, driven mainly by an overweight to developed market equities versus the strategic benchmark.

b) **Manager Performance:** Active manager impact over the quarter was +**0.3%.** Lead contributors included the Fund's overseas equities allocation and multi asset credit. Conversely, the lead detractors were the property mandates.

c) The equity protection strategy declined in value by £106m, (-1.7%) which drove underperformance versus the benchmark.

5.4 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted 0.1% over the quarter.

5.5 **Liability Risk Management Strategy Performance:** The liability risk management strategy seeks to 'lock in' to attractive levels of real interest rates to achieve increased long-term certainty of real returns. Any increase in the present value of the Fund's liabilities should be met with a subsequent increase in the value of the liability hedging component of the BlackRock Qualifying Investor Fund (QIF). Over the quarter, and in line with expectation, the liability hedge posted positive returns as inflation rose, which was offset by an equivalent rise in the liabilities. The Liability Benchmark Portfolio (LBP) was updated based on the assumptions and member data underlying the 2019 actuarial valuation. Information pertaining to the Investment Panel's annual review and proposed changes to the liability risk management strategy can be found at Item 12: Annual Review of Risk Management Strategies.

5.6 **Equity Protection Strategy Performance (EPS):** The EPS performed as expected over the quarter. As markets recovered from the lows seen in the previous quarter the positive value attached to the EPS decreased as equity markets moved toward the upside cap(s). Tranche 3 of the EPS exhibited negative market value at quarter end as all underlying equity markets, except for the UK, had recovered to a point beyond the upside cap struck when the tranche was extended in March 2020. Since inception (November 2017) the overall return of the proxy equity portfolio, net of the protection, was c. 8.8% for developed market equities. If the protection had not been in place the return would have been c.11.5%. The net return, since inception (January 2020), for the emerging market portion was -4.1%. If the protection had not been in place the Fund would have incurred losses of c. -7.0%. Information relating to strategic developments in the EPS are also covered in Item 12.

5.7 **Collateral Management:** The collateral early warning trigger was breached during the quarter in respect of equity market increases and inflation falls, however no action to top up collateral was taken. Under the mandate guidelines the manager has ultimate discretion to sell down passive equities held in the QIF to replenish collateral and replace any lost equity exposure synthetically. The manager will endeavour to consult Officers and Mercer before action is taken. Post period-end equity markets continued to rally depressing the value of the collateral. Officers are working with the manager and Mercer to establish whether a portion of the passive equities need to be synthesised.

B – Investment Manager Performance

5.8 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the

RAG status of any manager is reported to Committee with an explanation of the change. **There were no changes to manager ratings this quarter.**

5.9 Manager total returns over the quarter were positive for all assets, with the exception of the property mandates. Equities in particular performed strongly due to co-ordinated central bank action designed to limit the economic fallout of the pandemic. The Fund's DGF, Multi-Asset Credit and Fund of Hedge Funds strategies also performed well. Over the year, returns were mixed as some managers were not able to recover all of the losses incurred earlier in the year. Of the mandates with a 3-year track record most outperformed their respective benchmarks and performance targets, with property mandates again the exception. Detailed analysis of investment manager performance can be found at Appendix 2.

5.10 With Brunel now managing most of the liquid assets, officers and Mercer will revise the quarterly monitoring reports to reflect the new arrangements.

6 INVESTMENT STRATEGY

6.1 **Asset Class Returns:** Developed market equity returns over the last 3 years were 8.8% p.a., ahead of the assumed strategic return of 8.1% p.a. on the same basis. The 3-year return from emerging market equities was 4.6%; below the assumed 3-year return of 8.7%. Over the 3-year period index-linked gilts returned 7.6% p.a. versus an assumed return of 2.2%. The 3-year UK property return of 3.9% p.a. lags its assumed return of 5.75%, due to continued recent uncertainty.

6.2 **Private Markets Commitments to Brunel Portfolios:** At 30 June 2020 34% of the Fund's cycle 1 £115m commitment to Brunel's renewable infrastructure portfolio had been deployed and 32% of the Fund's £345m commitment to the secured income portfolio had been deployed. The pace of capital deployment across both asset classes has slowed due to managers deferring acquisitions as a result of the pandemic. The operational infrastructure element of the secured income portfolio has not been affected to the same extent as the long-lease property assets and the Fund's entire commitment of £94m to the underlying manager has been called following the acquisition of a renewable energy plant.

6.3 **Revised Strategic Benchmark:** Following the conclusion of the 2019/20 investment strategy and the resultant asset allocation changes, Officers have been working with Mercer and the Fund's Custodian to revise the strategic benchmark. To date the Fund's Custodian has not been able to factor the Fund's currency overlay programme into the strategic benchmark, which means aggregate level reporting is presented both including and excluding currency hedging in order to highlight the impact of the currency hedge and show performance relative to a like-for-like benchmark. Separately, the return from the LDI mandate, up until this point, has been manually added back into the strategic benchmark by Mercer. Due to the highly customised nature of the LDI mandate the Custodian has historically been unable to source an accurate proxy for the strategy and going forwards will use the change in the NAV as we seek to simplify the performance reporting process and ensure the greatest degree of consistency between the Fund's asset allocation and the strategic benchmark. These changes have been agreed and will be adopted from 3Q20. Officers and Mercer continue to work with the Custodian to explore options for integrating the Fund's FX overlay programme into the strategic benchmark in a cost-efficient manner.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 During the period the Fund redeemed £30m from Multi Asset Credit to bring the allocation further in line with its long-term 6% target. The revised strategic benchmark will take effect from next quarter.

Cash Management

7.2 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.3 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

7.4 The Fund received a net cash inflow of c£70m in future service and deficit prepayments.

8 RESPONSIBLE INVESTMENT ACTIVITY

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

i. Brunel published their first Responsible Investment and Stewardship Outcomes Report, which evidences policy commitments on ESG risk integration, engagement and stewardship activities. The report seeks to meet the requirements of the new Financial Reporting Standards – Stewardship Code 2020 as well as the EU Shareholder Rights Directive and has been critical in forming the framework for our own Responsible Investment Annual Report.

ii. The shareholder resolution that Brunel co-filed with ShareAction requesting that Barclays publish a plan to phase out the provision of financial services to non-Paris aligned oil and gas companies led to the company publicly stating an ambition to become net zero by 2050. The shareholder resolution itself won significant minority support (24%), exceeding the 20% threshold that requires the bank to consult with shareholders and explain the views received and actions taken publicly within six months.

iii. Human capital, a priority theme for the Fund, was the subject of two new engagement initiatives targeting workplace mental health and modern-day slavery. Specifically, Brunel joined investors representing $2.2tn in co-signing letters to FTSE100 companies asking that formal mental health workplans are established during the period of disruption brought about by the pandemic. Secondly, the Find it, Fix it, Prevent it campaign backed by the Principles for Responsible Investment, undertakes engagement with an aim to push for better public policy to facilitate effective corporate action on modern day slavery, to promote better processes for addressing slavery across supply chains and to develop better data for investors to act on modern day slavery. The initiative has so far received the backing of investors representing £3.5tn.

iv. Finally, Brunel released their annual Carbon Metrics report which revealed that Brunel listed equity portfolios in aggregate are 15.4% more efficient in terms of carbon intensity than the broader market; Brunel's work on climate change has been recognised as they were named ‘Pension Fund of the Year’ at the recent Environmental Finance Sustainable Investments Awards.

8.2 **Brunel Engagement Summary**: Federated Hermes engaged with 425 companies held by Avon in the Brunel segregated portfolios on a range of 1,135 ESG issues. Environmental topics featured in 16.7% of engagements, 80% of which related directly to climate change. Social topics featured in 14.7% of engagements, where human capital, human rights and diversity featured prominently. Of the 51.1% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 394 meetings (5,622 resolutions). At 232 meetings they recommended opposing one or more resolutions. Over 60% of the issues Hermes voted against management on comprised board structure and remuneration.

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

Companies Meetings Voted:	2618
Resolutions voted:	37801
Votes For:	32414
Votes Against:	4627
Abstained:	75
Withheld* vote:	685

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

8.4 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.

9 RISK MANAGEMENT

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

10 EQUALITIES

10.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

11 CLIMATE CHANGE

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

12 OTHER OPTIONS CONSIDERED

12.1 None.

13 CONSULTATION

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

Contact person	Nathan Rollinson, 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 - 30 JUNE 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	167.4			164.6											332.0	6.7%
Emerging Markets	233.1														233.1	4.7%
Global Developed Markets	468.5		497.3	13.2											979.0	19.8%
Global Low Carbon	596.4														596.4	12.0%
Equity Derivatives¹			13.1										15.5		28.6	0.6%
Total Overseas	***1298.0***		***510.4***	***13.2***											***1821.6***	**37.1%**
Total Equities	**1465.4**		**510.4**	**177.8**									**15.5**		***2169.1***	**43.8%**
Exchange-Traded Funds		**45.8**													***45.8***	**0.9%**
DGFs							**226.9**	**419.5**							***646.4***	**13.0%**
Hedge Funds						**260.0**									***260.0***	**5.2%**
MAC									**294.0**						***294.0***	**5.9%**
Property										**209.7**	**212.2**				***421.9***	**8.5%**
Infrastructure												**338.9**			***338.9***	**6.8%**
Renewable Infrastructure	**39.9**														***39.9***	**0.8%**
Secured Income	**110.4**														***110.4***	**2.2%**
LDI Assets & Bonds																
LDI Assets			357.9												357.9	7.2%
Corporate Bonds			131.6												131.6	2.7%
Total Bonds			**489.5**												***489.5***	**9.9%**
Cash			0.9	11.8	7.5					14.6				136.9	***171.7***	**3.5%**
FX Hedging													-32.1		***-32.1***	**-0.6%**
TOTAL	**1615.7**	**45.8**	**1000.8**	**189.6**	**7.5**	**260.0**	**226.9**	**419.5**	**294.0**	**224.3**	**212.2**	**338.9**	**-16.6**	**136.9**	**4955.1**	**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

Committee Investment Performance Report Quarter to 30 June 2020

September 2020

Steve Turner
Ross Palmer

IMPORTANT NOTICES

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Please also note:

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

CONTENTS

MERCER

Section 1

Executive Summary

EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	8.6	-0.9	3.5
Total Fund (ex currency hedge)	8.7	-0.5	3.9
Strategic Benchmark **(2)** (ex currency hedge)	9.1	-0.3	4.3
Relative (1 - 2)	**-0.5**	**-0.6**	**-0.8**

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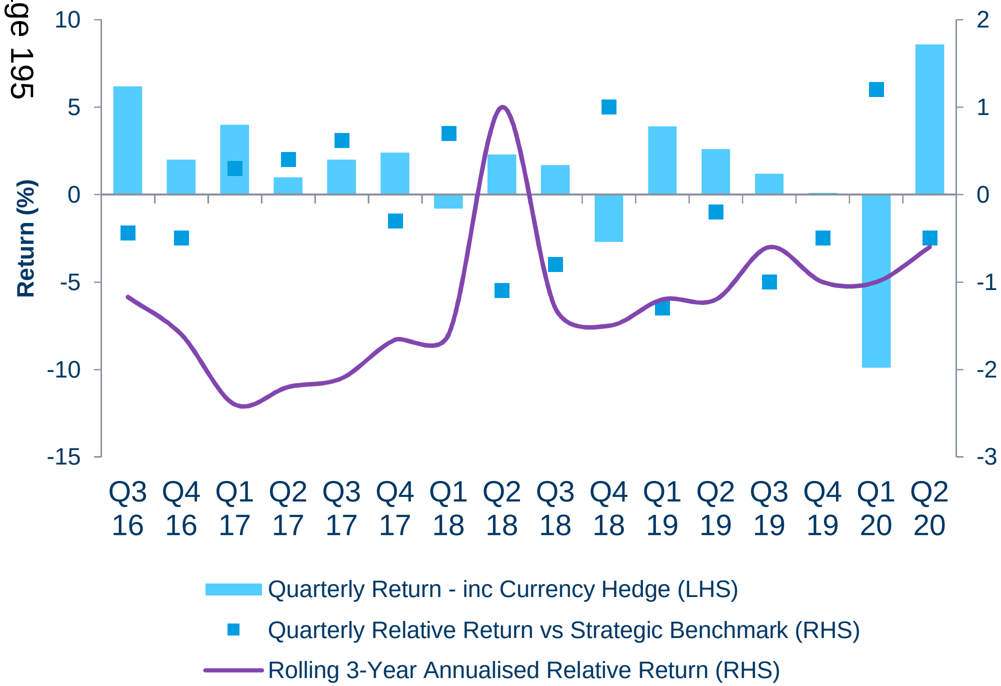
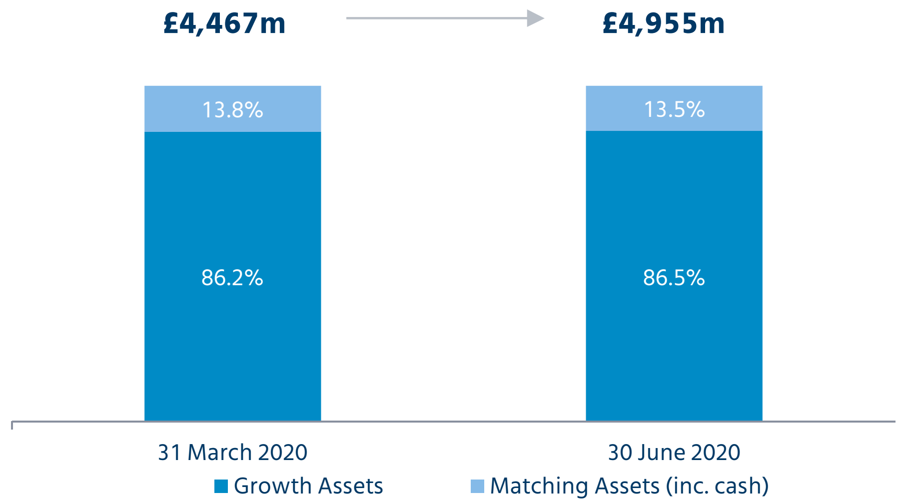
Excess Return Chart



Asset Allocation



Commentary

Over the quarter, total Fund assets increased from £4,466m to £4,955m. This was driven by the recovery of most assets, including strong equity performance, as well as a rise in the value of the LDI portfolio due to the fall in gilt yields and recovery in implied inflation from a low base.

At the end of the quarter, the allocation to all asset classes were within their control ranges.

The Fund underperformed the Strategic Benchmark over the quarter, as well as over the one and three year periods. The currency hedging mandate has detracted value as Sterling has depreciated over all of these time horizons.

MERCER

EXECUTIVE SUMMARY

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

Fund Performance

- Invested assets increased by £489m over the quarter to 30 June 2020, to £4,955m. Positive performance was seen across most assets, particularly in overseas equity, as markets were buoyed by central bank liquidity and hopes of a rebound in economic activity. UK equity, multi-asset credit and the diversified growth mandates also fared well. The only negative performers in the portfolio were the property mandates, for which uncertainty remains.

Strategy

- Global (developed) equity returns over the last three years were 8.8% p.a., above the assumed strategic return of 8.05% p.a. from the review in April 2017. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years).
- Emerging market equities have returned 4.6% p.a. over the three-year period, behind the assumed return of 8.70% p.a. Emerging markets are still more attractively priced than other developed market regions. The macro environment remains mixed for emerging markets but the modest recovery over the last quarter could bring back some momentum.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high, and gilt yields saw a further shift downwards over the quarter. Fixed interest gilts returned 10.2% p.a. over three years versus an assumed return of 1.90% p.a., whilst index-linked gilts also returned 7.6% p.a. versus an assumed return of 2.15% p.a.
- UK corporate bonds returned 4.3% p.a. over the three-year period, slightly ahead of the assumed strategic return of 3.25% p.a.
- Hedge fund returns remained in negative territory in local currency terms at -1.9%; below the strategic return of 5.10% p.a. In recent years hedge funds have been impacted by low cash rates and the generally more challenging environment for active managers.
- The three-year UK property return of 3.9% p.a. means it fell further behind the assumed return of 5.75% p.a., due to continued recent uncertainty.
- The Fund’s currency hedging policy was slightly negative overall for Fund performance over the quarter, since Sterling depreciated against major foreign currencies, with concerns over another hard Brexit deadline looming.

EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were positive for all assets, with the exception of the property mandates for which uncertainty remains. Performance was particularly strong within overseas equity, as markets were buoyed by central bank liquidity and hopes of a rebound in economic activity. UK equity, multi-asset credit and the diversified growth mandate also performed well, as did the Fund of Hedge Funds manager. The Brunel infrastructure mandate was a modest performer, and has done well since its recent inception despite still being in the process of being drawn down. This is also applicable to the Secured Income mandate, though returns have been more mixed so far.
- The value of the Fund's LDI portfolio increased modestly due to the fall in gilt yields and recovery in implied inflation from a low base.
- Absolute returns over the year to 30 June 2020 were slightly mixed across the Fund's investment managers, with some not able to regain as much ground that was lost earlier in the year. Relative performance has also been mixed over the year, though stand out contributors include the sustainable equity mandate with Jupiter.
- Over the three-year period, most mandates with a three-year track record produced positive absolute returns, and the only active mandate not do so was Jupiter UK Equity. The majority of mandates also outperformed their benchmarks over the period, though JP Morgan and IFM were the only managers to exceed their performance objectives.

Key Points for Consideration

- There was a disinvestment of £30.0m from the Multi-Asset Credit mandate over the quarter, which went towards drawdowns called by Partners Property and Brunel Infrastructure.
- At quarter end, the allocation to all asset classes were within their control ranges.
- The application of a new strategic benchmark for the Fund is currently being reviewed. This follows the agreements made by the Committee 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.

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Section 2

Market Background

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

After the first quarter of 2020 saw an unprecedented collapse in economic activity that caused an extraordinary sell-off in risk assets, the second quarter of this year saw a strong rebound in markets. Risk assets, with the exception of property, performed strongly as a whole and defensive assets delivered low single digit returns. Sterling weakened marginally over the quarter against major currencies, which enhanced returns slightly for unhedged sterling investors.

In the UK, quarter-on-quarter annualised GDP was down by -7.8% to the end of March. Headline CPI inflation fell to 0.5% at the end of May from 1.5% at the end of March. The Bank of England increased its quantitative easing programme by £100bn for the rest of the year. Reopenings also led to a sharp rebound in economic activity indicators towards the end of the quarter.
The US economy shrunk by an annualised 5.1% quarter-on-quarter to the end of March 2020 while early estimates for the second quarter of 2020 indicate an even worse contraction. Monetary policy remained very loose with the Federal Reserve expanding their bond-buying program to individual investment grade bond issues. Quarter-on-quarter GDP also collapsed for the Eurozone and Japan over the first quarter by an annualized 13.6% and 3.6% but both regions have also seen signs of a strong recovery as lockdown measures were lifted somewhat.
After seasonally adjusted quarter-on-quarter GDP collapsed by an annualized 33.8% over the first quarter, China is now furthest ahead in terms of recovery and economic indicators there are pointing towards a strong rebound. Brazil, Russia and India remain in the middle of nationwide outbreaks.

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Bond Market Review

UK real yields shifted down over the quarter, as nominal yields fell slightly while inflation expectations rose.

The yields on the FTSE Over 15 Year Gilts Index fell and the FTSE Over 5 Year Index-Linked Gilts Index fell to 0.58% and -2.38% respectively, representing decreases of 0.17% and 0.46%.

Their respective indices returned 3.9% and 11.5% respectively as a result.

