

## **BATH AND NORTH EAST SOMERSET**

### **AVON PENSION FUND COMMITTEE**

Friday, 16th December, 2022

#### **In attendance in person:**

**Bath and North East Somerset Councillors:** Paul Crossley (Chair), Bruce Shearn, Chris Dando and Paul May

**Co-opted Voting Members:** Councillor John Cato (North Somerset Council), Charles Gerrish (Academies) and John Finch (Independent Member)

**Also in attendance:** Nick Dixon (Head of Pensions), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

#### **In attendance virtually:**

**Co-opted Voting Members:** Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers), Richard Orton (Trade Unions), Pauline Gordon (Independent Member) and Jackie Peel (Independent Member)

**Co-opted Non-voting Member:** Wendy Weston (Trade Unions)

**Advisors:** Nick Page (Mercer)

**Also in attendance:** Liz Woodyard (Group Manager for Funding, Investment & Risk), Jeff Wring (Director, One West) and Charlotte Curtis (Governance & Risk Officer)

#### **32 EMERGENCY EVACUATION PROCEDURE**

The Chairman drew attention to the emergency evacuation procedure.

#### **33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Nick Weaver, Chair of the Pension Board had sent his apologies to the Committee.

#### **34 DECLARATIONS OF INTEREST**

There were none.

#### **35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

#### **36 ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

### **37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

### **38 MINUTES: 23RD SEPTEMBER 2022**

The Committee **RESOLVED** that the minutes of the meeting on 23<sup>rd</sup> September 2022 be confirmed as a correct record and signed by the Chair.

### **39 PENSION BOARD MINUTES: 8TH DECEMBER 2022**

The Committee **RESOLVED** to note the minutes of the Pension Board meeting that took place on 8th December 2022.

### **40 NEW RISK MANAGEMENT PROCESS & RISK REGISTER**

The Governance & Risk Advisor introduced this report to the Committee. She explained that the Fund has reviewed its risk management process and documented it in a new risk management policy.

She said that the policy sets out the Fund's approach to risk, process for review and update of the risk register. She added that it also sets out the roles and responsibilities of all those involved in the management of risk within the Fund, including the role of the Pension Board and Pension Committee.

She informed the Committee that the new risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. She said it also sets out mitigating actions.

She stated that the risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter and all risks are also reviewed quarterly or when there has been a material change to the risk.

She highlighted two of the main risks from the register:

NR01 - The Fund's ability to deliver the administration service to members and employers within the agreed standards.

NR10 - Failure to earn investment returns.

Councillor John Cato commented that he would like to see a bit more clarity as to how the objectives map across to the risk register.

The Governance & Risk Advisor replied that all risks are linked to the relevant Fund strategy documents and policies and how they are reported to Pension Committee and Pension Board.

Councillor Cato asked if each risk had an action plan and if so where could it be found.

The Governance & Risk Advisor replied that the register was not at that stage yet.

The Group Manager for Funding, Investment & Risk added that investment risks are covered by reports to the Investment Panel / Pensions Board.

Jackie Peel asked if the risk score shown was after mitigation.

The Governance & Risk Advisor replied that it was.

Pauline Gordon said that she felt it would be good if there was a way for the biggest risks to be identified at a glance with maybe some additional colouring / a key. She added that she would also like to see the trends in risks identified.

The Governance & Risk Advisor replied that there had been a similar discussion at the Pension Board and that they were looking to create a 'heatmap' document that shows the risks as red, amber or green. She added that the colours in the 'Current Factors...' column were used to indicate the impact level and therefore if the text was green it was deemed not to be a big impact.

The Head of Pensions commented that having now received feedback on the register from both the Pensions Board and the Committee they would look to see what amendments can be made and then share a draft of it before the next round of meetings take place.

The Committee **RESOLVED** to note the report.

#### **41 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) PROVIDER REVIEW & APPOINTMENT**

The Pensions Manager introduced the report to the Committee and highlighted the following points from within it.

The Fund's existing AVC provider, Aviva, gave notice in January 2022 that they would not accept any new employer applications to their existing AVC scheme. In practice this meant that any member, with an employer not already in the scheme, would not be able to start an AVC contract. This situation left the Fund in breach of LGPS regulations which state that members must be provided with access to an AVC scheme. The Fund negotiated a six-month extension with Aviva (which expired in August) and in February appointed Hymans Robertson to assist with the procurement of a new provider. Hymans were appointed via the LGPS National Framework.

