

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 24th June, 2022, 2.00 pm

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

Co-opted Voting Members: Charles Gerrish (Academies) and Richard Orton (Trade Unions)

Co-opted Voting Members (virtually): Councillor John Cato, Councillor Steve Pearce, William Liew, Shirley Marsh-Hughes, Pauline Gordon and Wendy Weston

Advisors:

Laura Chappell, Brunel (in person), Paul Middleman, Mercer (virtually) and Steve Turner, Mercer (virtually)

1 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting and reported that, due to the planned rail strike the meeting was being held in a hybrid format to enable as many members of the Committee as possible to take part. He confirmed that in accordance with legislation, only the following quorum of members that were present in person would be able to vote: Cllr Shaun Stephenson-McGall, Cllr Paul May, Cllr Bruce Shearn, Charles Gerrish and Richard Orton.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence had been received from Cllr Paul Crossley, Cllr Chris Dando, Cllr John Goddard, John Finch and Michael Rumph.

3 DECLARATIONS OF INTEREST

There were no declarations of interest.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

1. Update on Staffing

Jeff Wring introduced himself as the Service Director for OneWest and updated that he would be temporarily leading on pensions pending the appointment of a dedicated Head of Pensions. He confirmed the recruitment process was ongoing and interviews would be held by a stakeholder panel including the chair and vice chair of the Committee. In response to questioning, he confirmed the new post would be an employee of Bath and North East Somerset Council.

2. Shirley Marsh-Hughes

The Chair reported that it was the last meeting of Shirley Marsh-Hughes, independent member. The Committee thanked Shirley for her work supporting the Avon Pension Fund Committee and Board.

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

The Committee received two questions from Elaine Ashley who was in attendance to ask the questions as follows:

1. How were the present committee members appointed, who (specifically) they were nominated by and when were they appointed?
2. I was one of the recipients of the recent survey on ethical investment. I know a lot of members who did not receive it and did not know why and it was difficult at the time to find out how recipients had been chosen. They were denied the opportunity to express their views. I see in the recent newsletter that it was sent to those members for whom you had an email - which suggests that you don't have an email for a large number of members. Please advise what your plan is to ensure that you obtain an email for a much larger number of members so that you can engage effectively with more of us in the future and what your targets are within this plan?

The Chair responded as follows:

1. The Committee forms part of B&NES constitution. B&NES council only appoints the 5 B&NES councillors. The other Committee members who represent a scheme employer(s) or scheme members are appointed by the body or group of employers/scheme members they represent. The 3 independent members are appointed by the Fund on the basis of their relevant expertise to strengthen the decision making of the committee. The committee term is the same as B&NES electoral cycle (4 years) so this committee term commenced in June 2019.
2. This was the first survey we have done on our investment strategy, and we wanted to time it with COP26. Unfortunately, it didn't coincide with our member newsletter cycles and it was not practical to issue an extra newsletter via post so not all members were included. We had a good response to the survey which was really positive and in future we want to get better coverage of all members by co-ordinating a survey with other member communications where we can. As part of our digitalisation initiative, we are encouraging members to provide email addresses on an ongoing basis and in the 2022/23 business plan there is a target to have 50% of members signed up for Member Self Service by the end of 2023 which will increase the number of members we can contact by email.

6 ITEMS FROM COUNCILLORS AND OTHER MEMBERS

There were no items.

7 MINUTES: 25TH MARCH 2022 (PUBLIC), 25TH MARCH 2022 (EXEMPT) AND

28TH MARCH 2022

Wendy Weston stated that she had been in attendance at the 25 March meeting but had been omitted from the list of members

RESOLVED that the minutes of the following meetings be confirmed as a correct record and signed by the Chair.

1. Avon Pension Fund Committee – 25 March 2022, subject to Wendy Weston being marked as present.
2. Avon Pension Fund Committee (exempt) – 25 March 2022, subject to Wendy Weston being marked as present.
3. Avon Pension Fund Committee – 28 March 2022.

8 PENSION BOARD MINUTES: 9TH JUNE 2022

RESOLVED that the minutes be noted.

9 BRUNEL CORPORATE UPDATE

The Committee received a presentation on the Brunel Corporate Update from Laura Chappell, Chief Executive Officer. She recommended that the Committee also read the detailed outcomes report.