Credit spreads narrowed over the quarter as risk-on sentiment returned and investors took advantage of attractive spreads. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.5% p.a., and UK credit assets delivered a return of 6.8% over the quarter.

Currency Market Review

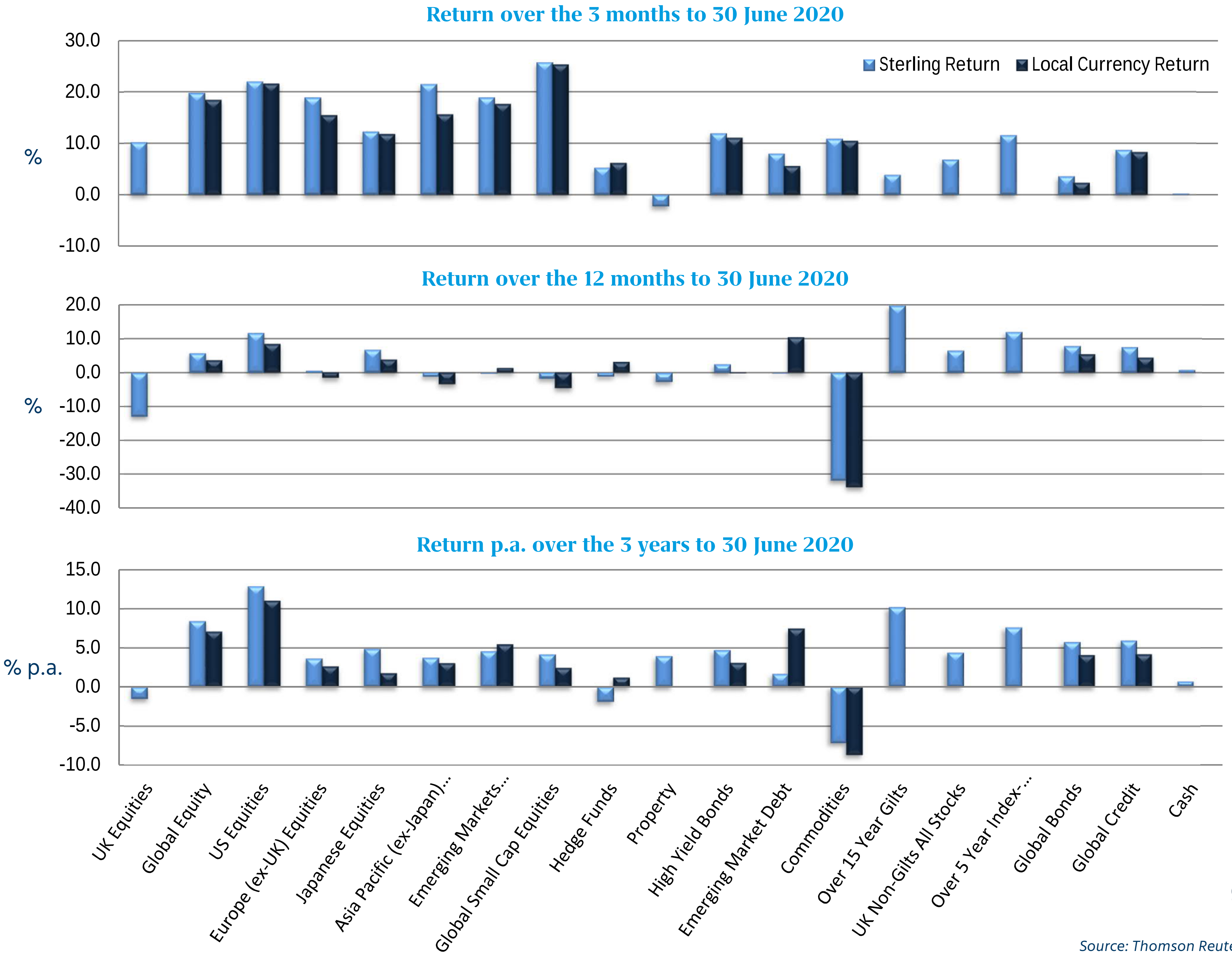
Sterling fell marginally over the quarter against the USD and Yen and more sharply against the Euro. Even though the UK economy has also started to rebound, there are concerns over another hard Brexit deadline looming.

Commodity Market Review

Commodity markets rebounded in anticipation of rising demand as economies reopened. Energy led the recovery with the spot value of oil almost doubling over the quarter. Increasing road mobility driving up demand and the extension of production cuts by OPEC were both supportive for energy prices. Industrial metals also saw strong returns as economic activity began to pick up. The gold price reached an eight-year high in June, with gold remaining popular as a tail risk and inflation hedge in the current environment.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

MARKET BACKGROUND
INDEX PERFORMANCE



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Source: Thomson Reuters Datastream.

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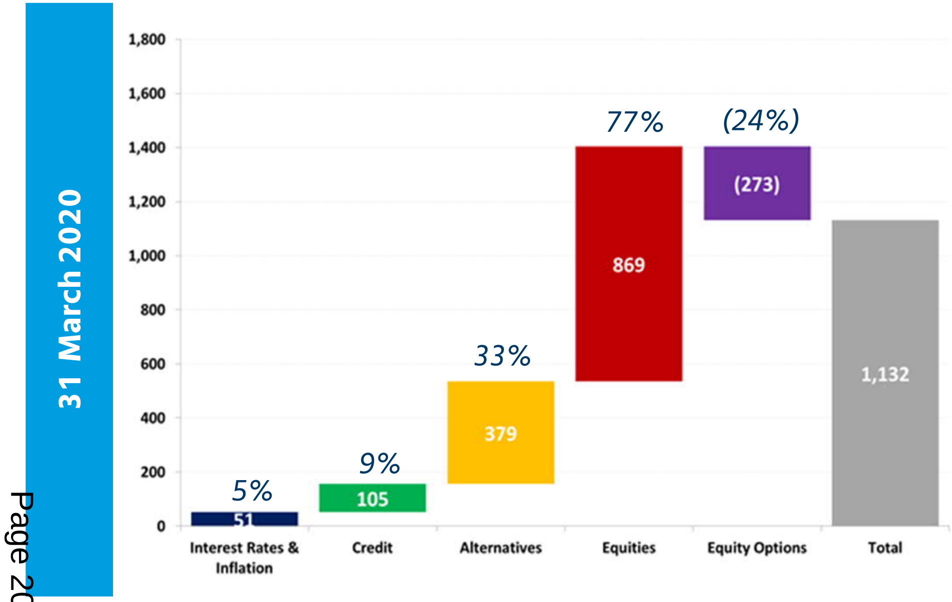
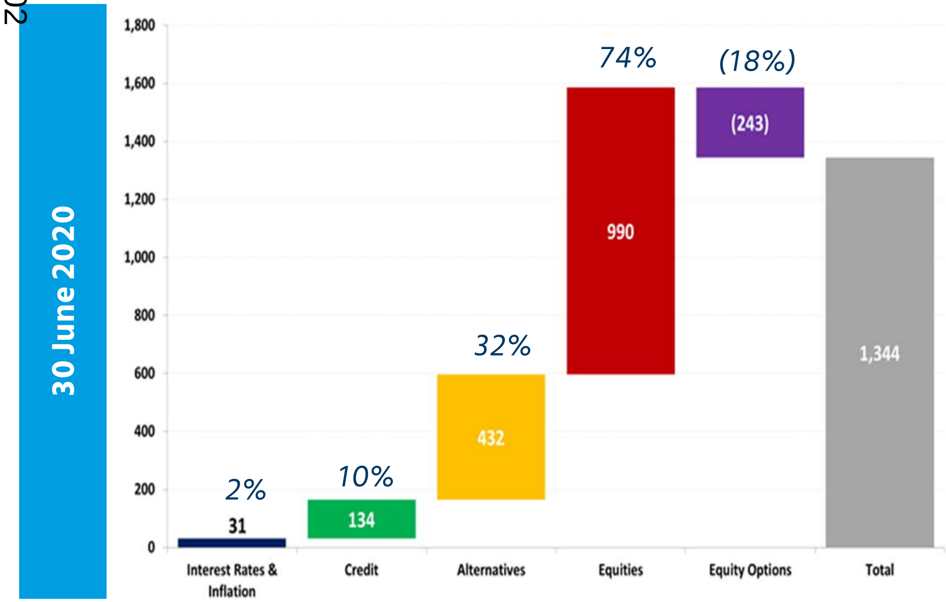
Section 3
Strategic Considerations

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION





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- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 30 June 2020, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit would increase by at least an additional **£1.3bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- The two charts show that the **three-year VaR has risen by around 19% over the quarter**. This was primarily driven by the significant rise in the overall asset value over the quarter, which was attributable to positive growth asset performance (in particular equities) and tightening credit spreads.

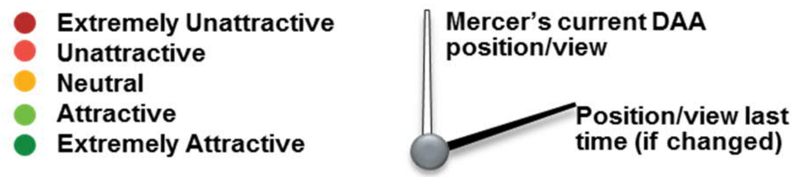
The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.05	8.8	*Remains ahead of the assumed strategic return. This increased modestly from 2.6% p.a. last quarter, driven by the return over the latest quarter's return of 19.9%.*
Emerging Market Equities (FTSE AW Emerging)	8.70	4.6	*The three year return from emerging market equities was behind the assumed strategic return this quarter, despite also increasing modestly from negative territory last quarter, due to the latest quarter return of 18.9%.*
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	(4.7 /7.4)	*DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the Libor and RPI based benchmarks. Low cash rates means benchmark has underperformed the long term expected return from equity, but recent higher inflation means RPI benchmark has outperformed. An absolute strategic return of 6.95% p.a. has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	10.2	*UK gilt returns remain well above the long term strategic assumed return as yields remain low relative to historic averages. Nominal and index-linked gilts rose strongly over the latest quarter, as nominal yields fell and inflation expectations recovered.* *Corporate bond returns also grew strongly, by 6.8%, to bring the three year return ahead of the assumed strategic return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	7.6	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	4.3	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-1.9	*Hedge fund returns remained in negative territory at the end of Q2, and remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	5.75	3.9	*Actual property returns fell further behind expected returns, as the index contracted by 2.3% in Q2. Uncertainty remains around the valuation of assets, and the extent of the impact from the coronavirus pandemic and lockdowns.*
Infrastructure (S&P Global Infrastructure)	6.95	0.8	*The infrastructure three year return remains below the strategic return after the large contraction earlier in the year, despite a recovery over the second quarter. It should be noted that the returns of this index can largely driven by currency moves, however the 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.*

Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q3 2020



Equities

Growth Fixed Income & Property (Core)

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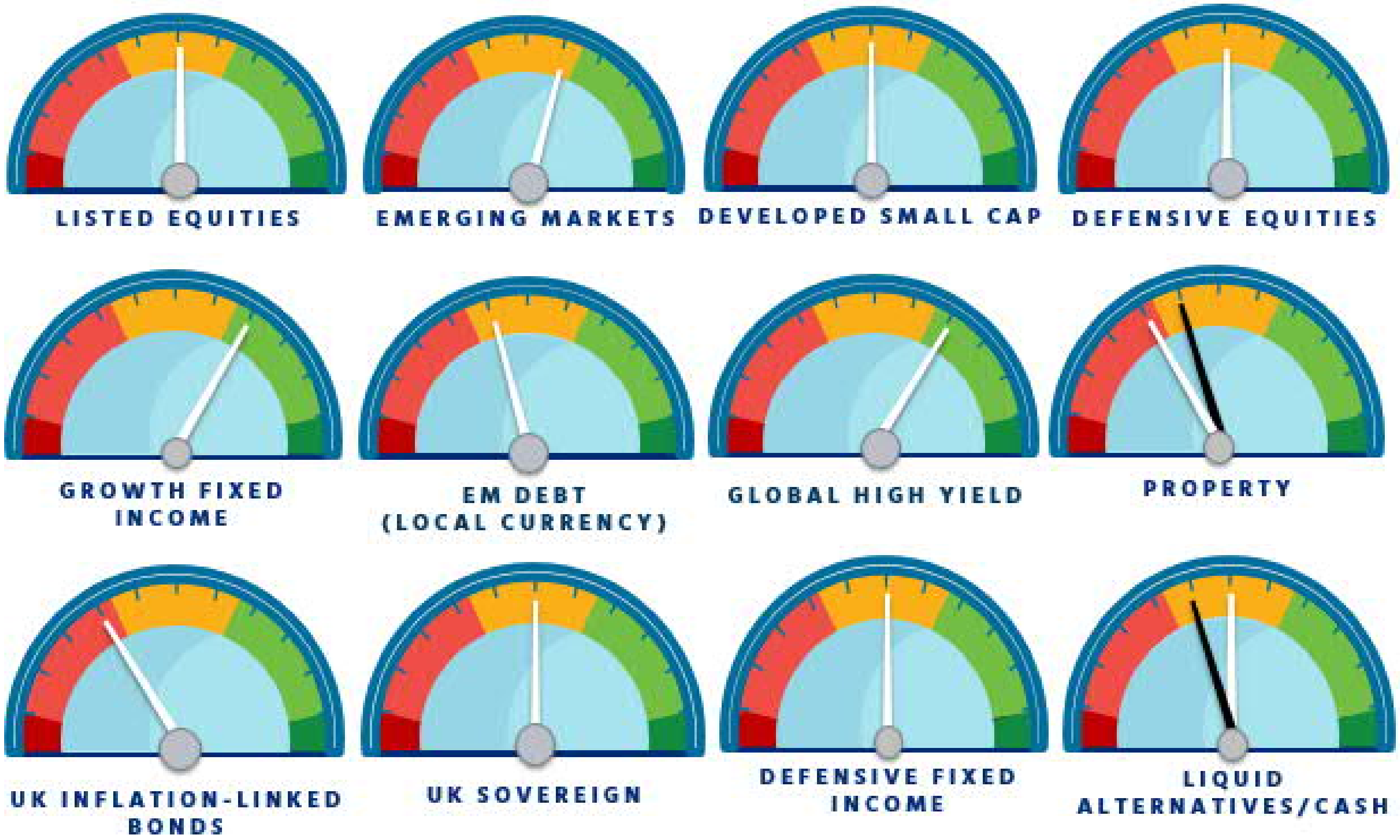
Protective Assets



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

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Section 4

Consideration of Funding Level

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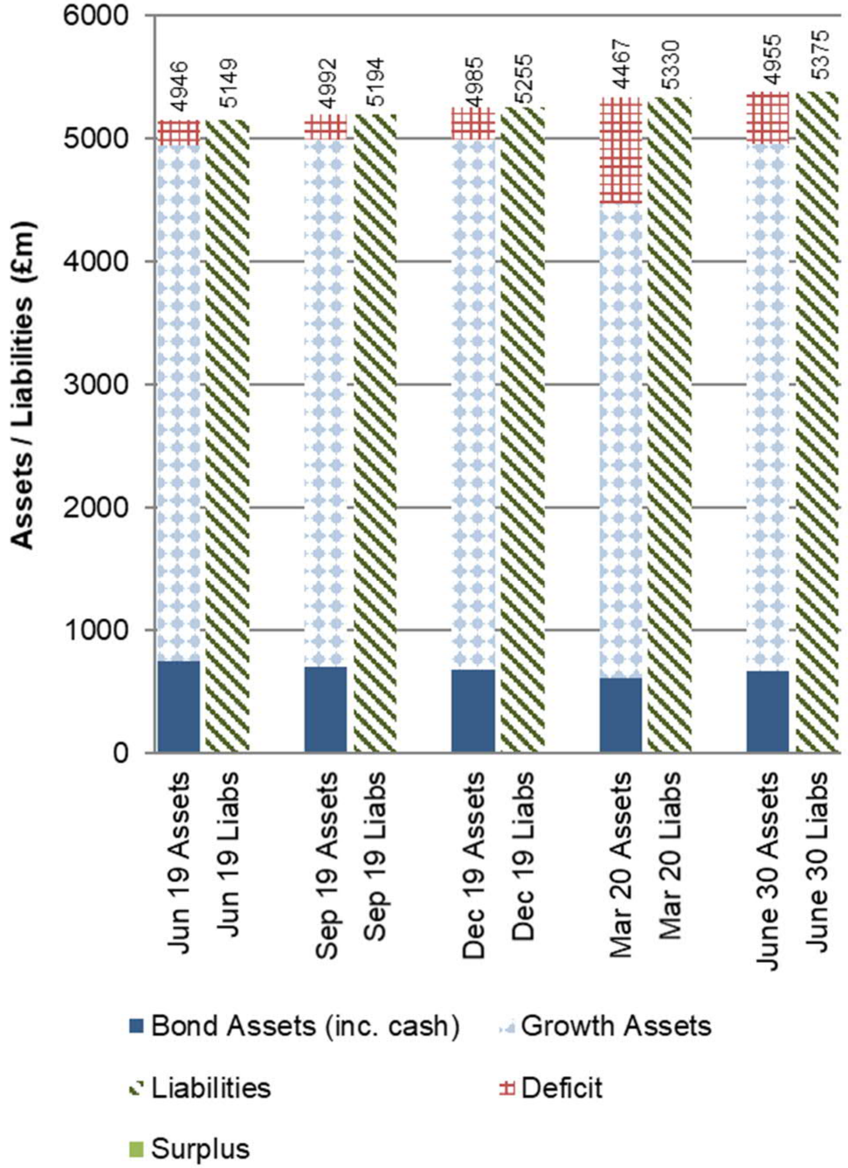
CONSIDERATION OF FUNDING LEVEL
ATTRIBUTION OF CHANGE IN DEFICIT/SURPLUS



- Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have recovered over the second quarter of 2020, from £864m to £420m.
- This occurred as the value of the assets rose by more than the present value of the liabilities over the period.
- This is calculated using the actuarial valuation assumptions as at 31 March 2019 and the ‘CPI plus’ discount basis.