Hymans carried out a review of the AVC market on behalf of the Fund and six other LGPS Funds. The LGPS AVC market is not lucrative for providers (as most members take the AVC as a cash lump sum) and a number have now withdrawn from the market. The conclusion from their review was that there was only one provider who would be prepared to offer an AVC scheme which was Legal & General (L&G).

Advised by Hymans' the Fund has engaged with L&G to agree specific terms for an AVC contract which will in most cases be more favourable to scheme members in

terms of management fees (including critically for the default fund) and the range of funds offered. For the Fund it will be more operationally efficient with all the employers set up as one scheme.

All new contributions currently paid by members to Aviva will transfer to L&G in January 2023. L&G and the Employer Services Team are working with employers to ensure they are set up to submit contributions from January 2023 via the L&G portal. Most members' AVC pots will transfer from Aviva and Utmost to L&G in March 2023. A series of communications are being sent to members to explain the changes and timescales involved.

William Liew asked what level of costs would be incurred as part of the transfer and what is the value that will be transferred across to L&G.

The Pensions Manager replied that costs involved in the transfer should not be material. Members will not bear any 'out of market' risk as L&G has agreed to pre-fund unit purchases on the same day as Aviva sells fund units. Members will however incur modest transition costs owing to the bid-offer spread of selling and buying units. Such costs are typically in the region of 0.4% to 0.7% in total for typical members. These costs would be gradually recouped by the lower charges with Legal & General going forwards. He said that the value to be transferred was around £5m.

Councillor Steve Pearce asked if it was known what L&G's ESG approach was to AVC pots.

The Group Manager for Funding, Investment & Risk replied that they have a strong ESG approach to their work and support the Fund's stance on transition to net zero. She added that two messages have been sent to all members on this matter.

Charles Gerrish commented that he was uncomfortable on hearing that there is only one provider of this service available for the Fund. He asked if any contingency measures could be put in place should L&G decide to cease this provision.

The Pensions Manager replied that the Scheme Advisory Board and the Local Government Association are aware of the situation. He added that a good relationship has been established with L&G as part of this process and that he believed that they are looking to support other Funds in a similar way.

John Finch suggested that as only one provider now exists the issue should be added to the risk register.

The Pensions Manager replied that they would make this addition.

Councillor John Cato asked how the Fund would monitor the statement in the report that L&G's default fund and all their 'Future World' funds has a strong emphasis on responsible and sustainable investment.

The Group Manager for Funding, Investment & Risk replied that an investment brochure exists and that they will periodically carry out reviews with them on their work.

The Committee **RESOLVED** to note:

- i) The selection of the AVC provider which is a decision delegated to the Head of Pensions
- ii) That the AVC arrangements including fund selection will be reviewed every 2 years.

## **42 INVESTMENT STRATEGY AND BRUNEL UPDATE (FOR PERIODS ENDING 30 SEPTEMBER 2022)**

The Group Manager for Funding, Investment & Risk introduced the report to the Committee. She informed them that the FRMG had decided to retain the current decision to suspend the trigger framework with interest rate hedge ratio and inflation hedge at c. 40%.

She said that the outline of the forthcoming Strategic Investment Review had been discussed at the recent Investment Panel meeting and that background papers relating to it would be circulated ahead of the workshop to be held on 28<sup>th</sup> February. She added that a wider stakeholder consultation was planned to take place in February for Members, Employers and Councillors.

She informed the Committee that the Fund had been nominated for the Best Climate Change Strategy award as part of the LAPF Investment Awards 2022 and thanked the Investments Manager and Senior Investment Officer for their work involved in the award.

Nick Page, Mercer addressed the Committee and highlighted points from within Appendix 3 - Mercer Quarterly Investment Performance Report.

### Market Background

- There was turmoil in UK gilt markets around the end of the quarter, as markets positioned for the Bank of England having to double down on tightening, in order to offset the expansionary mini budget. Soaring yields led to significant disinvestment of liquid assets in order to bolster collateral levels for funds using leveraged hedging strategies.
- Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were squashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession.

### Mercer market views

- Our medium term outlook (as at October 2022) is mixed given the big cross in current markets.
- Several factors give rise to a negative backdrop to risk markets, however valuations are more attractive, sentiment is soft and the Fed might start to curtail monetary tightening.