She responded to questions as follows

1. In relation to the private markets case study at Bristol Castle Park, she noted that Cllr Steve Pearce had not been aware of this as a local member and responded that Brunel were working up a plan to ensure that such information was better publicised.
2. The criteria for the Castle Park project were that the project needed to fulfil investment returns and add environmental, social or governance impact. The project had undergone due diligence.
3. In terms of data quality metric, Brunel was developing a balanced scorecard to include data quality.
4. Brunel had approached Bath University to undertake research about a biodiversity audit and students had come back with proposed options.

The following comments were raised:

1. There needed to be more emphasis on social and governance investment issues as well as environmental issues.
2. Brunel Partnership had been working with universities to talk to students about careers in investment management and also to talk to Trade Unions and Sustainability Board about the role of the partnership in the sustainability agenda.
3. In addition to biodiversity, there were issues such as soil health and access to water. It was important to align with UN Sustainability Goals.
4. Diversity was also an important issue to consider.

RESOLVED that the presentation be noted.

10 BRUNEL PENSION PARTNERSHIP - UPDATE

The Group Manager, Funding Investments and Risk introduced the report and confirmed that the Board meeting in June had considered a detailed presentation from Brunel about strategic priorities.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

RESOLVED that the information set out in the report and appendices be noted.

11 FUND GOVERNANCE FRAMEWORK

The Governance and Risk Adviser introduced the report and drew attention to the following issues arising from the annual review of governance arrangements:

1. Membership of the investment panel had been updated to reflect best practice and to ensure there was a full range of independent expert advice.
2. Some of the Section 151 delegations had been changed to the Director of OneWest. The Head of Pensions role would be the Senior LGPS officer, which was in line with the requirements of the scheme and in accordance with the recommendations of the Good Governance Review.
3. A Representation Policy had been drafted which would become an appendix to the compliance statement.
4. There was now a fund specific Conflicts of Interest policy.
5. The Committee was asked to agree an independent member representative on the Brunel Working Group, a substitute for the Brunel Oversight Board and nominations for the Local Authority Pension Fund Forum.

It was agreed that the second paragraph of the Representation Policy would be amended to clarify the voting arrangements in relation to administering and non-administering authorities.

RESOLVED that

1. The roles and responsibilities of the members, advisors and officers be noted.
2. The Terms of Reference of the Committee and Investment Panel be approved.
3. The Scheme of Delegation be approved.
4. The Governance Compliance Statement, including draft Representation Policy be approved.
5. The Conflicts of Interest Policy be approved.
6. The Training Strategy Policy be approved.
7. The decision-making matrix be noted.
8. Pauline Gordon be agreed as the independent member representation of the Brunel Working Group be approved.
9. The Vice Chair of the Avon Pension Fund Committee (Cllr Shaun Stephenson-McGall) be agreed as the substitute of Brunel Oversight Board.

10. The members to represent the fund on the Local Authority Pension Fund Forum be agreed as Cllr Shaun Stephenson-McGall, Cllr Steve Pearce and Richard Orton.
11. The drafting of the Annual Report to Council be delegated to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

12 DRAFT FUNDING STRATEGY STATEMENT 2022

The Group Manager, Funding, Investments and Risk introduced the report which asked the Committee to approve a draft Funding Strategy Statement (FSS) for consultation with employers, following which it would be reported back to the Committee in September to approve the final FSS. It was noted that the FSS had been discussed in detail at a workshop on the 17 June 2022.

The Actuary confirmed that the focus of the FSS was geopolitical events and cost of living increases which had been the central building block around the assumptions for the draft statement and asked the Committee to note that climate change risks and analysis and impact from a valuation perspective would be more open within the FSS.

In response to questions the Group Manager, Funding, Investments and Risk advised:

1. Small employers were closely monitored in relation to issues such as the impact of a highly paid employee retiring early.
2. In relation to the lack of reference to existing employers with a guarantee in Appendix B, this would be addressed in advance of the September meeting.

RESOLVED that

1. The draft Funding Strategy Statement as set out in Appendix 1 be approved for wider consultation, subject to the insertion of information which could only be included when the actuarial valuation and consultation processes were complete.
2. Authority be delegated to officers, having taken advice from the Actuary, to amend the draft FSS as new legislation or guidance was issued as appropriate.