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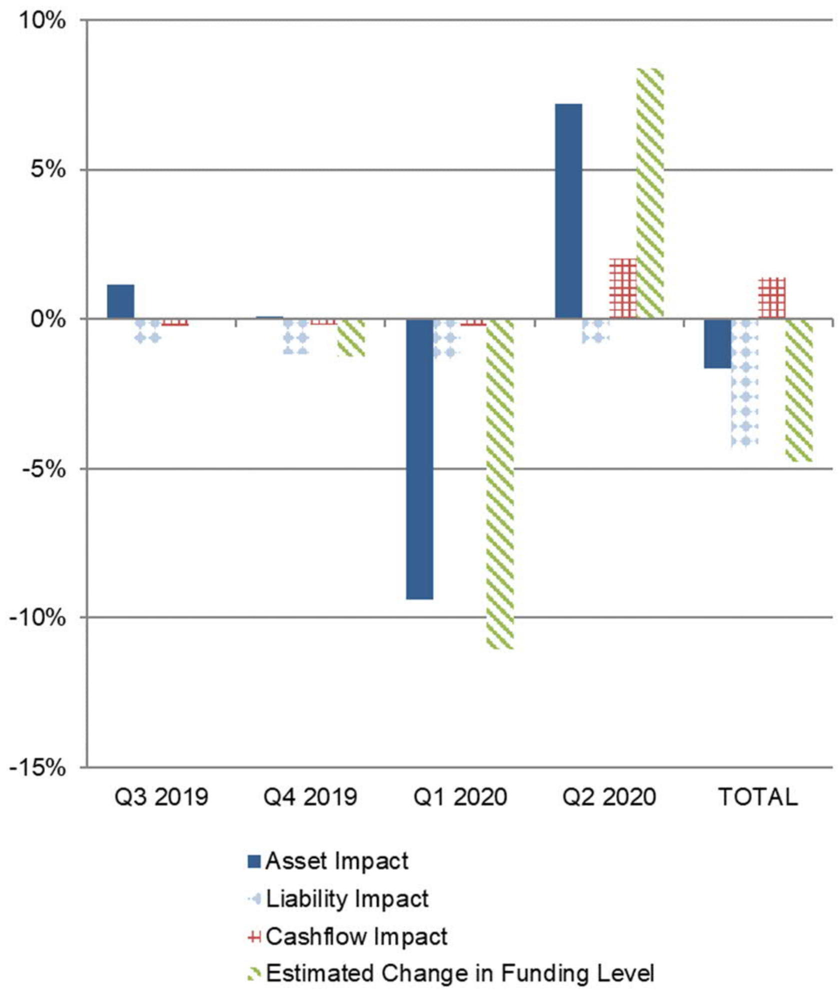
CONSIDERATION OF FUNDING LEVEL
ATTRIBUTION OF CHANGE IN FUNDING LEVEL



- The Fund's assets returned 8.6% over the quarter, whilst the Fund's liabilities increased by 0.8%.
- The combined effect of this, also allowing for cashflow over the period, saw the funding level recover from 84% to 92%.

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Section 5

Funding Valuations

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,621,513	1,927,051	36.3%	38.9%	34.0	29 - 39	4.9
Emerging Market Equities	196,232	233,065	4.4%	4.7%	6.0	3 - 9	-1.3%
Diversified Growth Funds	605,666	646,324	13.6%	13.0%	15.0	10 - 20	-2.0%
Fund of Hedge Funds	257,967	260,004	5.8%	5.2%	5.0	0 - 7.5	0.2%
Property*	521,877	547,079	11.5%	11.0%	10.0	5 - 15	1.0%
Infrastructure	358,444	378,784	8.0%	7.6%	5.0	0 - 7.5	2.6%
Multi-Asset Credit	291,661	293,992	6.5%	5.9%	11.0	6 - 16	-5.1%
Corporate Bonds	115,842	131,554	2.6%	2.7%	2.0	No set range	0.7%
LDI**	406,427	370,981	9.1%	7.5%	12.0	No set range	-4.5%
Cash (including currency instruments)	90,925	166,130	2.0%	3.4%	-	0 - 5	3.4%
Total	4,466,553	4,955,110	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 increased over the quarter by c.£489m.
- All asset classes were within their ranges.
- It should be noted that this does not reflect the new strategic benchmark for the Fund, for which the application is currently being reviewed.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equities	415,059		497,323	9.3	10.0
BlackRock	Corporate Bonds	115,842		131,554	2.6	2.7
BlackRock	LDI*	406,427		370,981	9.1	7.5
BlackRock	Cash	40,301		45,817	0.9	0.9
Brunel	Global Low Carbon Equities	497,508		596,432	11.2	12.0
Brunel	UK Equities	149,873		167,370	3.4	3.4
Jupiter	UK Equities	162,604		176,404	3.6	3.6
Jupiter	Global Sustainable Equities	11,137		13,193	0.2	0.3
Schroder	Global Equities	7,316		7,508	0.2	0.2
Brunel	Global High Alpha Equity	377,707		468,505	8.5	9.5
Brunel	Emerging Market Equities	196,232		233,065	4.4	4.7

Source: Investment Managers, Mercer. Totals may not sum due to rounding.
* Valuation includes mark-to-market value of equity protection strategy.

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FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Loomis Sayles	Multi-Asset Credit	291,661	-30,000	293,992	6.5	5.9
Pyrford	DGF	213,642		226,872	4.8	4.6
Ruffer	DGF	392,024		419,452	8.8	8.5
JP Morgan	Fund of Hedge Funds	257,967		260,004	5.8	5.2
Schroder	UK Property	230,936		224,450	5.2	4.5
Partners	Property	210,737	8,569	212,225	4.7	4.3
IFM	Infrastructure	334,132		338,859	7.5	6.8
Brunel	Infrastructure	24,312	13,372	39,925	0.5	0.8
Brunel	Secured Income	69,107		110,404	1.6	2.2
Record Currency Management	Currency Hedging	-8,174		15,527	-0.2	-0.3
Internal Cash	Cash	58,798		136,878	1.3	2.8
Total		4,466,553	-16,822	4,955,110	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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Section 6

Performance Summary

PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE

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	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	8.6	-0.9	3.5
Total Fund (ex currency hedge)	8.7	-0.5	3.9
Strategic Benchmark **(2)** (ex currency hedge)	9.1	-0.3	4.3
Relative (1 – 2)	**-0.5**	**-0.6**	**-0.8**

- Over the quarter, the Fund underperformed the Strategic Benchmark by 0.5%. The Fund also underperformed the Strategic Benchmark over the year by 0.6%, and over the three year period by 0.8%.
- The main detractor from performance was the equity protection strategy, which dragged on performance as equity markets rallied. The depreciation of Sterling also meant the Fund's currency hedging mandate detracted, as has been the case over each of the periods in question.
- At the mandate level the Jupiter equity mandates underperformed, though all other holdings did outperform their benchmarks.

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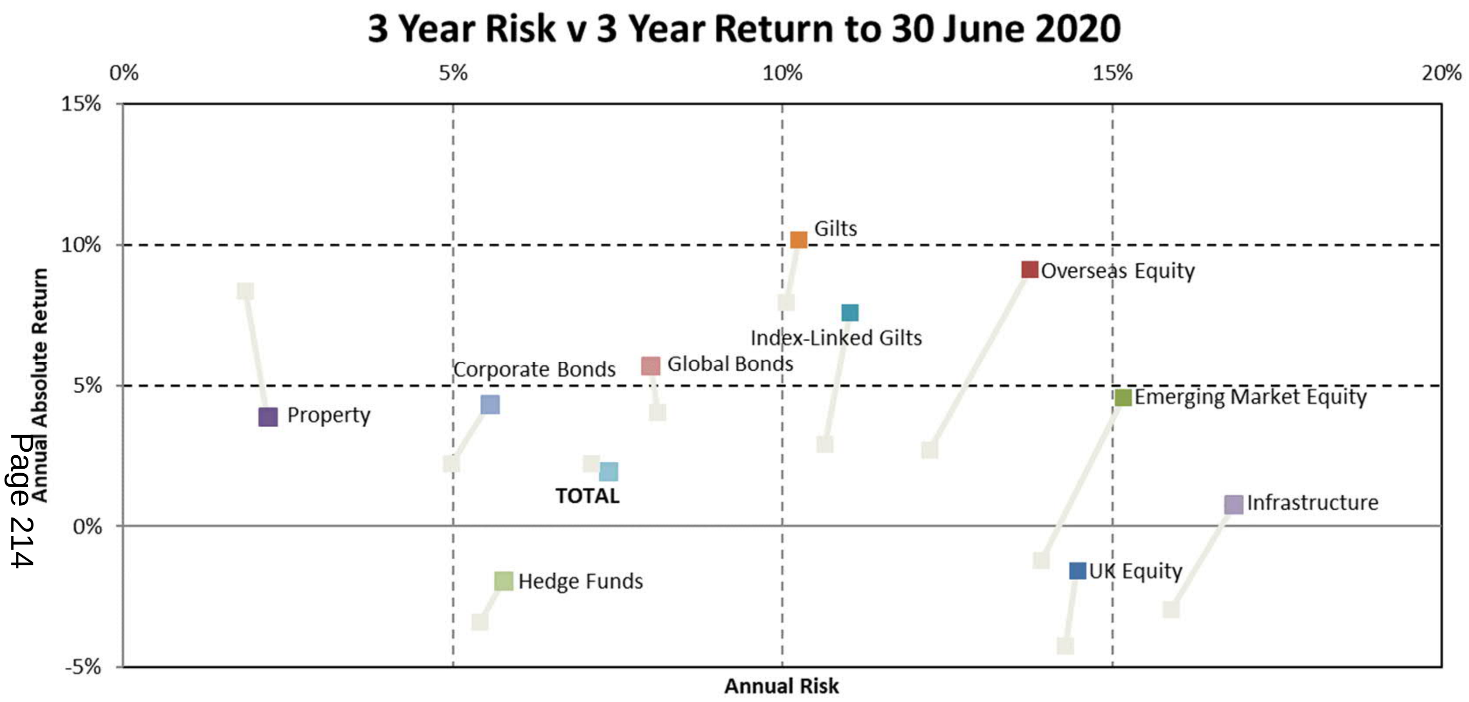
MANAGER MONITORING
RISK RETURN ANALYSIS



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This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 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 last quarter, in grey.

Comments

- All asset classes saw increases in observed returns over the three-year period, with the exception of Property.
- Associated volatilities also rose across most asset classes, particularly in Overseas and Emerging Market Equity, as well as Infrastructure.

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MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 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	19.8	19.8	0.0	6.0	5.9	+0.1	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	13.6	13.6	0.0	10.5	10.5	0.0	7.3	6.4	+0.9	-	Target met
BlackRock LDI	20.8	20.8	0.0	-21.4	-21.4	0.0	-3.4	-3.4	0.0	-	Target met
Brunel UK Equity	11.7	10.2	+1.4	-13.3	-13.0	-0.3	N/A	N/A	N/A	+2	N/A
Jupiter UK Equity	8.5	10.2	-1.5	-11.8	-13.0	+1.4	-3.4	-1.6	-1.8	+2	Target not met
Brunel Passive Low Carbon Equity	19.9	19.9	0.0	7.1	7.2	-0.1	N/A	N/A	N/A	-	N/A
Jupiter Global Sustainable Equity	18.5	19.8	-1.1	13.0	5.7	+6.9	N/A	N/A	N/A	+2-4	N/A
Brunel Global High Alpha Equity	24.0	20.0	+3.3	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Brunel Emerging Market Equity	18.8	18.6	+0.2	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Loomis Sayles	12.4	1.1	+11.2	0.6	4.7	-3.9	N/A	N/A	N/A	-	N/A
Pyrford	6.2	1.2	+4.9	2.6	6.2	-3.4	1.6	7.6	-5.6	-	Target not met
Ruffer	7.0	1.3	+5.6	8.1	5.8	+2.2	N/A	N/A	N/A	-	N/A
JP Morgan	7.2	1.2	+5.9	7.6	5.1	+2.4	5.5	5.1	+0.4	-	Target met
Schroder UK Property	-1.5	-2.0	+0.5	-2.5	-2.6	+0.1	3.7	3.4	+0.3	+1	Target not met
Partners Property*	-7.5	2.5	-9.8	-2.2	10.0	-11.1	2.7	10.0	-6.7	-	Target not met
IFM **	1.4	1.2	+0.2	-1.5	5.0	-6.2	11.3	4.8	+6.3	-	Target met
Brunel Infrastructure	7.9	0.0	+7.9	12.1	0.6	+11.4	N/A	N/A	N/A	+4	N/A
Brunel Secured Income	1.0	0.0	+1.0	-0.3	0.6	-0.9	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 and Partners , whose performance is shown in local currency terms.**
- **IFM returns are now in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.
- **Returns are net of fees.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

- *Performance to 31 March 2020 as this is the latest date that this is available.

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Appendix 1

Summary of Mandates

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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.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Infrastructure	CPI	+4%
Brunel	Secured Income	CPI	+2%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

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Appendix 2
Market Statistics Indices

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MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
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 3

Changes in Yields

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CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2020	31 Mar 2020	30 June 2019	30 June 2018
UK Equities	4.66	5.53	4.13	3.64
Over 15 Year Gilts	0.58	0.75	1.40	1.67
Over 5 Year Index-Linked Gilts	-2.38	-1.92	-1.89	-1.58
Sterling Non Gilts	1.68	2.50	2.16	2.50

- UK real yields shifted down over the quarter, as nominal yields fell slightly while inflation expectations rose.
- The yields on the FTSE Over 15 Year Gilts Index fell and the FTSE Over 5 Year Index-Linked Gilts Index fell to 0.58% and -2.38% respectively, representing decreases of 0.17% and 0.46%.
- Their respective indices returned 3.9% and 11.5% respectively as a result.
- Credit spreads narrowed over the quarter as risk-on sentiment returned and investors took advantage of attractive spreads. The sterling Non-Gilts All Stocks Index credit spread ended the quarter at c.1.5% p.a., and UK credit assets delivered a return of 6.8% over the quarter.

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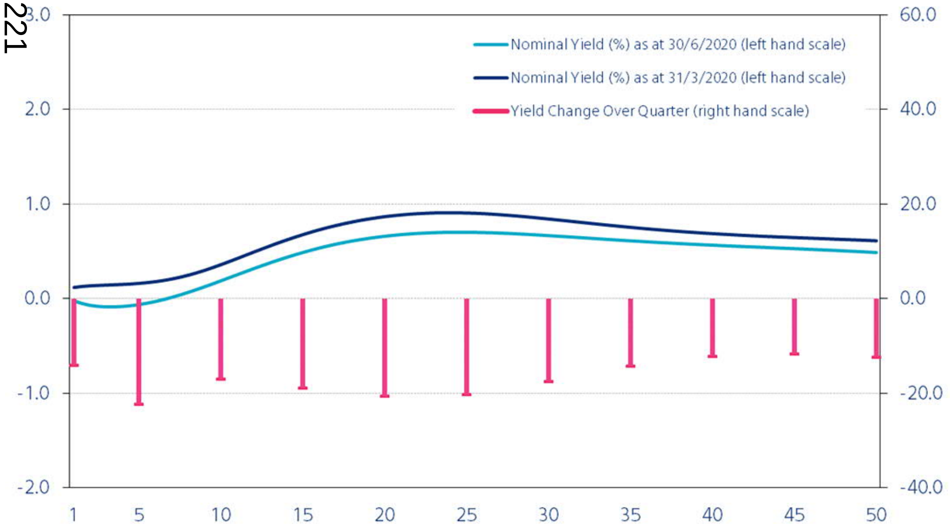
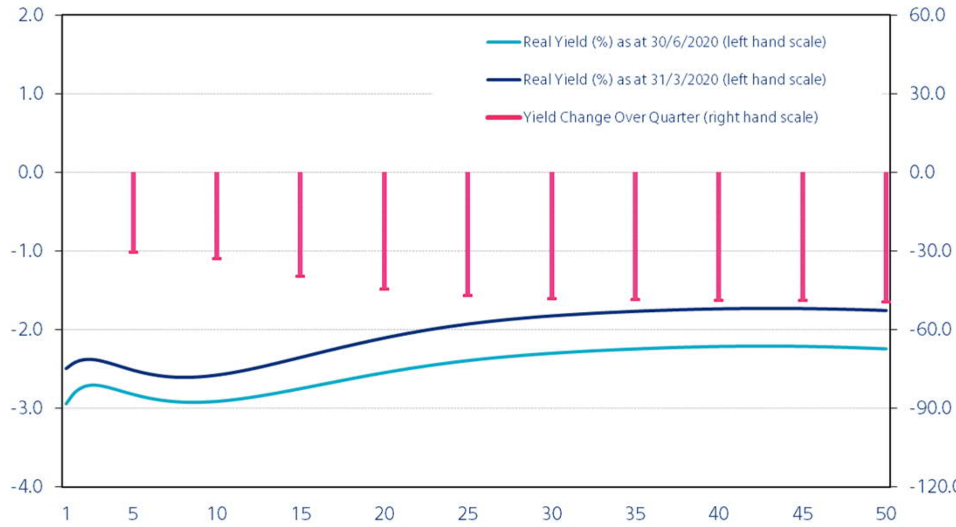
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MERCER

https://www.paimages.co.uk/image-details/2.40966766 https://c7.alamy.com/comp/FPA9ER/london-uk-18-

Quarterly Engagement Report

April-June 2020

Local Authority Pension Fund Forum

Human rights, Facebook, Barclays, ArcelorMittal, AngloAmerican, Vale, Shell

HUMAN RIGHTS

LAPFF SUPPORTS FIGHT TO END SYSTEMIC RACISM

LAPFF has noted with horror and sadness the killing of George Floyd by a Minneapolis police officer on Monday, 27 May 2020. While there are concerns about the Covid-19 impact of the resulting protests, the Forum supports the worldwide outcry about the continued existence of systemic racism in all our societies.

In a prescient statement from 16 March, the Office of the High Commission for Human Rights at the United Nations provided this warning, “Restrictions taken to respond to the virus must be motivated by legitimate public health goals and should not be used simply to quash dissent.” LAPFF supports this statement as being in line with international human rights law and encourages all societal entities to adhere to this standard.

In addition to the fundamental human rights concerns raised by systemic racism, there are significant concerns for sustainable shareholder value. For example, such a system deprives businesses of optimal talent pools, of diverse board and staff perspectives that can help to identify material business risks, and of functional, constructive work environments that lead to innovation and success. All these factors can impact on business performance and shareholder value.

Therefore, not only is systemic racism fundamentally wrong on a human level, it is also bad for business. The Forum has always operated on this basis, both through its policy engagements and through its company engagements, and it will continue to do so.

Protesters in New Malden in South West London UK in support of the Black Lives Matter demonstration after the death of George Floyd

CLIMATE EMERGENCY

LAPFF finds a way forward on Barclays shareholder resolution challenge

LAPFF and other investor groups faced a unique challenge ahead of the Barclays AGM this year. There were almost identical resolutions filed on climate change, one submitted by a shareholder group led by ShareAction and another submitted by the company. All parties agreed that Barclays had made significant progress with its climate strategy, and Barclays made this point repeatedly in seeking support for its own resolution. However, the investor group felt the company needed to make more concrete, shorter-term commitments, as reflected in the shareholder resolution, on which Barclays recommended an abstention. The Forum had to take a view on vote recommendations for members.

The first step in the process was to engage with both the co-filing shareholders and the company... and engage, and engage, and engage. LAPFF Chair, Cllr Doug McMurdo, and other LAPFF representatives communicated with Barclays (virtually of course) several times over two months, and with ShareAction and other investors (including some LAPFF members) three or four times. During these engagements, it became clear that the two sides had come closer in their views of how to progress Barclays' approach to climate change and that the engagement between the two parties had been beneficial for everyone. Consequently, LAPFF took the decision to support both the company and the shareholder resolutions.

The Barclays resolution passed, and although the shareholder resolution did not, it garnered enough support to signal to the company that it will need to honour its new climate commitments. LAPFF will continue to engage with Barclays to monitor its progress in this regard.

“This was a challenging but rewarding engagement, and it drove home for me the benefits of hearing and weighing a range of stakeholder perspectives.”

Cllr Doug McMurdo:

Climate Finance Engagements Ramp Up

In the wake of engagements with ANZ Bank and Barclays on climate finance, it was clear that financial institutions would become the next frontier on the climate agenda. Therefore, LAPFF undertook an engagement initiative to meet with the Forum's most widely held banks and insurers to understand their approach to climate, both on the investment and insurance sides of their businesses.