## Total Fund performance attribution – 1 year

- The negative returns from equities, LDI and currency hedging drove negative performance over the one year period.
- The alternative investments and Equity Protection Strategy cushioned losses.

The funding level has held up strongly despite the negative asset returns, significant headwinds and volatility.

Pauline Gordon asked if further information could be added to the chart on page 56 to show how liabilities have moved versus the LDI.

Nick Page replied that they could look to add this into the next reporting cycle.

William Liew commented that he felt the drop in funding level was quite significant given that it equated to around £675m.

Nick Page replied that the 89% stated in the Executive Summary is based on the previous actuarial valuation assumption. He added that if you allow for the updated actuarial valuation assumption to March 2022 and also allow for changes in market conditions from March to September 2022 then the actual funding level is now around 98%.

The Group Manager for Funding, Investment & Risk asked when will the 2022 valuation basis be allowed to be used.

Nick Page replied that it could be used once agreed and signed off. He added he felt that this had already taken place.

The Group Manager for Funding, Investment & Risk said that she would contact the Actuarial team to confirm.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **PROPOSES**, 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.

The Committee returned to public session for further questions.

Councillor John Cato referred to Appendix 2 - Investment Strategy Dashboard and asked at what point would the funding level need to reach to go red.

The Group Manager for Funding, Investment & Risk replied that big swings can happen in short periods of time. She added that for her the main issue would be when the deficit reaches a certain percentage of our assets, overall liabilities. She said that this is a particular problem within the valuation year.

Councillor Cato asked for confirmation that the detail of what comprises the Brunel portfolio is delegated to them.

The Group Manager for Funding, Investment & Risk replied that yes it was.

Councillor Cato asked how much overlap of assets was there within the equity funds and could some comments be added as to the ESG criteria for the asset classes / portfolios listed.

The Group Manager for Funding, Investment & Risk replied that the monitoring role for the portfolios is taken up by the Investment Panel. She added that there was likely to be a high overlap between the three equity portfolios. She said that for the Passive Global Equity Paris Aligned there would also be some overlap.

She explained that for Global Sustainable Equity there are four managers and that Brunel will allocate to those managers that have less of an overlap. She stated that overall there was quite a lot of diversification and low degree of overlap aside from the core equity funds mentioned.

The Committee **RESOLVED** to:

- i) Note the information set out in the report and appendices.
- ii) Note the outline and timetable for the Strategic Investment Review

#### **43 UPDATE ON LEGISLATION**

The Pensions Manager introduced the report to the Committee and highlighted the following areas from within it.

##### McCloud Judgment

It is expected that the expected timing for guidance and regulations will be delayed (relative to the earlier timetable issued by DLUHC). It has been confirmed that certain Teachers will also be eligible for LGPS membership due to the McCloud remedy. The inclusion of certain Teachers in relation to the LGPS remedy will also add to the administrative burden and further guidance awaited on how to deal with such cases.

##### Pension Dashboard

The main development over recent months was the laying of a draft of The Pensions Dashboard Regulations 2022 before each House of Parliament by DWP. These were debated on 15th November by MPs and Peers and approved.

##### SCAPE Discount Rate

Response to June 2021 consultation expected in coming weeks, including potential revision to SCAPE discount rate.

CARE Revaluation Date

Consideration currently being given to amending the revaluation date to 6 April from 1 April due to increasing number of members potentially subject to annual allowance charges. Nothing definitive published yet.

Charles Gerrish asked what implications would there be on schools if certain teachers were allowed LGPS membership and how would this affect those schools that run subsidiary bodies.

The Pensions Manager replied that he believed this would only affect those teachers who have multiple posts. He added that information on that level of detail was not available to him yet, but that he would update the Committee when possible.

The Committee **RESOLVED** to note the current position regarding the developments that could affect the administration of the fund.

**44 GOVERNANCE**

The Governance & Risk Advisor introduced this report to the Committee. She informed them that attached to the report is the workplan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. She added that the provisional training programme for 2022 is included as Appendix 3 and the quarterly monitoring report for the Service Plan is also attached as Appendix 4.

She reminded members that the modules of the Hymans Learning Academy were due to be completed by the end of the year.

She explained that the March 2022 Committee date had now been amended and the meeting will take place on 17<sup>th</sup> March 2022.

The Committee **RESOLVED** to note the Committee & Investment Panel workplans and training programme plus the Service Plan monitoring report for the relevant period.

The meeting ended at 11.22 am

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**