13 INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 31 MARCH 2022)

Steve Turner, Mercer, gave an update on the Avon Pension Fund Committee Investment Report (Appendix 2) as follows:

1. The markets had been volatile in the year to date due to the impact of rising inflation and rising interest rates and that was starting to increase concerns regarding slowing growth.
2. Since March last year, the situation had escalated, in particular falls in equity market values.
3. In terms of how the assets performed in Q1, there had been benefits to the diversified strategy. The areas that had been weakest were as expected - equities and multi asset credit. Other asset classes such as property

infrastructure and private debt security income had held up well and had positive performance.

4. The one anticipated change since end Q1 was the kicking in of the extra protection that would have started to cushion the falls in equity markets.
5. In terms of how some of the funds performed, the Brunel Sustainable Equity and Global High Alpha had a challenging period recently in line with the overall investment style.
6. The equity stocks that had performed well this year were high carbon emitting sectors such as energy, mining and oil but these areas did not align well with the Fund's long term climate ambitions.
7. This was the first time where it had been difficult to outperform and also progress on lower carbon goals.

In response to questions, it was confirmed that there wasn't a strategy to exit the hedging strategy, but the situation was monitored regularly and would be reviewed if there were extreme falls in the equity market. It was important to ensure that decision making was not around short-term trends, and the investment strategy was set up to meet long term demands. However, Mercer was in regular dialogue with officers and if necessary, it was possible to make changes to the investment strategy.

Steve Turner, Mercer gave an update on Analytics for Climate Transition (Appendix 3).

He responded to questions as follows:

1. The emerging market Weighted Average Carbon Intensity (WACI) was still being monitored.
2. Avon Pension Fund was currently on track in meeting its climate goals.
3. In relation to the decarbonisation target, there was one part of the equity portfolio that was invested on an index tracking strategy that was targeting a Paris aligned benchmark so there was a high level of certainty that the fund would achieve decarbonization on that part of the portfolio.
4. Where the funds were managed actively, the fund was dependent on Brunel as the source to future success.
5. It was recommended not to have too many objectives as this would increase complexity, but the Committee could consider new objectives.
6. It was recommended that the baseline was reset for the analysis to be in line with emerging best practice. (i.e. 2019 rather than 2020 which the Fund currently used).
7. In terms of the objective of having 30% of total assets in sustainable and transitional aligned investments, this had been achieved ahead of schedule.

The Investments Manager confirmed that the baseline would be changed to be more aligned with the IGCC and therefore consistent with other funds. In response to a question about the TCFD report, she confirmed the metrics would be aligned with whatever baseline was being used at the time and so it was an issue of timing as to whether it would be the old or new baseline.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, RESOLVED, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely

disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

RESOLVED that

1. The progress made against climate commitments in the Analytics for Climate Transition Analysis be noted.
2. The feedback on the questions asked in Exempt Appendix 4 about Brunel's current Climate Policy be noted.
3. Authority be delegated to officers and the Chair and Vice Chair to draft responses to the questions in Exempt Appendix 4 following the meeting.
4. The information set out in the report and appendices be noted.

14 UPDATE ON LEGISLATION

The Pensions Manager introduced the report and drew the Committee's attention to the table which summarised the changes relating to pension legislation.

RESOLVED that the current position regarding the developments that could affect the administration of the fund be noted.

15 PENSION FUND ADMINISTRATION

The Pensions Manager introduced the report and responded to Committee questions as follows:

1. The team was looking at alternative reporting in the future with Altair Insights and this would help analyse backlogs separately.
2. In relation to the risk register, there were items of concern, but all risks were managed appropriately, and mitigations were in place.
3. The team was looking to make reporting clearer which give more of a detailed background about the different risks.
4. Performance fees were approximately £4m but were not forecast in the budget as it would make numbers volatile.

RESOLVED that the following be noted:

1. Fund performance for the three months to 31st March 2022.
2. The current Risk Register.
3. The updated cashflow forecast.

16 ANNUAL EMPLOYER AND COVENANT UPDATE

The Chair reported that, due to time constraints, this item would be postponed until a future meeting.

17 WORK PLANS

The Governance and Risk Advisor gave an update on work plans and reminded the Committee to complete training modules 1, 2 & 4 by the end of June and advised

that any members who had not completed the modules would be contacted to ensure they had the relevant login details. She also reminded members to contact the team if there was a problem accessing exempt papers.

It was suggested that an item be included on change management in view of geopolitical events and the impact on the pension fund.

RESOLVED that the Committee & Investment Panel workplans and training programme be noted.

The meeting ended at 4.39 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services