The Forum has now met with five of the 11 financial institutions approached and is scheduled to meet with two others. The meetings have been enlightening and helped LAPFF to understand where and how climate considerations fit into the finance landscape. The first point to note is that all the institutions - whether insurers, banks or asset managers - focus most heavily on the investment function as a means of addressing climate risks. Even companies heavily weighted toward insurance have thought about climate risk far more in terms of how they invest than how they insure. Second, there seems to be a general belief that property and casualty insurers will bear a more immediate brunt of climate risks than health and life insurers. However, one company suggested that the balance of risk in these areas might even out in ten years' time. The final observation is that the financial institutions engaged consider climate risks to the business, but have not thought much about how their insurance or investment products impact on climate change mitigation. Some have considered in more detail how their products might affect climate change adaptation, for example for vulnerable clients.

There are a few company meetings yet to be conducted during this first mainly information-gathering phase of the engagement. After this initial agreement, company approaches and perspectives will be reviewed and compared to formulate a sector perspective in developing concrete requests of companies as they progress their practices in managing climate risk.

Shell 'Follow This' Resolution Contested

For a third year, Shell faced a shareholder resolution spearheaded by Dutch NGO, Follow This, which called for the company to issue short, medium, and long-term climate targets. This year's resolution coincided with announcements by Shell and other oil and gas majors – including Total and BP - of new climate ambitions for net zero emissions by 2050. The climate ambition initiative was led by ClimateAction 100+. In the past, LAPFF has recommended votes against the resolution, but after reviewing Shell's new climate ambition, the Forum re-evaluated its position.

Although many aspects of Shell's new climate ambition are far-reaching, the sum of its parts did not appear to add up. For example, the company seems excessively reliant on carbon capture and storage, among other technologies, to meet these goals. Further, while its attempts to find solutions for Scope 3 emissions are welcomed, Shell did not deal with some just transition aspects including planting forests to help foster carbon sinks. In short, the Forum felt that this year a full set of targets would be helpful to clarify how Shell's ambition might become concrete, and whether the proposals are sufficient to align with Paris Agreement goals. As a result, LAPFF drafted a voting alert recommending a vote in favour of the resolution.

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The alert was shared with Shell, which subsequently asked for a meeting to discuss LAPFF's concerns. LAPFF representatives met with the Head of Investor Relations and a member of the technical staff to go through the company's response to the voting alert but came away unconvinced by their arguments. There was an additional call with CEO Ben van Beurden (*pictured*) joined by numerous investors, including LAPFF. Again, the explanations provided were unconvincing and the LAPFF recommendation to vote in favour of the resolution remained.

Therefore, LAPFF supported Shell's ambition, but also supported the Follow This resolution calling for concrete climate targets, including long-term targets. The Forum will continue to engage with Shell and other investors to ensure that Shell enacts its ambition in a way that aligns with the Paris Agreement.

LAPFF Leads on ArcelorMittal Engagement through CA100+

Engagement with ArcelorMittal has had a number of objectives around their journey to net-zero emissions. For 2020, the focus has been on targets for carbon neutrality and for a clearer view on the company's strategy on the policy environment, particularly around its views on the need for a green border adjustment tax in Europe.

By January, engagement with the company had progressed well, with ArcelorMittal having in place a European target to reduce emissions 30% by 2030 and to be carbon neutral by 2050 with a global ambition to 'significantly reduce' its carbon footprint. On the issue of a group target, the company has stated its intention to set one before the end of the year.

On the policy front, in February, the company shared its analysis of its membership of industry associations that had been requested by the lead investors, on which feedback on was provided. A discussion was then facilitated with the Head of the Policy Programme at the Institutional Investors Group on Climate Change (IIGCC) and a company representative in order for common ground to be found on investor and company views on a green border adjustment tax. Analysis on trade association membership has now been made public and set in the context of the company's views on the need for a carbon border adjustment, a market tool to drive lower-emissions steel and commentary on access to finance.

As with a number of companies, progress has been slowed by COVID-19, as the company had planned to publish a global emissions reduction target in its second group carbon report this summer. A meeting with the company was constructive in discussing what will be achievable with different policy scenarios, as well as pushing on company plans for developing green hydrogen technology in the context of developing inter-sectoral partnerships. Related questions were submitted to the AGM including on objectives. The AGM was originally scheduled for the beginning of May in Luxembourg and was then moved to a Saturday in June with no opportunity for direct participation by shareholders. Written responses were provided on the company website. The company issued its 'Climate Action in Europe' report in late June, which sets out the road-map for carbon emission reductions of 30% by 2030 and carbon neutral by 2050.

High Risk Tailings Dam Engagement Continues

For about a year and a half, LAPFF has been the community liaison for the investor initiative on tailings dam safety, co-led by the Church of England Pensions Board and the Swedish Council of Ethics to the AP Funds. Toward the end of 2019, community representatives flagged a list of high-risk tailings dams in Brazil which are of real concern to community members. The Forum cross-referenced this list with LAPFF holdings and found that AngloAmerican, Vale, and ArcelorMittal all had dams on the list. The Forum decided to pursue engagements with these companies to understand what measures they were taking to mitigate risk to the communities and financial risk to shareholders.

Increasingly, LAPFF meets with company chairs and board members in company engagements. However, Vale was the only company to offer a meeting with its chair on this issue. The meeting with Anglo was with operational executives, and ArcelorMittal has not yet agreed to a meeting on the issue. Instead, the company provided a short, process-based summary of its work on tailings dams that made little reference to community engagement or input. The Forum is concerned this lack of board level engagement on tailings dams reflects that companies fail to take the issue seriously and they do not see it as a strategic consideration.

LAPFF will continue to engage with all three companies to ensure they are using community input appropriately to mitigate their operational, legal, reputational and financial risks. These engagements have highlighted that there is a long way to go.

Facebook CEO Mark Zuckerberg faces the media before testifying at a Joint Senate Judiciary and Commerce Committee hearing

Facebook brought to book

The Forum continues to have concerns about global tech companies' internet content. Over the past few years, the Forum has highlighted the potential loss of shareholder value from companies failing to tackle the spread of hate speech, fake news and inappropriate content on their platforms. In addition, the Forum highlighted governance concerns, not least the use of dual class shares which mean that founder directors such as Facebook's Mark Zuckerberg have a majority of votes but own a minority of the shares. Ahead of this year's Facebook AGM, the Forum issued a voting alert recommending members vote in favour of shareholder proposals on equal voting rights, an independent chair, majority voting for directors and nominating a board member with expertise in human rights.

The results once again highlighted widespread shareholder concerns about governance. A significant minority of votes cast were in favour of equal voting rights amongst shareholders (27%), an independent chair (20%), and majority voting for directors (25%). A smaller number of shareholders voted in favour of having a director with human rights expertise (4%) to improve oversight of human and civil rights and hate speech. Given independent shareholders are in a minority, the results provide a clear signal to the Facebook board. Mr Zuckerberg reportedly responded to shareholder criticism by reiterating the company's previous plans on increasing security spending and taking a broader view of responsibility.

Following the Facebook AGM, high profile companies including Coca Cola and Unilever have decided to boycott advertising on the platform because of concerns about hate speech. The company stated its intention to make reforms and the Forum intends to continue to push the company to do more to tackle hate speech and inappropriate content which should safeguard shareholder value.

COMPANY ENGAGEMENT

Chipotle to set Science-Based Targets

In the first quarter of 2019 LAPFF was one of a group of investors that wrote to some of the largest fast food companies including McDonalds, Dominos and Chipotle asking how they plan to enact meaningful policies and targets to de-risk their meat and dairy supply chains from a climate perspective.

LAPFF met with Chipotle representatives on numerous occasions during 2019 and into 2020. The initial discussion revolved around the measurement of scope three carbon emissions, particularly those relating to the protein supply chain. At the most recent meeting with the company in May 2020, Chipotle went one step further by confirming it would work with the science-based target initiative (SBTi) to set science-based reduction targets for company-wide emissions by 2021.

LAPFF's focus is now on ensuring the company continues to develop a methodology capable of accurately collecting emissions data from across its value chain. Such data should set meaningful company-wide emissions reductions targets and must be independently verified as representing accurately the company's carbon footprint.

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CONSULTATION RESPONSES

LAPFF submitted a response to a Financial Conduct Authority (FCA) consultation on climate in which the Forum expressed strong support for the introduction of mandatory carbon emissions and risk reporting, and support for TCFD recommendations.

The Forum also signed a letter to the US Securities and Exchange Commission (SEC) requesting that the SEC require country-by-country tax reporting of corporate tax.

LAPFF joined Storebrand and other investors in recognising the crucial role tropical forests play in tackling climate change by signing onto an open letter to the Brazilian government and a number of Embassies requesting a halt to the destruction of the Amazon.

MEDIA COVERAGE

Daily ESG Briefing: UK pension body backs vote against entire Exxon board over climate
Responsible-Investor.com
The UK's **Local Authority Pension Fund Forum** (LAPFF) has advised its members, which represent billions in public pension money, to oppose the entire board.

Exxon shareholders vote against splitting chair and CEO roles
Financial Times - Several high-profile investors thew their weight behind the proposed split ahead of the AGM, including LGIM, the UK's biggest asset manager, the Church Commissioners, which oversee the Church of England's investments, the UK's Local Authority Pension Fund Forum and the New York State Common Retirement Fund, the third-largest US public pension plan.

Barclays asks investors to vote on new climate ambition, commitment
IP&E - The Local Authority Pension Fund Forum (LAPFF) today said it had met with both the chair of Barclays and with ShareAction following the December filing of the shareholder resolution, and that it supported the bank's commitment to align financing activities with the Paris agreement.

Protesters demand action as Barclays shareholders vote on climate plans
Evening Express - Several institutional investors, including the Local Authority Pension Fund Forum (LAPFF), M&G Investments and EOS1, the stewardship provider at Federated Hermes, have said they will support both resolutions.

Investors split 17%-83% over Total climate shareholder resolution
IP&E - Requisitionists see level of support sending 'strong signal' to French oil and gas major

APG and others outline stance on BP net-zero ambition, delivery
IP&E - Full list of supporting investors: APG Asset Management, Aviva Investors, AXA Investment Managers, BMO Global Asset Management on behalf of its advisory clients, EOS at Federated Hermes on behalf of its stewardship clients, HSBC Global Asset Management, Kempen, Legal & General Investment Management, Local Authority Pension Fund Forum, M&G Investments, Newton Investment Management, PGGM, and UBS Asset Management.

NETWORKS AND EVENTS

LAPFF representatives attended 17 webinars during the quarter. A number of these webinars dealt with the Covid-19 pandemic, including an ACCR presentation on concerns about the prevalence of the virus in immigration detention centres, and MI5's perspective on the associated geo-political risks. A UN Global Compact panel on coronavirus and human rights, including Michelle Bachelet, Head of the UN High Commission on Human Rights, addressed the need to be vigilant in protecting human rights during the pandemic. One webinar also focused on the need for businesses transparency to deal with the pandemic, while another addressed the need to protect meat packing workers, both to protect human rights and to protect shareholder value.

Two webinars included updates on the investor tailings dam initiatives. We also heard from an investor regarding Alphabet, where 45 percent of independent voters supported a shareholder resolution calling for an independent oversight committee on human rights. The Investor Alliance for Human Rights hosted a call with a former Google employee who raised concerns about the company's approach to human rights. One webinar provided information on a new law protecting Indigenous People in British Columbia, Canada, which is relevant for the Forum's work with affected communities.

Notable events addressed the climate crisis, including opportunities and challenges related to carbon capture and storage. The IIGCC hosted a roundtable to explore net zero pathways for the steel sector. The TPI held a mining webinar, and a webinar on what we know and have yet to learn about the energy transition proved useful.

Finally, during a webinar on the Non-Financial Reporting Directive (NFRD) consultation, speakers assessed the impact of the Directive. They discussed what needs to be improved, mainly in relation to definitions of materiality, due diligence and impact. LAPFF representatives also spoke to Carmen Nuzzo at PRI to learn more about fixed income and sustainability.

MEDIA, NETWORKS AND EVENTS

AGMS & VOTING ALERTS

The second quarter of the year is always the busiest time for AGMs and LAPFF voting alerts. However, given the coronavirus pandemic and consequent lockdown, the Forum had its challenges with AGM attendance and company engagement this year. In response it established a strategy for effective engagement around company AGMs, including negotiating around shareholder resolutions.

At the start of the season, LAPFF was relatively optimistic about being able to attend virtual AGMs. Rio Tinto held calls for both the UK-listed and Australian-listed entities that allowed for both shareholders and other stakeholders to ask questions and interact with the board in conjunction with the AGM business. However, challenges with virtual formats soon began to emerge.

Cllr McMurdo joined the Boeing AGM but due to technical issues was dropped repeatedly from the meeting. LAPFF managed to submit its question online, but the company only responded to the question two months after the AGM. Next, the Forum attempted to attend the Vale online AGM only to be told that ADR shareholders could not attend; only their custodians could.

As the season progressed, it also became clear that companies preferred to field questions online usually three days before the AGM. They would then take a view on whether to respond either publicly or privately. Consequently, the Forum has issued a large number of voting alerts this year to facilitate direct shareholder involvement in AGM voting.

One such voting alert was for Delta Airlines Inc. Following engagement earlier in the year, correspondence with the airline proposed conditions for the company to meet for the requisitioning investors (including a LAPFF member) to withdraw the climate lobbying shareholder resolution. These conditions were not met, resulting in voting alert to members and the resolution received a solid 46% vote in favour.

These developments are clearly not in line with LAPFF's expectation of transparency and stakeholder participation in AGMs. Therefore, LAPFF will take an assessment of the overall trend on AGM formats at the end of the season and determine the best means of pushing companies to improve on their transparency and stakeholder engagement for any future virtual AGMs.

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
London Borough Bexley Pension Fund
London Borough Brent Pension Fund
Lothian Pension Fund
Merseyside Pension Fund
Merton Pension Fund
Newham Pension Fund
North East Scotland Pension Fund
North Yorkshire Pension Fund
Northamptonshire 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 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

COMPANY PROGRESS REPORT

79 companies engaged over the quarter during 113* engagements

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

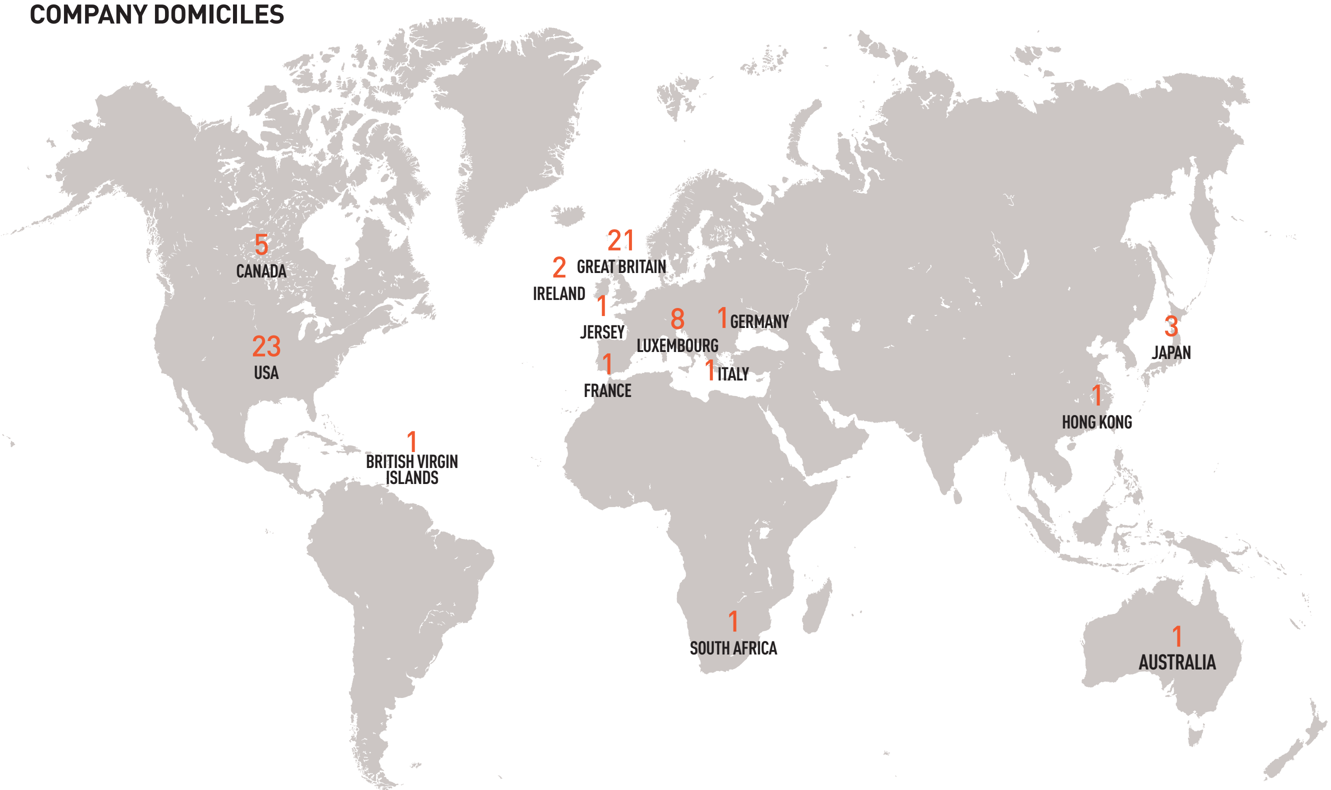
Company	Activities	Topics	Outcomes	Position Engaged	Domicile
3i GROUP PLC	Alert Issued	Remuneration	Dialogue	Chair	GBR
AIA GROUP LTD	Meeting	Climate Change/ Covid	Dialogue/ Change in Progress	Chair	HKG
ALBEMARLE CORPORATION (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	USA
ALPHABET INC	Meeting	Governance/ Human Rights	Dialogue	Chair	USA
AMAZON.COM INC.	Alert Issued	Governance/ Human Rights/ Environment	Dialogue	Chair	USA
ANGLO AMERICAN PLC	Meeting	Climate Change/ Human Rights	No Improvement/ Dialogue	Specialist Staff	GBR
ANGLOGOLD ASHANTI LTD (CA100+)	Meeting	Climate Change	Awaiting Response	Chair	ZAF
ARCELORMITTAL SA	Meeting	Climate Change	Moderate Improvement	Specialist Staff	LUX
ASHTEAD GROUP PLC	Sent Correspondence	Environmental Risk	Dialogue	Specialist Staff	GBR
ASTRAZENECA PLC	Alert Issued	Remuneration	No Improvement	Chair	GBR
AXA	Meeting	Climate Change/ Governance	Change in Process	Specialist Staff	FRA
B&M EUROPEAN VALUE RETAIL SA (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	LUX
BABCOCK INTERNATIONAL GROUP PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
BANDAI NAMCO HOLDINGS INC	Sent Correspondence	Board Composition	Awaiting Response	Exec Director or CEO	JPN
BARCLAYS PLC	Alert Issued/ AGM	Climate Change	Dialogue/ Substantial Improvement	Chair	GBR
BHP GROUP PLC	Sent Correspondence	Human Rights	Dialogue	Chair	GBR
BP PLC	Received Correspondence	Climate Change/ Audit Practices	Substantial Improvement	Chair	GBR
CAMECO CORPORATION (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	CAN
CANADIAN UTILITIES LIMITED (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	CAN
CARNIVAL PLC (GBR)	Alert Issued	Remuneration	Dialogue	Chair	GBR
CATERPILLAR INC.	Alert Issued	Governance (General)	Dialogue	Chair	USA
CATERPILLAR INC. (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	USA
CHEVRON CORPORATION	Alert Issued	Climate Change	Dialogue	Chair	USA
CHIPOTLE MEXICAN GRILL INC (CERES + FAIRR)	Meeting	Environmental Risk/ Supply Chain	Moderate Improvement/ Small Improvement	Specialist Staff	USA
CIMIC GROUP LTD	Meeting	Environmental Risk	Awaiting Response	Chair	AUS
CRH PLC	Received Correspondence	Climate Change	Small Improvement	Chair	IRL
DELTA AIR LINES INC	Alert Issued	Climate Change	Moderate Improvement	Chair	USA
DOMINION ENERGY INC	Alert Issued	Board Composition	Dialogue	Chair	USA
DUKE ENERGY CORPORATION	Alert Issued	Audit Practices	Dialogue	Chair	USA
ELI LILLY AND COMPANY	Alert Issued	Governance (General)	Dialogue	Chair	USA
ENI SPA	Sent Correspondence	Climate Change/ Audit Practices	Awaiting Response	Non-Exec Director	ITA
EXXON MOBIL CORPORATION	Meeting	Climate Change	Dialogue	Chair	USA
FACEBOOK INC.	Alert Issued	Governance/ Human Rights	Dialogue	Chair	USA
FERREXPO PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
FORD MOTOR COMPANY	Alert Issued	Governance (General)	Dialogue	Chair	USA
FORTIS INC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	CAN
FRASERS GROUP PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
GEM DIAMONDS LTD (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	VGB
GENERAL ELECTRIC COMPANY	Alert Issued	Governance (General)	Dialogue	Chair	USA
GENERAL MOTORS COMPANY	Alert Issued	Governance (General)	Dialogue	Chair	USA
GLENCORE PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	JEY
GRAFTON GROUP PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	IRL
HONEYWELL INTERNATIONAL INC.	Alert Issued	Governance (General)	Dialogue	Chair	USA

COMPANY PROGRESS REPORT

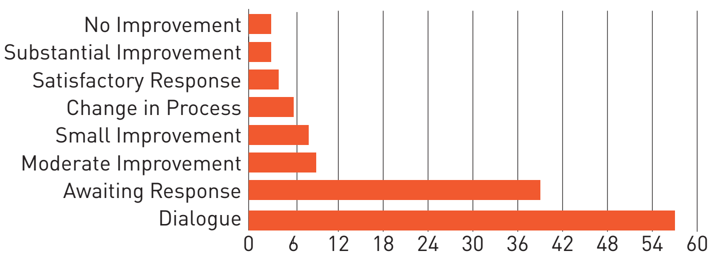
IBSTOCK PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
IDEMITSU KOSAN CO LTD (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	JPN
IMPERIAL OIL LIMITED (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	CAN
KIRKLAND LAKE GOLD INC (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	CAN
MARATHON PETROLEUM CORPORATION (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	USA
MIZUHO FINANCIAL GROUP INC	Alert Issued	Climate Change	Dialogue	Chair	JPN
MOTOROLA SOLUTIONS INC.	Alert Issued	Human Rights	Dialogue	Chair	USA
MUENCHENER RUECK AG (MUNICH RE)	Meeting	Covid/ Climate Change	Satisfactory Response/ Small Improvement	Specialist Staff	DEU
NATIONAL GRID PLC	Received Correspondence	Climate Change	Moderate Improvement	Specialist Staff	GBR
NEW HOPE CORP LTD (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	AUS
NEWCREST MINING LTD (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	AUS
NEWMONT CORPORATION (HSBC)	Sent Correspondence	Governance (General)	Dialogue	Chair	USA
NMC HEALTH PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
OTTOGI CORP (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	KOR
PHILLIPS 66 (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	USA
PHOENIX GROUP HOLDINGS (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
PHOENIX IT GROUP PLC (CDP)	Received Correspondence	Environmental Risk	Satisfactory Response	Chair	GBR
PRUDENTIAL PLC	Meeting	Covid/ Climate Change	Change in Process RT/	Chair	GBR
RIO TINTO GROUP (AUS)	Alert Issues/ AGM/ Meeting	Human Rights/ Climate Change	Dialogue/ Moderate Improvement	Chair	AUS
ROYAL DUTCH SHELL PLC (CA100+)	Meeting/ Alert Issued	Climate Change	Small Improvement/ Dialogue	Exec Director or CEO	NLD
SAINSBURY (J) PLC	Sent Correspondence	Environmental Risk	Awaiting Response	Chair	GBR
SOUTHERN COMPANY	Press Release	Climate Change	Substantial Improvement	Exec Director or CEO	USA
STANDARD CHARTERED PLC	Meeting	Covid/ Climate Change	Satisfactory Response/ Change in Process	Chair	GBR
SUMITOMO MITSUI FINANCIAL GROUP	Sent Correspondence	Board Composition	Awaiting Response	Chair	JPN
TESCO PLC	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
TESLA INC	Alert Issued	Employment Standards/ Remuneration	Dialogue	Chair	USA
THE BOEING COMPANY	Alert Issued/ AGM	Governance (General)	Dialogue	Chair	USA
TOTAL SA	Press Release	Climate Change	Dialogue	Chair	FRA
TULLOW OIL PLC	Sent Correspondence	Governance (General)	Dialogue	Chair	GBR
ULTRA ELECTRONICS HOLDINGS PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
VALE SA	Meeting	Human Rights/ Governance	Dialogue/ Change in Progress	Chair	BRA
VALERO ENERGY CORPORATION (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	USA
VESUVIUS PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR
WHITEHAVEN COAL LTD (CA100+)	Sent Correspondence	Climate Change	Awaiting Response	Chair	AUS
WIZZ AIR HOLDINGS PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	JEY
WOODSIDE PETROLEUM LTD Substantial Improvement	Alert Issued/ AGM	Climate Change	Dialogue/	Chair	AUS
XAAR PLC (CDP)	Sent Correspondence	Climate Change	Awaiting Response	Chair	GBR

ENGAGEMENT DATA

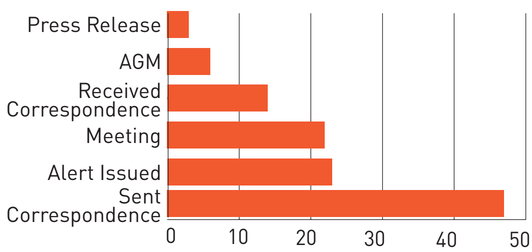
COMPANY DOMICILES



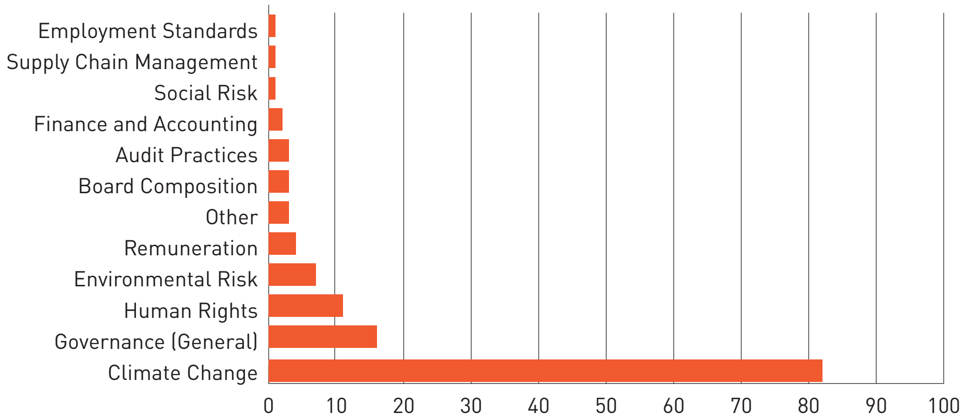
MEETING ENGAGEMENT OUTCOMES



ACTIVITY



ENGAGEMENT TOPICS



Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 SEPTEMBER 2020**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) Overview & Summary Performance Report** **(2) Update on Legislation** **(3) Update to Risk Register**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Performance against SLA & Workload Appendix 1a – Performance against Statutory Legal Deadlines Appendix 2 – Employer Performance Appendix 3 – Late Payers Appendix 4 – Update on Legislation (Annex - McCloud Remedy) Appendix 5 – Risk Register Appendix 5a – 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 August 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. A summary report is included in Appendix 4.

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 August 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 initial 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 engagement with all key employers was established and is ongoing to review and monitor business as usual capability. All other employers have been surveyed to establish BAU capabilities with no significant issues being reported.

4 GOVERNANCE

4.1 Updated advice and guidance for scheme administrators has been received from the Pensions Regulator as the COVID-19 pandemic continues to evolve. Whilst the prioritisation of critical administration work to support scheme members by focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases remains, administrators are also reminded of their responsibility to maintain other administrative processes.

5 APF PERFORMANCE

5.1 As per TPR guidance the Fund has focussed on critical member processes including the processing of retirement and death benefits. **Appendix 1 (Annex 1 & 2**) and **Appendix 1a** provide details of APF performance up to the end of the last quarter for all KPI's measured against both SLA and statutory legal deadlines.

5.2 KPI performance is monitored and reported to the Pensions Manager for review on a bi-weekly basis. **Appendix 1** (**Annex 5**) reflects the situation at the end of June with an overall 2,813 cases outstanding of which 1,435 (49%) are workable. This represents an overall increase in outstanding workable cases over the previous period reflecting an increase in additional workload created by the year end reconciliation process.

6 EMPLOYER PERFORMANCE & YEAR END

6.1 Officers have completed the 2019/2020 financial year end and data reconciliation process.

6.2 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.

6.3 All required i-Connect returns up to 31st March have been received and loaded to the Altair system.

6.4 Of the 163 employers that supply their data via a manual return, 159 returns have been received. The 4 outstanding employers (covering 10 members) are being contacted by Employer Relations and employer penalty fines will now be considered.

6.5 Officers have completed work to reconcile data returns ahead of the statutory ABS exercise. Summarily, 94% of all active member statements were issued ahead of the 31st August deadline. Work is now underway to assess requirements for the provision of statutory Pension Saving Statements.

6.6 Employer Performance - ***Appendix 2*** highlights employer performance for notification of member retirements for the three months to 30th June 2020.

6.7 The i-Connect onboarding project is still suspended pending recruitment of the I-Connect team. Recruitment to fulfil the teams will recommence in September 2020 along with a review of the project. Controls are still being developed including an Extract Comparison Tool.

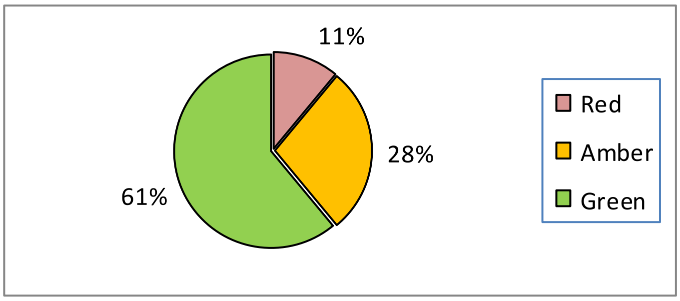
7 TPR DATA IMPROVEMENT PLAN

7.1 We have maintained an overall data score of 94.4% for the quarter ending June 2020.

7.2 A summary of the RAG rating by employer is shown below. The RAG rating reflects employers with % outstanding data queries against profiled scheme membership: (over 10% = Red, between 0.1% & 10% = Amber and 0% = Green).

No of Employers March 2020	No of Employers June 2020	Queries	RAG rating
21	24	10% >	Red
107	99	0.1 to 10%	Amber
293	306	0%	Green

June 2020



Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Sept 19	Queries Dec 19	Queries Mar 20	Queries June 20	Member ship	RAG	
BANES	72	50	48	41	2651	1.54%	Amber
Bristol City	228	259	271	224	8892	2.52%	Amber
North Somerset	40	14	8	10	1932	0.52%	Amber
South Gloucestershire	96	92	142	134	5820	2.30%	Amber

8 RESOURCE UPDATE

8.1 A cross service administration recruitment project is currently in progress to appoint 11.2 FTE vacant posts across member and employer services teams. A temporary Training Officer role has been created and internally appointed in order to manage training for all new recruited officers whilst staff continue to work remotely from home. The project began in September and recruitment will be staged over 3 phases continuing into 2021.

9 LATE PAYERS

9.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

9.2 The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.

9.3 ***Appendix 3*** reports late payers in the period to 30th June 2020. There were a small number of late payments in the reporting period, none of which were of material significance and therefore recorded internally but not reported to TPR. The Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

10 REGULATORY AND LEGISLATIVE MATTERS

10.1 A number of significant matters are beginning to emerge and a summary of the key issues has been outlined at **Appendix 4**.

11 RISK REGISTER

11.1 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.

11.2 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

11.3 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 August 2020.

11.4 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 5 and 5a.**

11.5 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 was added in May 2020 focusing on the sustainability of remote working so that the Fund is able to continue to deliver the service to members and employers.

11.6 Following the quarterly review most risks remained unchanged in terms of risk score apart from:

a) the introduction of the exit payment cap where the risk score has increased due to the publication of the response to the consultation. Regulation changes are expected by the end of the year when considerable changes to the administration procedures for processing redundancy retirements will be required.

11.7 Other updates for this quarter which did not affect the overall risk score were:

a) The McCloud consultation was released on 16 July. Although primary legislation changes are not expected until April 2022, work is underway to develop a comprehensive project programme with multiple workstreams contained within it.

b) The sustainability of remote working continues to be monitored and risk assessments are being carried out for all staff regarding home working conditions and mental health in line with Banes guidance. TPR/SAB guidance continues to be reviewed and further procedures reviews are planned to ensure they are fit for purpose for remote working.

c) There is no significant increase in terms of employers paying contributions late. The top 34 employers contributing into the fund continue to pay on time. Close monitoring continues as the situation evolves

d) Phase one of the recruitment on the Administration starts in September 20 and the vacant Investments posts are currently being advertised.

12 RISK MANAGEMENT

12.1 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.

13 EQUALITIES STATEMENT

13.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified

14 CLIMATE CHANGE

14.1 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 addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

15 OTHER OPTIONS CONSIDERED

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

16 CONSULTATION

16.1 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	

Fund Performance against SLA – KPI's As at 30 June 2020 Appendix 1

Annex 1

		Cases Last Quarter Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	Quote - 15 days	198	186	93.94%	8	97.98%
	Payment - 15 days	163	160	98.16%	0	98.16%
Retirement (from Deferred)	Quote - 30 days	106	78	73.58%	12	84.91%
	Payment - 15 days	321	317	98.75%	3	99.69%
Deaths	Notification - 5 days	107	104	97.20%	3	100.00%
	Payment - 10 days	102	94	92.16%	4	96.08%
Refund of contributions	Quote - 10 days	284	128	45.07%	42	59.86%
	Payment - 10 days	183	178	97.27%	2	98.36%
Deferreds (early leavers)	30 days	511	219	42.86%	292	100.00%
Transfers In	Quote - 10 days	88	41	46.59%	7	54.55%
	Payment - 10 days	46	22	47.83%	0	47.83%
Transfers Out	Quote - 10 days	97	30	30.93%	23	54.64%
	Payment - 10 days	16	5	31.25%	0	31.25%
Estimates	Member - 15 days	38	33	86.84%	3	94.74%
	Employer - 15 days	52	49	94.23%	2	98.08%
Divorce	Quote - 45 days	50	46	92.00%	0	92.00%
	Actual - 15 days	1	1	100.00%	0	100.00%
Starters	40 days	690	686	99.42%	0	99.42%
		3053	2377	77.86%	401	90.99%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

		Tasks Last Quarter							
		Average Days to Process	Actual Days to Process						
			0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	**Quote - 15 days**	6	128	42	16	8	2	2	0
	Payment - 15 days	4	142	16	2	0	3	0	0
Retirement (from Deferred)	**Quote - 30 days**	5	90	2	5	3	4	0	2
	Payment - 15 days	2	277	32	8	3	1	0	0
Deaths	**Notification - 5 days**	1	104	3	0	0	0	0	0
	Payment - 10 days	4	87	7	4	1	2	0	1
Refund of contributions	**Quote - 10 days**	14	43	85	42	84	20	3	7
	Payment - 10 days	3	169	9	2	1	0	1	1
Deferreds (early leavers)	**30 days**	29	23	32	59	39	37	29	292
Transfers In	**Quote - 10 days**	14	32	9	7	10	19	2	9
	Payment - 10 days	16	20	2	0	4	17	2	1
Transfers Out	**Quote - 10 days**	18	5	25	23	11	14	2	17
	Payment - 10 days	23	4	1	0	4	2	1	4
Estimates	**Member - 15 days**	7	13	5	15	3	1	1	0
	Employer - 15 days	4	41	7	1	2	0	1	0
Divorce	**Quote - 45 days**	18	9	11	12	3	1	4	10
	Actual - 15 days	2	1	0	0	0	0	0	0
Starters	**40 days**	14	273	170	159	27	21	28	12

RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

Annex 2

Work Type	Target Processing SLA (Old/New)	Q3 Jul 19 - Sept 19	Q4 Oct 19 - Dec 19	Q1 Jan 20 - Mar 20	Q2 Apr 20 - Jun 20	Trend
SLA Standards for Processing Admin Tasks						
Retirement (from Active)	Quote - 5 / 15 days	92.77%	81.39%	75.14%	93.94%	
	Payment - 5 / 15 days	90.95%	91.51%	95.21%	98.16%	
Retirement (from Deferred)	Quote - 30 days	64.17%	35.71%	45.78%	73.58%	
	Payment - 5 / 15 days	94.95%	93.42%	95.02%	98.75%	
Deaths	Notification - 5 days	96.94%	99.04%	99.21%	97.20%	
	Payment - 5 / 10 days	92.39%	73.61%	99.09%	92.16%	
Refund of contributions	Quote - 10 days	61.80%	78.87%	78.65%	45.07%	
	Payment - 10 days	90.15%	78.31%	76.68%	97.27%	
Deferreds (early leavers)	Notification - 20 / 30 days	79.65%	68.00%	96.84%	42.86%	
Transfers In	Quote - 10 days	38.33%	90.79%	80.25%	46.59%	
	Payment - 10 days	62.64%	83.58%	85.71%	47.83%	
Transfers Out	Quote - 10 days	25.95%	80.26%	90.27%	30.93%	
	Payment - 10 days	23.53%	29.17%	90.91%	31.25%	
Estimates	Member - 10/15 days	84.21%	60.66%	90.55%	86.84%	
	Employer - 15 days	70.24%	86.05%	68.75%	94.23%	
Divorce	Quote - 45 days	75.58%	100.00%	90.79%	92.00%	
	Actual - 15 days	83.33%	100.00%	100.00%	100.00%	
Starters	40 days	98.96%	99.71%	98.80%	99.42%	
	Total Cases Processed	4347	3542	4274	3053	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

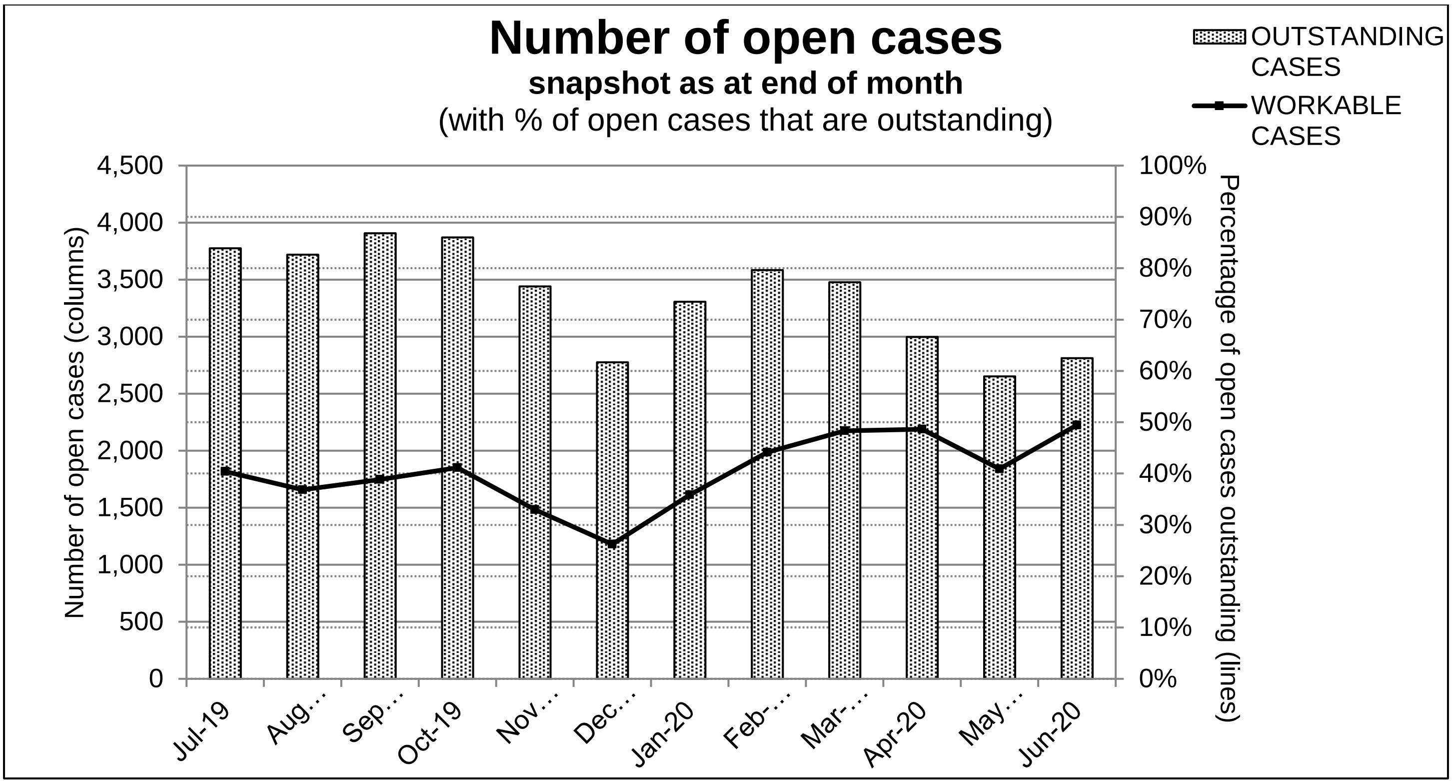
Annex 3

Statutory requirements	Timescale/deadline	3 months to 30/06/20	Notes
Year End data from employer	by 30 June		428 out of 432 employers' YE data submitted in preparation for ABS run
Issue ABS	by 31 August		Deferred LGPS members sent June 2020 (Active LGPS members sent August 2020)
Issue Pension Saving Statements	by 6th October		N/A this period
Notify scheme changes	within 3 months		N/A this period
Issue Active member newsletter	2 issues per year	YES	Issued May 2020 (2nd issued August 2020)
Issue Deferred member newsletter	1 issue per year	YES	June 2020
Issue Pensioner member newsletter	1 issue per year	YES	Issued May 2020

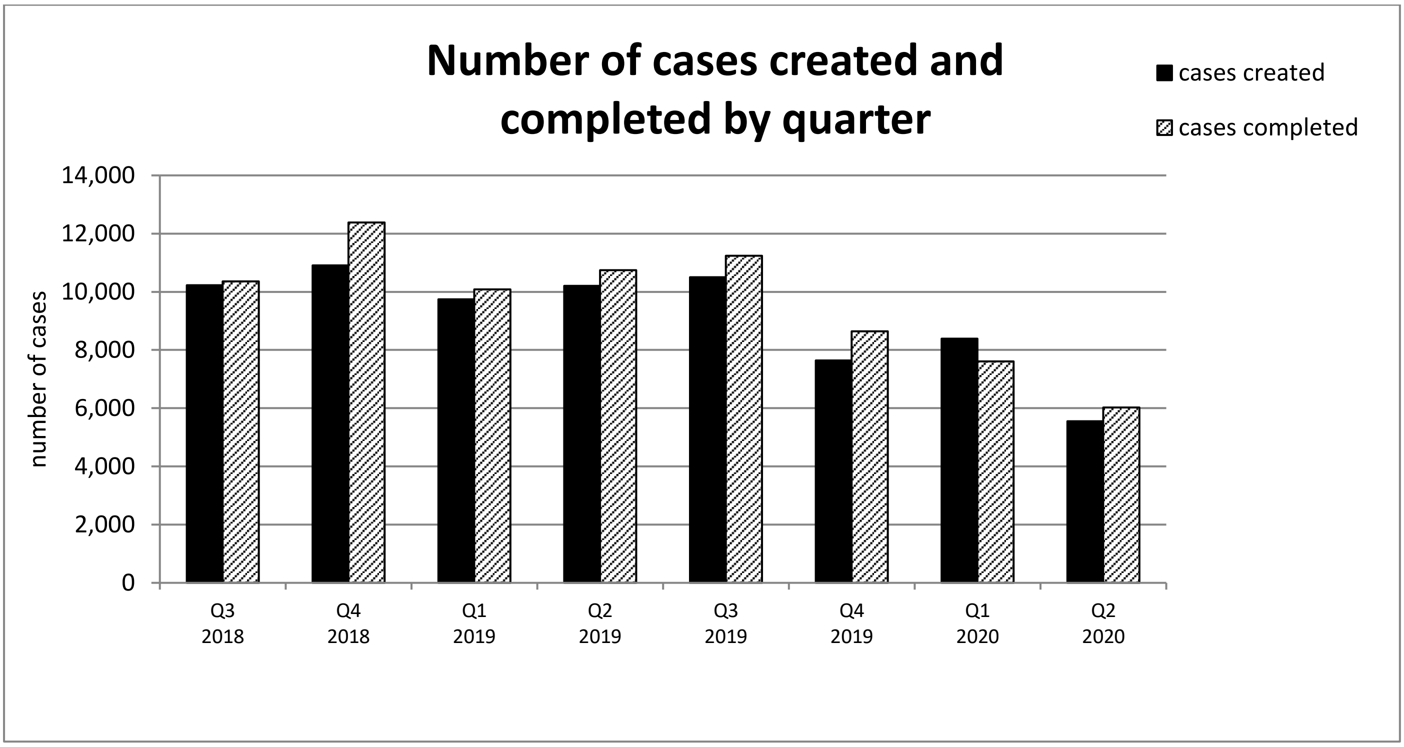
Annex 4

Other performance standards	3 months to 30/06/20	2020/21 target	Notes
Retirements survey - satisfaction %	73%		
% of employers signed up to submit data electronically (ESS/iConnect)	66.1%	>100%	
% of active membership covered by ESS/iConnect	96.2%	95%	Appx 86% membership covered by i-Connect
% of all members with electronic access (MSS)	25.4 %	No target set	
% of active members with electronic access (MSS)	31.2 %	No target set	

Annex 5



Annex 6



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Appendix 1a

APF Completed Cases - Performance against Statutory Legal Deadline

		Cases Last Quarter - Apr 20 - Jun 20			
		Measured Against Statutory Legal Requirement			
		Target	**Total Processed**	**Total Processed in Target**	**Percentage Processed within Target**
Retirement (from Active)	**Notification of Benefits**	46 days	73	61	83.56%
Retirement (from Deferred)	**Notification of Benefits**	23/46 days	54	52	96.30%
Deaths	**Notification of Benefits**	46 days	91	91	100.00%
Refund of contributions	**Notification of Entitlement**	46 days	284	284	100.00%
Deferreds (early leavers)	**Notification of Entitlement**	46 days	511	511	100.00%
Transfers In	**Provision of Quotation**	46 days	69	49	71.01%
Transfers Out	**Notification of Trf Value**	69 days	97	96	98.97%
	Payment of Trf Value	138 days	16	16	100.00%
Estimates	**Provision of Quotation**	46 days	49	28	57.14%
Divorce	**Provision of Quotation**	69 days	50	46	92.00%
	Application of Order	92 days	1	1	100.00%
Starters	**Statutory Notice Issued**	46 days	690	686	99.42%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Comments where performance has fallen below expected target:-

Retirement (from Active) – New processes have been adopted to accommodate working from home using Secure Share where possible and if this couldn’t be used initially we were only going into the office once a week to print.

Transfers In – Due to working from home and lockdown restrictions with access to the office these cases were initially not a priorty and our main focus was on paying benefits, tranfer in cases were delayed at print stage causing a backlog.

Estimates – Again due to working from hime and lockdown restrictions and access to the office there has been delays with processing the request then checking the work and finally there has been a delay with printing and sending the information out.

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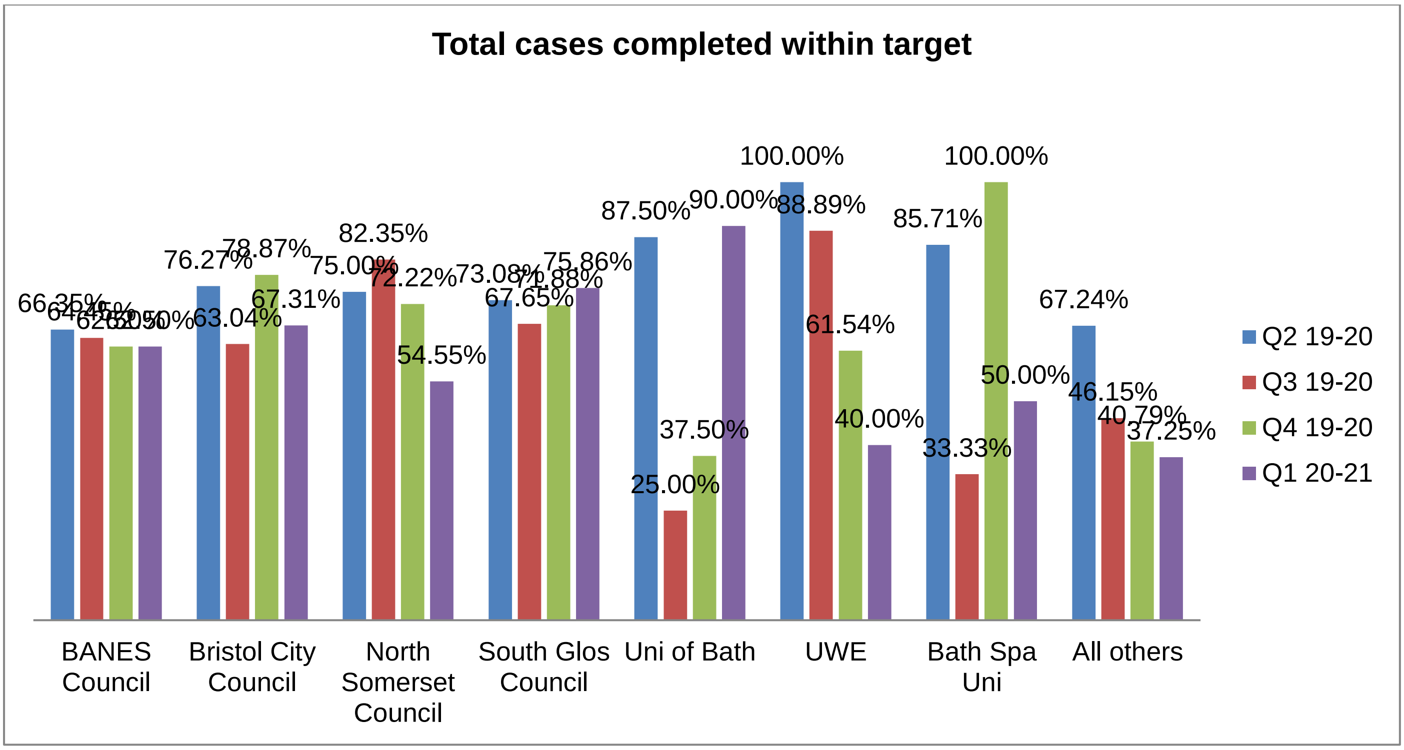
Employer Performance 3 months to 30th June 2020 Appendix 2

Completed leaver forms by employers for retirements within SLA targets.

Annex 1 – **Total cases - Percentage and number of cases completed within target**

	Q2 19-20	**Q3 19-20**	**Q4 19-20**	**Q1 20-21**
BANES Council	66.35%	64.45%	62.50%	62.50%
Bristol City Council	76.27%	63.04%	78.87%	67.31%
North Somerset Council	75.00%	82.35%	72.22%	54.55%
South Glos Council	73.08%	67.65%	71.88%	75.86%
Uni of Bath	87.50%	25.00%	37.50%	90.00%
UWE	100.00%	88.89%	61.54%	40.00%
Bath Spa Uni	85.71%	33.33%	100.00%	50.00%
All others	67.24%	46.15%	40.79%	37.25%



Annex 2 – **Breakdown by case type within target**

Within target	Retirements		
	Cases	Within	%
BANES Council	24	15	62.50%
Bristol City Council	52	35	67.31%
North Somerset Council	11	6	54.55%
South Glos Council	29	22	75.86%
Uni of Bath	10	9	90.00%
UWE	5	2	40.00%
Bath Spa Uni	2	1	50.00%
All others	51	19	37.25%

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APPENDIX 3

Late Payers to 30th June 2020

Employer	Payroll Month	Days late	Cumulative occasions	Amount £	Significance	Reason / Action
April to June						
Active Community Engagement Ltd	April	30	1	83.19	Days	Misunderstanding regarding the use of surplus that was swiftly resolved when explained to the employer.
Bristol Waste Company	April	10	1	22,998.07	Days and value	Employer has apologised for the oversight. They have amended the payment date to the 10th of the month to ensure that future payments are made in time.
Caterlink Ltd	April	49	1	531.14	Days	Staffing issues, resulting in insufficient cover. Payment made promptly once late payment reported to the employer.
Bristol Disability Equality Forum	April	98	2	263.68	Days	Staff changes leading to late payment. Payment now on a standing order, so should be paid on time from July onwards.
Trowbridge Office Cleaning Services Ltd	April	42	1	192.13	Days	No reason provided, but subsequent payments have been made on time.
ABM Catering Ltd	April	39	1	1,282.00	Days	Relatively new employer who set up the bank details incorrectly by one digit. Correct bank details now in place and payments have subsequently been made on time.
Weston Support Services Ltd	April	38	1	88.21	Days	No reason provided, but subsequent payments have been made on time.
Pill and Easton in Gordano Parish Council	April	68	1	507.90	Days	Employer changed from paying by cheque to BACS, but unfortunately used the incorrect bank details. Once informed, the situation was resolved swiftly with the employer.

Future Stars Club Ltd	April	8	1	79.36	Days	No reason provided, but subsequent payments have been made on time.
Pill and Easton in Gordano Parish Council	May	37	2	507.90	Days	As per comment above for Pill and Easton in Gordano Parish Council.
Caterlink Ltd	May	18	2	356.87	Days	Due to staffing issues - June was paid early and July has also been received
Bristol Disability Equality Forum	May	67	3	263.68	Days	As per comment above for Bristol Disability Equality Forum
Bristol Disability Equality Forum	June	37	4	263.68	Days	As per comment above for Bristol Disability Equality Forum
				27,417.81	**Over The 3 Months**	
Total Contributions in Period (excluding deficit payments)				33,590,580	Late payments value as a % of total = 0.08%. Late Payments received from 6 out of 404 employers.	
All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment. Where material, interest will be charged on late payments at base rate plus 1% in accordance with the regulations.						
Calculation of cumulative occasions is based on a rolling 12 month period, consequently the number of cumulative occasions can go down as well as up.						

Appendix 4

Regulatory Update

Pension Committee Meeting September 2020

McCloud Judgement

On 16 July 2020, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS. In summary the consultation proposes that qualifying members, all who were active in 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break, would be protected by the application of a revised underpin which will be applied retrospectively for those who have already left the scheme. The consultation runs until 8th October 2020 and we are currently in the process of formulating a response.

Please see the McCloud Judgement Briefing Paper (Annex), attached to this report for full details of the proposals, including the impact this will have on the administration, the number of members in scope of the remedy proposed, the potential additional resource this will require and possible options available for external support.

Cost Management Process

The Government Actuary Department (GAD) is undertaking an actuarial valuation of the LGPS as at 31 March 2016 as part of the cost control process. This work was on hold because of the changes to the scheme in response to the McCloud judgment. The Government made an announcement confirming that the cost control mechanism pause will be lifted, and the cost control element of the 2016 valuations process will be completed for all public service pension schemes. They further confirmed that the cost of addressing the discrimination identified in the McCloud judgment will be included in this process. The SAB are currently considering its position on the SAB employer cost cap process now that the proposals to rectify age discrimination for the LGPS are available.

Public Sector Exit Payments Cap

On 21 July 2020, HM Treasury published the Governments response to the consultation on restricting exit payments in the public sector. This was followed by the publication of draft regulations which include a list of employers who will be covered by the cap, which is set at a total of £95,000. Exit payments include redundancy payments, severance payments, pension strain costs and other payments made as a consequence of termination of employment.

The Regulations will need to be approved by both houses of parliament and will come into force 21 days after that process is complete. We understand it is the intention that the cap will be in force for the end of the 2020 calendar year.

This will affect LGPS members in England and Wales who currently qualify for an unreduced pension because of redundancy or efficiency retirement. It will also apply to members whose employer agrees to the early release of their benefits without actuarial reduction, apart from ill health retirement which is excluded. If the cap is breached, then the member may have to take a reduced pension. MHCLG has looked at options to introduce choice to allow members in this position to opt for a deferred pension instead. We also expect the introduction of a standard strain cost calculation so that the cap will apply equally to members across the country.

On 7 September, MHCLG released a consultation which will have far-reaching implications for funds, employers and members alike in England and Wales. At the root of the proposals are the changes required to the LGPS to implement the HMT 95k cap, however, further proposals that were not expected on reform of exit payments, which will have implications for members being made redundant, especially those aged 55 or over who don't even exceed the cap, are also included. The consultation will run until the 9th November. We are currently waiting for draft LGPS regulations which will hopefully provide further clarification on the proposals, who they cover, and may lead to a change in the current understanding.

Written Ministerial Statement on Survivors Benefits

On 20 July, the Chief Secretary to the Treasury made a written statement on public service pensions, survivor benefits for opposite–sex widowers and surviving male civil partners. The statement was in relation to a Teachers Pension Scheme Employment Tribunal case where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor and confirmed that government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances. We await guidance from MHCLG on what action administering authorities in England and Wales should take.

Review of employer contributions and flexibility on exit payments

MHCLG have published a second partial response to the Local valuation cycle and the management of employer risk consultation that was issued in May 2019. The response confirms that the LGPS 2013 Regulations will be amended to allow greater flexibility on employer exit payments and the ability to review employer contributions between valuations. The LGPS (Amendment) (No.2) Regulations 2020 provide for the changes and come into effect from 23 September 2020.

McCloud Judgement Briefing Paper

Background

The McCloud/Sargeant case concerned the transitional protections provided to older members of the judges (McCloud) and firefighter (Sargeant) pension schemes following their reform in 2015 as part of the Public Service Pension Scheme (PSPS) changes. In December 2018, the Court of Appeal found the transitional protections to be unlawful on the grounds of age discrimination and the Supreme Court subsequently denied the Government's request for an appeal and as such the case was returned to an Employment Tribunal for remedy. In July 2019, it was announced that 'the government believed that the difference in treatment will need to be remedied across all PSPS, including the LGPS. On 16 July 2020, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS and are expected to be implemented from 1 April 2022.

The MHCLG Consultation Proposals

The consultation proposes that:-

- qualifying members, all who were active in the 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break, would be protected by the application of a revised underpin which will be applied retrospectively for those who have already left the scheme.
- unlike the current underpin, qualifying members do not have to have an entitlement to an immediate benefit when they leave the scheme.
- the revised underpin will
  - continue to compare the benefits payable under the 2008 scheme against the benefits payable under the 2014 scheme and, where the 2008 scheme benefits are higher, apply an underpin addition equal to the difference in benefits.
  - become a two-stage process with an initial check being carried out at the 'underpin date', which is the earlier of leaving the scheme, reaching Normal Pension Age or death. A second check will then be applied at the 'underpin crystallisation date' when the member takes their benefits. At this point the revised underpin will, should it apply, increase the benefits payable to the member
  - take account of early/late retirement adjustments
  - apply to death in service and survivor benefits
- revised underpin protection will cease in respect of membership after 31st March 2022, however final salary protection will continue after that date in respect of membership before that date.
- members must meet the qualifying criteria in a single membership for underpin protection to apply – so where a member has had a break in service or a period of concurrent employment, they must aggregate the benefits for the underpin to apply, As such, members who have previously chosen not to aggregate scheme employments will be given a further 12 months to reverse that decision.
- Annual Benefit Statements should contain information on the potential impact of the revised underpin.
- if the second underpin check results in an increase to the member's benefits, this will be included for both annual allowance and lifetime allowance purposes in the year of the 'underpin crystallisation date'.

Analysis

In July, we carried out some initial analysis on our membership and identified 24,808 members who qualify for their benefits to be tested against the revised underpin.

Of those 24,808 members, 12,815 remained active members of the scheme, which, providing pension administration software systems can be updated before the new regulations come into force, the method of testing their benefits against the revised underpin, when they eventually leave or reach their Normal Pension Age, should be automatically carried out by the system and as such require no manual intervention or rectification work to be carried out.

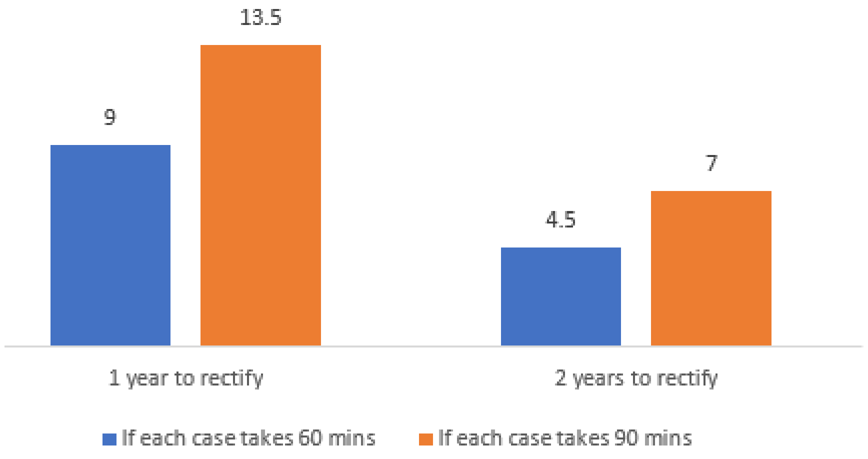
However, the remaining 11,993 members identified as already having left the scheme will require for us to carry out a review of the benefits awarded and the subsequent adjustment of benefits where applicable. These members fall into the following categories:-

Retired	5,494
Deferred	5,940
Transferred Out	278
Died	258
Trivially Commuted Benefits	23

It is important to note that between now and the date of implementation of the remedy, some of the initial 12,815 members identified as continuing in active membership will leave and as such move into the category requiring review.

Consideration of Resources for Rectification Exercise

At this moment in time, it is not known how long schemes will be given to carry out the rectification work for those members who have already left the scheme or how long each case will take to rectify. Therefore, we have estimated the possible additional FTE members of staff that will be required assuming the rectification is to be completed over a period of either 1 or 2 years, assuming that each case will take either 60 mins or 90 mins to complete, and will need to processed manually, it also assumes 80% productivity and 220 days a year worked.



As you will see from the above table, we will need anywhere between 4.5 and 13.5 additional FTE members of staff.

Impact on Administration

There is no doubt that the implementation of the remedy will have a significant impact on the administration section. Our immediate priority will be to carry out a large data gathering exercise to obtain hour change and service break data, from our employers, going back to 1 April 2014, and then uploading this information into our pensions administration system. Changes to existing processes will also be required to ensure that employers provide us with the necessary information going forward for all members in scope of the remedy.

Once the final remedy is determined and the date for implementation is known, we will be require to undertake a significant amount of benefit recalculation work as well as opening up the aggregation window for those members who chose not to combine their benefits, for a period of 12 months, which will result in an increase in aggregation and interfund calculations requiring processing.

Significant changes will be required to pensions administration systems which, depending on the timing and degree of success of these changes, could make a big difference to the level of resource required for this exercise. As the LGPS does not require changes to primary legislation, as the other PSPS do, MHCLG are hopeful that they can publish the amendment regulations early in 2021 giving software providers the best opportunity to implement changes for April 2022.

Along the way, there will need to be a whole programme of communications developed for members and employers, as well as the need to carry out a full review of the member and employer websites, scheme guides and letters in order to ensure that they are updated with any amendments in preparation for the implementation date.

One final point to note is that whilst this briefing paper covers the proposed remedy for the LGPS, Avon Pension Fund are also administrators for the Fire Schemes on behalf of Avon Fire Authority and as such we will additionally be involved in the administration side of the rectification exercise for the Fire Schemes also.

Options Available

There are a number of options available when it comes to dealing with this, however, either way this will require a significant amount of additional budget to be made available. The options are as follows:-

1. Carry out the work entirely inhouse
2. Carry out some of the work inhouse with some support coming from an external provider
3. Fully outsource this exercise to an external provider

There are numerous providers offering external support with this, ranging from help with initial planning and training for funds intending to deliver the programme mainly in-house, to full programme delivery for those who do not have the resources to do the work themselves. Support can be provided in any of the following areas:-

Programme management

McCloud oversight/assurance

Retrospective benefits review

McCloud Training – Board, Committee, etc.

Changes to ongoing administration

Data collection support

Identification of in-scope members

Interactive workshops

Member and employer communication

Compliance

The following table outlines some of the pros and cons of each approach:-

	Pros	Cons
Inhouse Administration	- Likely to be cheaper - Retain full control and oversight of the project and its progress - Knowledge of internal operations	- We will require existing highly experienced staff to work on this and will struggle to recruit staff with any experience to replace them and so a lot of training will be necessary - The risk of losing staff due to the additional pressures this would bring
External Support	- Reduces the need to recruit and train new staff - Takes the pressure off of staff who are already feeling the strain - They are likely to have access to more resources with the necessary experience	- Likely to be more expensive - Could lose control and oversight of the project and its progress - Lack of knowledge if internal operations - Possible GDPR implications due to data sharing

The Fund will explore the various options available to determine its approach as part of the project plan. In the meantime, officers are engaging with colleagues from other South West funds in order to draft a consistent response to the consultation.

Appendix 5

Risk	Risk Number	Impact	RAG	Trend	Mitigating Action (For Committee / Board report)
Recruitment of staff	R28	Fund's ability to develop & implement service plan and administer the Fund		◀▶	Delay in recruitment of vacant Administration posts (10.2 FTE's) due to Coronavirus outbreak. Trainer has been appointed to train the new recruits. First phase of three phases of recruitment for Administration posts starting September 20. Investment posts currently being advsertised.
McCloud/Sargeant Judgements resulting in the extension of protections	R63	Increase in workload on administration side and for scheme employers		◀▶	Consultation released on 16 July by MHCLG and runs for 12 weeks. Changes to primary legislation not expected until April 2022. Work is underway to develop a comprehensive project programme with multiple workstreams contained within it. Initial analysis has been carried out to identify the number of members that are impacted by the consultation proposals, the action required to implement the remedy and which employer they fall under. The current priority is to collect missing data from employers in respect of working hours and details of service breaks, since 1 April 2014, for all members in scope of protection.
Deterioration in financial stability of employers (employer Covenants)	R23	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; Discussing possible policy options with actuary. No indicators of deterioration in financial stability of employers/their covenant at present
Failure to earn investment returns	R26	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
Increase in employers	R56	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. Phase one of three phases of recruitment starting September 20. Trainer has been appointed to train the new recruits.
Political Pressure to reform the scheme & direct investment decisions eg ESG	R42	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/
The introduction of the exit payment cap	R53	This will place an additional burden on the administration resource		▲	Response to the consultation and regulations now published, MHCLG is currently looking at options to introduce choice to allow members in this position to opt for a deferred pension instead and we await further guidance on the changes required to the LGPS. The Regulations will need to be approved by both houses of parliament and will come into force 21 days after that process is complete, there is no date set yet, however, we understand it is the intention that the cap will be in force for the end of the 2020 calendar year.
Climate Change Emergency	R60	Significant financial risk to the investments assets		◀▶	SAA revised to a higher allocation to climate positive investments. Unable to control global markets in general only through strategy.
Iconnect data from employers	R59	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
Sustainability of working arrangements during Covid 19 outbreak	R64	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. Risk assessments being carried out for all staff regarding home working conditions and mental health as per Banes guidance. TPR/SAB guidance continues to be reviewed. Further procedures to be reviewed to enasure fit for purpose for remote working.
Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	R05/R58	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
Implementation of changes arising from scheme cost cap mechanism	R47	Additional burden on administration. Awareness of members & employers		◀▶	In July 2020, the Government announced that the cost control mechanism pause will be lifted and that the cost of addressing the discrimination identified in the McCloud judgment will be included in this process. The SAB are currently considering its position on the SAB employer cost cap process which is also paused.
Inadequate knowledge of those charged with governance. Committee Members knowledge is impacted by re-election process. Failure to comply with statutory regulations	R25	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.
Delays in transition of assets to Brunel or Brunel fails to deliver its objectives	R54	delays could impact pool's ability to deliver savings in line with business case or pool could fail if objectives are not met		◀▶	Brunel Transition Plan monitored by Client Group & BOB. Investment Panel & Committee monitor. Slight delay in 2020 transitions due to COVID. Transition plan restarted in Julu 2020. Loss of CIO means less senior management resources for 3- 9 months
Late / incorrect contributions from employers	R10	cashflow, employer funding position, TPR breach		◀▶	Monthly reconciliation, follow up in line with TPR code and late payers reported to Committee & Board. Top 34 employers contributing into the fund continue to pay on time. No significant increase in terms of other employers paying late, but this should still be monitored very closely as the situation continues to evolve.
Service delivery efficiency & customer service	R29	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. A review of forms that are sent to members with a requirement of a signature to see if electronic signature acceptable rather than wet signature. Looking at ways to develop how we communicate with our members, as still a high dependence on the postal system. This issue is being addressed in the scope of an organisational-wide project, which will include the digitisation of our communications with scheme members.

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Appendix 5a

Governance Risks (Total 4)

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

Investment & Funding Risks (Total 11)

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

Administration Risks (Total 13)

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

Financial Risks (Total 3)

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

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:	25 SEPTEMBER 2020	AGENDA ITEM NUMBER
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 JULY 2020 (2) CASHFLOW FORECAST	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1	Summary Financial Accounts: Year to 31 July 2020
Appendix 1A	Summary Budget Variances: Year to 31 July 2020
Appendix 2	Cash Flow Forecast

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2020. This information is set out in Appendices1 and 1A**.**

1.2 This report also contains the Cash Flow forecast for the year to 31 March 2021. This information is set out in Appendix 2

2 RECOMMENDATION

That the Committee notes:

2.1 **The administration and management expenditure incurred for 4 months to 31 July 2020.**

2.2 The Cash Flow Forecast at 31 July 2020.

2.3 The draft statement of Going Concern for the 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.

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the 4 months to 31 July 2020 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2021 is for expenditure to be £178,000 below budget.

Within the directly controlled Administration budget expenditure is forecast to be £178,000 under budget. The forecast reduction in directly controlled expenditure is related to salaries, in particular delays in filling vacant posts.

4.2 In that part of the budget that is not directly controlled, it is likely that there will be an overspend in compliance and investment governance costs. This overspend will be as a result of the additional advisory work required relating to the pandemic, regulatory changes and investment projects agreed since year end. An update will be provided at the December meeting once the workplan has been fully reviewed.

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

5 CASH FLOW FORECAST

5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Net cash outflows 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 2020 - 2023 Service Plan included a cash flow forecast showing a gross in-flow of c£197.5m and a gross out-flow of c£197.2m giving a net inflow in 2020/21 of just over £0.4m. The forecast gross inflow included £7m divestments and investment income.

The actual cash flow to 31 July was an outflow of c£20.2m against a budgeted outflow of c£15.8m for the same period. The difference was mainly due to a reduction in the amount of cash that can be held by the Council's treasury management team from £45m to £35m during the period. This cash has been transferred to the Fund's custodian, State Street, and will be drawn back down throughout the year. In April 2020, £84m cash relating to contribution prepayments was invested via State Street. The Fund increased the investment cash balance in 1Q20 so there was adequate liquidity to meet private market drawdowns through to end 3Q20.

The forecast outturn for the year to 31 March 2021 is currently a cash outflow of c£5.8m more than predicted in the Service Plan. It is currently predicted that a combination of lower lump sum payments and a positive contribution of transfers in/out of the fund will lead to a positive cashflow before transfers to/from the custodian of £10.7m. Offset against this is £9.5m transfer to the custodian compared to the original prediction of a £7m divestment, resulting in a variance of £16.6m.

6 FINAL ACCOUNTS – DRAFT GOING CONCERN STATEMENT

6.1 The Pension Fund' Statement of Accounts will be approved by the Corporate Audit Committee, before the November deadline, as they form part of the Council's accounts. As part of the audit sign-off process, the Corporate Audit Committee will have to consider whether the Pension Fund is a going concern. This is of heightened importance this year due to the impact of COVID-19.

6.2 In the Corporate Audit committee report accompanying the accounts there will be a statement regarding the going concern of the pension fund. Although the pension liabilities are long term in nature and the funding position reflects the ability to meet these liabilities over the longer term, going concern considers the Fund's ability to meet the liabilities that fall due within 12-months from the signing of the accounts, thus the focus is on cashflow and liquidity of the investment assets.

6.3 The statement for inclusion in the covering report is currently drafted as follows (the final statement will be agreed with the s151 Officer):

The Avon Pension Fund has adequate liquidity to meet all liabilities due in the 12-month period from signing of the accounts. The expected payments due to be paid in the period are £203.1 offset by expected contributions of £156.4m giving a net outflow of £46.7m. This shortfall will be met by investment income and divestment of assets. At 31 March 2020 the Fund has assets of £4.5bn of which £304m are in highly liquid assets that are held to provide liquidity to meet payments. There is an additional £1.7bn in listed equity assets which are also highly liquid and can be sold for cash within a short timeframe. (Note: as at 30 June 2020 the Fund value had recovered to £4.9bn with £331m in highly liquid assets). These liquid assets are more than sufficient to meet the forecast shortfall and also any unexpected reduction in contributions. To date there has been no concerning trends regarding timely receipt of contributions. The Audit Committee has concluded that based on this evidence, the Avon Pension Fund is a going concern with no material uncertainties.

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 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 EQUALITIES

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9 OTHER OPTIONS CONSIDERED

9.1 None.

11 CONSULTATION

11.1 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 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 : YEAR ENDING 31 MARCH 2021

	4 Months To End 31st July			FULL YEAR 2020/21		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	9,428	805	(8,623)	28,280	28,280	0
Administration Costs	29,716	39,544	9,828	89,147	89,147	0
Communication Costs	48,024	54,652	6,628	144,073	144,073	(0)
Payroll Communication Costs	35,890	2,958	(32,932)	107,669	107,669	(0)
Information Systems	124,947	269,161	144,214	374,841	374,841	0
Salaries	873,418	696,762	(176,656)	2,620,255	2,442,255	(178,000)
Central Allocated Costs	179,549	839	(178,710)	538,652	538,652	0
IT Strategy	0	0	0	0	0	0
Miscellaneous Recoveries/Income	(73,500)	(60,096)	13,404	(220,500)	(220,500)	0
Total Administration	**1,227,472**	**1,004,623**	**(222,849)**	**3,682,417**	**3,504,417**	**(178,000)**
Governance & Compliance						
Investment Governance & Member Training	185,267	134,711	(50,556)	555,800	555,800	0
Members' Allowances	14,027	526	(13,501)	42,080	42,080	0
Independent Members' Costs	19,333	8,247	(11,086)	58,000	58,000	0
Compliance Costs	189,310	257,387	68,077	567,930	567,930	0
Brunel Expenses	8,333	4,959	(3,374)	25,000	25,000	0
Compliance Costs recharged	(66,666)	(6,400)	60,266	(200,000)	(200,000)	0
Total Governance & Compliance	**349,604**	**399,430**	**49,826**	**1,048,810**	**1,048,810**	**0**
Pensions Board	**15,000**	**0**	**(15,000)**	**45,000**	**45,000**	**0**
Global Custodian Fees	22,333	4,135	(18,198)	67,000	67,000	0
Brunel Management Fees	545,000	629,258	84,258	1,635,000	1,635,000	0
Investment Fees	4,434,909	4,719,202	284,293	28,851,260	29,432,086	
Total Investment Fees	**5,002,242**	**5,352,595**	**350,353**	**30,553,260**	**31,134,086**	**0**
NET TOTAL COSTS	**6,594,318**	**6,756,649**	**162,331**	**35,329,487**	**35,732,313**	**(178,000)**

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Appendix 1A

Summary of main budget variances: Year ending 31st March 2021

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

Expenditure Heading	Variance £*	Most significant reasons for variance
Salaries	(178,000)	Reduced salaries expenditure due to delays in filling vacant posts against budget in both Investments and Benefits teams.
Administration	**(178,000)**	
Expenditure outside direct control	**0**	
Total	**(178,000)**	

***() 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

		FOUR MONTHS TO 31 JULY 2020			FULL YEAR 2020/21		
		Forecast Per Service Plan	Actual	Variance	Forecast Per Service Plan	Out-turn Forecast	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Benefits Outflows							
Benefits	Pensions	(52,015)	(52,264)	(249)	(156,044)	(156,792)	(748)
	Lump sums	(10,259)	(7,964)	2,295	(30,777)	(23,892)	6,885
Total Benefits Outflows		**(62,274)**	**(60,228)**	**2,046**	**(186,821)**	**(180,684)**	**6,137**
Inflows							
Deficit recovery		12,222	46,040	33,818	48,888	48,680	(208)
Future service Contributions		35,409	70,147	34,738	141,638	142,343	705
Total Contributions		**47,631**	**116,187**	**68,556**	**190,525**	**191,023**	**497**
Net Cash Flow (excluding Administration & Investment costs)		**(14,643)**	**55,959**	**70,602**	**3,704**	**10,339**	**6,634**
Investment Income received as cash			25	25		100	100
Net Transfers In & Out (budgetted as zero)		0	783	783	0	2,349	2,349
Administration costs		(3,473)	(2,920)	553	(10,420)	(8,760)	1,660
Net Cash Flow/(Out-Flow) before cash transfers with Custodian		**(18,116)**	**53,847**	**71,963**	**(6,716)**	**4,028**	**10,743**
Cash transferred (to)/from Custodian		2,333	(74,100)	(76,433)	7,000	(9,550)	(16,550)
Net Cash Flow/(Out-Flow)		**(15,783)**	**(20,253)**	**(4,470)**	**284**	**(5,522)**	**(5,807)**

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Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	25 September 2020	**AGENDA ITEM NUMBER** 18
TITLE:	Local Pension Board – Annual Report	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Pension Board – Annual Report 2019/20		

1 THE ISSUE

1.1 The purpose of the report is to present to the Pensions Committee the approved Annual Report of the Board's activities for 2019/20, as required under its Terms of Reference.

2 RECOMMENDATION

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

3 THE REPORT

3.1 Under the Public Service Pensions Act 2013 and as part of its terms of reference the LPB is required to produce and publish an annual report to the Council on its work, including any breaches of the law by the fund, recommendations on process and governance, and it should be circulated to the fund members and employers, and S151 officer and Monitoring Officer.

3.2 Based on its Terms of Reference document the LPB annual report summarises the Board's establishment and activities over the past 12 months and briefly looks forward to the proposed work plan for the forthcoming year.

3.3 The Annual Report, appended at appendix 1 will be available on the Fund's website and also be referenced in the Annual Report of the Avon Pension Fund.

4 RISK MANAGEMENT

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

5 EQUALITIES

5.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

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 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 CONSULTATION

7.1 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 [Jeff Wring] (01225 477323)*
Background papers	*Council Report – Establishment of Avon Pension Fund Board – 15th January 2015*
Please contact the report author if you need to access this report in an alternative format	

Avon Pension Fund – Local Pension Board – Annual Report 2019/20

1. Chairman's Summary

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

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

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

This report covers the period 1st August 2019 to 31st July 2020 within which the Board has held two meetings along with a number of informal briefings. There was a formal meeting in November 2019 plus an informal meeting in July 2020 to update the Board on the Fund's response to the Covid-19 outbreak. Due to the pandemic the other planned meeting and workshop due to be held in March 20 was postponed.

The fifth year of operation of the LPB has been dominated by the impact of the McCloud judgement and the Covid-19 pandemic and The Board has sought assurances from officers that the fund is able to operate remotely and continue to deliver its service to members and employers.

It has also focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management and benchmarking. During this period the members of the LPB have also continued to develop their knowledge and understanding of the LGPS and TPR requirements as required by law.

During the year The LPB has welcomed a new independent Chair appointed in November 2019, a new employer representative and a new member representative both appointed in March 2020.

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

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

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

This has included reviewing all administration processes against their legal timeframes as well as locally agreed service level agreements, reviewing high level risks facing the APF on a regular basis and analysing key issues around data quality – notably missing addresses.

The LPB reviewed & commented on the revised Funding Strategy Statement & Investment Strategy Statement and raised issues such as the increased administration burden that the McCloud remedy will bring and the ongoing concerns about the Climate Change emergency and the fund's response.

In addition we have continued to monitor the fund's compliance with TPR Code of Practice 14 along with a number of other audit reviews of the fund and its administration. The LPB welcomed the actions being implemented by the fund to ensure it fully complies with the Code and improve the control framework around the Administration of the APF.

The LPB noted the growing administration pressures from more employers joining the fund as well as new Scheme Advisory Board requirements in respect of scheme specific data. In light of this the LPB supported the need to future proof the level and quality of administration services as set out in the Fund's administration strategy.

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

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

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

Nick Weaver
Independent Chair

2. <u>Legal basis of Local Pension Board</u>

Background

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

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

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

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

Specific Role and Purpose

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

a) Securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation and:

b) To ensure the effective and efficient governance and administration of the Scheme.

The LPB will assist the 'scheme manager' by monitoring and advising on compliance with the pension scheme regulations, along with all other legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the scheme.

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

The Pension Regulator (TPR)

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

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

Terms of Reference

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

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

3. Establishment of Local Pension Board

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

Following the completion of their four-year term the Chair, one member rep and one employer rep stood down in 2019. Adverts for the role of Chair were placed on the Fund's website, Jobsgopublic.com, Local Government Chronicle online and the Council's job vacancy website.

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

Interviews were held in August 2019 and a preferred candidate – Nick Weaver – was identified and recommended to the LPB for an appointment of four years.

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

Interviews were held in February 2020 and the new member & employer representatives were appointed in March 2020.

Details of the Local Pension Board Members

Independent Chairman:
Nick Weaver. Appointed 1st November 2019. Term of office 4 years.

Employer Member Representatives:
Steve Harman, active member. Appointed 1st July 2015. Term of office extended to 30th June 2021.
Tony Whitlock, active member. Appointed 1st May 2016. Extended to 1st May 2024
Pete Sloman, active member. Appointed 1st March 2020. 4 year term of office 28th February 2024

Scheme Member Representative:
David Yorath, retired member. Appointed 1st July 2015. Extended to 30th June 2023.
Mark King, active member. Appointed 1st May 2016. 4 year term of office to 30th June 2021
Helen Ball, retired member. Appointed 1 March 2020. 4 year term of office 28th February 2024

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

Attendance at Local Pension Board Meetings – August 2019 – July 2020

Role	Board Member	Attendance
Independent Chairman	Nick Weaver	2/2
Employer Representative	Steve Harman Tony Whitlock Pete Sloman	2/2 2/2 1/1
Member Representative	David Yorath Mark King Helen Ball	2/2 2/2 1/1

4. Training

Background

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

- Be Conversant with the rules of the local government pension scheme (LGPS) &

- Have knowledge and understanding of the law relating to pensions:

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

Degree of Knowledge and Understanding

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

Areas of Knowledge and Understanding

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

a) Scheme approved policies

b) Risk assessment/management

c) Scheme booklets/members communications

d) Role of LPB Members and the scheme manager

e) Policies in relation to discretions

f) Communications with scheme members and employers

g) Key policy documents on administration, funding and investment

Training Undertaken

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

The 2 new members have attended induction training and are currently working their way through the Pension Regulator's Toolkit.

Along with the Pensions Committee the LPB also took part in the LGPS National Knowledge Assessment carried out by Hymans Robertson. The overall results look very positive but we will be using the results to develop future training requirements.

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

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

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

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

Code of Conduct

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

Conflicts of Interest

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

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

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

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

6. Pension Board Costs & Budget

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

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

Summary Financial Table

Budget Area	2019/20 Budget	2019/20 Actuals
LPB Members Allowances	**£8,000**	**£7,574**
LPB Members Training Costs & External Support	**£6,000**	**£1,960**
LPB Meeting & Democratic Services Costs	**£6,000**	**£1,890**
Total	**£20,000**	**£11,424**

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

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

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

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

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

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

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

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

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

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

8. Pension Fund Communications

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

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

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

9. Risk Management

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

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

(i) Failures in the fund administration & control of operational processes and strategic governance processes and TPR compliance;

(ii) Service delivery partners not delivering in line with their contracts or SLAs;

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian

(iv) Changes to the LGPS nationally and increasing political pressure to reform the scheme structure, governance frameworks and to centrally direct investment decisions

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

- BPP Governance, asset pooling and benefit realisation
- Significant growth of new employers, especially Academies
- Delivering the future funding strategy
- Recruitment and Retention
- Impacts of McCloud Judgement
- Compliance with Legal Timeframes
- Data Quality & Information Governance (GDPR)
- Business Continuity in response to the Covid-19 outbreak

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

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

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

10. Review of Areas Covered in 2019/20 & Recommendations Made

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

Review of LPB Arrangements	Review of Pension Fund Activities	Review of Pension Fund Administration	Independent Assurance
Review of LPB Terms of Reference, Code of Conduct, Conflicts of Interest, Breaches Review of Training Requirements Review of Work Plan	Review of Avon Pension Fund Committee & Investment Panel Minutes Review of Project Brunel, Brunel Oversight Board Review of Funding Strategy Statement Review of Investment Strategy Statement Review of Scheme Employers & Admitted Bodies Review of Business Continuity in response to the Covid-19 outbreak	Review of Compliance Reports at all meetings Review of Risk Register at all meetings Review of Service Plan annually Review of GDPR Review of Legal Timeframes & Missing Addresses Review of Annual Report	Review of TPR, SAB & CIPFA external benchmarking exercises Review of External Audit plan and reports Review of Internal Audit plan and reports

Meeting	Area	Action/Minutes
28th November 2019	Appointment of Chair Avon Pension Fund Investment Panel Minutes Avon Pension Fund Committee Minutes Funding Strategy Statement Regulatory Update Compliance Report Risk Update Training and Workplan Update	https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=563&MId=5268&Ver=4
30th June 2020	Business Continuity Update – Covid-19 Administration Performance Update Future meeting agendas and workshops	https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=563&MId=5269&Ver=4

11. Forward Plan for 2020/21

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

AGENDA ITEM	15/10/20	10/12/20	TBC March 21	TBC June 21
Board Governance				
Terms of Reference (Governance) review				
Code of Conduct/ Conflicts of Interest policy				
Work Plan (to be dynamically updated)	X	X	X	X
Annual budget setting and monitoring	X			
Training Plan (to be updated as required)	X	X	X	X
Annual Report to PC and Council approval	X			
Scheme and Fund Governance				
Legal, policy, regulatory developments	X	X	X	X
Training – APF financial delegations (Council, PC, IP, BOB, and APF officers)				
Minutes PC, IP, BOB	X	X	X	X
Annual Service Plan	X			
Training – APF internal & external SLA's financial controls				
External advisor appointments review process/controls				
Risk Register review	X	X	X	X
Good Governance Review	X			
TPR Code 14 Compliance updates	X	X	X	X
Governance (& FRC) Compliance statement	X			
Internal Audit plan/reports on APF		X		X
External Audit Governance Report and Accounts			X	
Benchmarking against other BPP funds				
Funding/Investments				
Statutory Investment Strategy Statement consultation/process/report	X			
BPP update (delivery/savings)	X	X	X	X
Benefits Admin/Comms				
Admin Strategy Statement review and employer charging policy	X			
Fund and employers compliance/TPR reporting	X	X	X	X
Employer admission agreement policies				X
Breaches policy/register/TPR reporting				X
GDPR compliance				X
Record keeping, data security, business recovery		X		
ABS process annual review		X		
GMP reconciliation (one off exercise)				
Discretions policies review				
Admin performance benchmarking			X	
Comms policy statement and website review				
Complaints policy, IDRPs, PO cases review				X

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 September 2020**
TITLE:	**WORK PLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1a-e – Service Plan monitoring** **Appendix 2 – Committee Work plan** **Appendix 3 – Investments Panel Work plan** **Appendix 4 – Training Programme 2019-21**	

1 THE ISSUE

1.1 Attached to this report is the new quarterly monitoring report for the Service Plan. This covers a high level overview of all projects for the Investments and Pensions Administration teams including progress to date.

1.2 In addition there is a work plan for the Committee and a separate one for the Investment Panel which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

1.3 The provisional training programme for 2019-21 is included as Appendix 4.

1.4 Member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

2 RECOMMENDATION

2.1 That the Committee notes the quarterly monitoring report for the Service Plan, The Committee & Investment Panel work plans and training programme for the relevant period.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the work plans is to provide members with an indication of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations.

4.2 The provisional training programme for 2019-21 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit. It also includes workshops to cover aspects of training requested in the self-assessment exercise.

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2020	2021	2022	2023
27 March	26 March	25 March	24 March
26 June	25 June	24 June	23 June
25 September	24 September	23 September	22 September
11 December	10 December	16 December	15 December

5.2 Investment panel meetings as currently scheduled:

2020	2021
6 March	26 February
5 August	28 May
11 September	10 September
20 November	19 November

6 RISK MANAGEMENT

6.1 Forward planning and training plans form part of the risk management framework

7 EQUALITIES STATEMENT

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

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

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

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

Contact person	Carolyn Morgan, Governance and Risk Advisor, 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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Appendix 1a - Administration Strategy

Key Objectives	Tasks	Target Date	Status
COMMUNICATION			
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 Website	Review member website - accessibility issues	Sep-20	**In progress on target/complete**
	Content review	Nov-20	**In progress but potentially off target**
Employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Dec-21	**In progress on target/complete**
	Review Employer website - accessibility issues	Sep-20	**In progress on target/complete**
	Provide 'knowledge hub' including video training elements	Dec-21	**In progress on target/complete**
	Implement plan for ongoing review of content	Nov-20	**In progress but potentially off target**
Fire Sceheme Member digital engagement	Launch AF&R website with MSS functionality	Dec-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**
IT STRATEGY			
Housekeeping			
Working relationship with Financial Systems	Review and implementation of SLA between APF & Financial Systems	Jun-20	**In progress but potentially off target**
User Groups	Participation in i-connect and MSS User Groups – development of product specifications	Ongoing	**In progress on target/complete**
Improvements			
Progress full employer electronic data delivery	Completion of i-connect project	Mar-22	**In progress but potentially off target**
	Implement monitoring & controls	Jul-20	**In progress but potentially off target**
	Reconciliation of contributions & i-connect extract	Mar-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			
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	On going	**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**

RECRUITMENT & TRAINING			
Recruitment	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 temporary training & support role	Jul-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 training programme	Training plan for new staff	Jun-20	**In progress on target/complete**
	Training plan for existing staff	Ongoing	**In progress on target/complete**
	Induction		**Planned but not started**
	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**

OTHER PROJECTS			
Revise Fire Service model	Develop revised service offer and SLA	Apr-19	In progress but potentially off target
Key Person Risk	Succession Planning	Jun-20	In progress on target/complete
	Review documentation of procedures	Jun-20	In progress on target/complete
Implement new SLA's with employers	Roll out of new SLA to all employers	Aug-20	In progress but potentially off target
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
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
LGPS Cost Cap Mechanism	Preparation required in case of backdated implementation	Dec-20	Not planned or started
£95k Exit Payments Cap	Implementation Project	Dec-20	Not planned or started
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
Processing Backlogs	To clear outstanding task work set at 'Reply Due' (4000 cases)	review 2021	Not planned or started
Internal Dispute Resolution Policy	Review internal process – identify resource for stage 1 & 2 review and develop employer engagement	Jul-21	In progress on target/complete
	Review general complaints process prior to IDRP and incorporate learning into processes	Jul-21	In progress on target/complete

Statutory refund payment	Review of member data to establish qualifying entitlement to statutory refund under LGPS Regs 2014	Ongoing	**In progress on target/complete**
DWP Pensions Dashboard	Plan required for implementation	2021	**Not planned or started**

Appendix 1b - 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**
	Update policies for changes in regulations	Dec-20	**In progress on target/complete**
Actuarial advisory contract retender	Procure using National Framework	2021/22	**In progress but potentially off target**
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 1c - 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	2022/23	**Not planned or started**
	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	31/12/20	**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	ongoing	**In progress on target/complete**
	o Newsletters	ongoing	**In progress on target/complete**
	o Forums/ meetings	ongoing	**In progress but potentially off target**

Appendix 1d - 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 but potentially off target**
	Policy on Committee Representation	Jun-20	**In progress but potentially off target**
	Training policy	Jun-20	**In progress but potentially off target**
	R&R matrix	Jun-20	**In progress but potentially off target**
	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 2Q22 (end of 2nd term for one member)	Start January 2022	**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 but potentially off target**

	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	Dec-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**

Appendix 1e - Finance			
Key Objective	**Tasks**	**Target Date**	**Status**
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	Sep-20	**In progress but potentially off target**

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Committee Work plan to March 2021

26 JUNE 2020
PB minutes
Roles & Responsibilities of the Committee, Governance Compliance Statement
Brunel Portfolio annual performance & Corporate update – Presentation by Brunel
Annual Review of Investment Strategy & Performance
Approval of ISS for consultation by PB
FRC Stewardship Code Compliance Statement
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Update on Legislation
Pension Fund Administration – Performance Indicators for Year and Risk Register
Budget & Cashflow Monitoring 2019/20 – outcome
Workplans
Planned Workshops: none

25 SEPTEMBER 2020
PB minutes
Annual Responsible Investing Report including presentation by Brunel
Annual Review of Risk Management Strategies
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Review of Investment Performance
Approval of ISS post PB review
Update on Legislation
Pension Fund Administration –Performance Indicators and Risk Register
Budget & Cash flow Monitoring
Noting of Final Accounts 2018/19 (offline)
Approval of Committee's Annual Report to council (offline)
Pension Board Annual Report
Work plans
Planned Workshops: none

11 DECEMBER 2020
PB minutes
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Review of Investment Performance for Quarter
Update on Legislation
FRC Stewardship Code for noting
CMA Order Compliance (for Investment Consultant)
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring
Review of AVC arrangements
Workplans
Planned Workshops: none

26 MARCH 2021
PB minutes
Annual Review of Risk Register
Budget and Service Plan 2021/24
Annual Employer Update
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Review of Investment Performance for Quarter
Update on Legislation
Pension Fund Administration – Performance Indicators for Quarter
Budget & Cashflow Monitoring
Workplans
Planned Workshops: none

INVESTMENT PANEL WORKPLAN

Panel meeting	Proposed agenda
5 August 2020	Strategic • EPS proposal for September rollover; initial discussion on dynamic hedging options • Scope of equity portfolio review (or Sept meeting) • Forward meeting agenda for Panel
11 September 2020	Strategic • Revised Strategic Benchmark • Scope of equity portfolio review • Review of LDI triggers given new liability benchmark • Brunel presentation - UK Property Portfolio proposal to transition to Brunel Monitoring • Review performance & RM Framework • Transition of assets - update
20 November 2020	Strategic • Dynamic Hedging strategy proposal • Low risk corporate bond strategy – updated benchmark outcome Monitoring • Brunel presentation - overview of Listed Market Portfolios • Review performance & RM Framework • Transition of assets - plan update
26 February 2021	Strategic • Initial report on Increasing SE/LC allocation within equity portfolio • Brunel presentation - Overview of Private Market Portfolios • Decision whether to top up allocation to Private Market portfolios in 2021 (current cycle) • Dynamic Hedging strategy counterparty proposal (if required Monitoring • Review performance & RM Framework • Transition of assets - plan update

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Appendix 5 - Committee training programme 2019-21

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board & legislative framework List of key strategy and regulatory documents	Committee	June 2020 Committee meeting Induction training
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers Induction training
3	Actuarial Valuations	Valuation monitoring 2019 valuation outcome & GAD valuation methodology, plus LGPS Cost Cap Mechanism,	Committee Workshop	Committee reports Workshop 2Q19 & Committee reports
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy (FSS) Covenant assessment process Admission and exit policies and funding basis used	Committee	Valuation & FSS workshop 2Q19 Committee reports
5	Investment strategy	Asset allocation & Investment Strategy Statement Investment strategies e.g. active vs. passive Investment management structure Monitoring managers, performance measurement, fees Strategic Review Brunel: • Asset transition plan • Monitoring of performance and service delivery	Committee Panel Workshops Committee	Quarterly monitoring report Quarterly monitoring report Workshops 4Q19, Committee 1Q20 Brunel transition plan monitoring (on-going) Brunel performance monitoring (on-going)

6	Managing liabilities	Monitoring and review of LDI framework Annual review of Risk Management Strategies Review of Low Risk Investment Strategy	Investment Panel Investment Panel & Committee Investment Panel	Panel reports Annually Part of Annual LDI monitoring
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2019/20)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new member training);
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting) Annual Risk Management Framework Report
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic Investment review
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee Covenant and Employer reports to Committee FSS & Triennial Valuation Workshops