

Avon Pension Fund Committee

Date: Friday, 16th December, 2022

Time: 10.00 am

Venue: Old Finance Room, 1st Floor, Guildhall, Bath

This meeting will be conducted on a hybrid basis with a quorum of the members being present in person.

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

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), Richard Orton (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

Co-opted Non-voting Members: Wendy Weston (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. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full 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. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. 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, 16th December, 2022

at 10.00 am in the Old Finance Room, 1st Floor, Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 5.

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 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 4.4 Appendix 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 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: 23RD SEPTEMBER 2022 (Pages 5 - 36)

8. PENSION BOARD MINUTES: 8TH DECEMBER 2022

9. NEW RISK MANAGEMENT PROCESS & RISK REGISTER (Pages 37 - 42)

The purpose of this report is to update the Committee with the new risk management policy and new look risk register.

10. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) PROVIDER REVIEW & APPOINTMENT (Pages 43 - 46)

The purpose of this report is to update the Committee with progress on appointing a new provider for Additional Voluntary Contributions (AVCs).

11. INVESTMENT STRATEGY AND BRUNEL UPDATE (FOR PERIODS ENDING 30 SEPTEMBER 2022) (Pages 47 - 90)

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, policy and operational aspects of the Fund.

12. UPDATE ON LEGISLATION (Pages 91 - 94)

The purpose of this report is to update the Pension Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration.

13. GOVERNANCE (Pages 95 - 110)

Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. The provisional training programme for 2022 is included as Appendix 3 and the quarterly monitoring report for the Service Plan is also attached at Appendix 4.

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

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 23rd September, 2022

Present:- Councillors Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair) and Bruce Shearn

Co-opted Voting Members: Councillor John Cato (North Somerset Council), Charles Gerrish (Academies), William Liew (HFE Employers), Richard Orton (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

Also in attendance: Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Julia Grace (Pensions Valuation Advisor) and Jeff Wring (Service Director - Commercial and Governance), Claire Newbery (Digital Services Project Manager), Faith Ward (Chief Responsible Investing Officer, Brunel), Chris Van Der Merwe (Brunel), Steve Turner (Mercer) and Paul Middleman (Mercer)

18 EMERGENCY EVACUATION PROCEDURE

The Chairman drew attention to the emergency evacuation procedure.

He also welcomed Jackie Peel as the new Independent Co-opted Member for the Avon Pension Fund Committee and Avon Pension Fund Committee Investment Panel.

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillors Chris Dando, Toby Savage and John Goddard had all sent their apologies to the Committee.

Wendy Weston had also sent her apologies to the Committee.

20 DECLARATIONS OF INTEREST

There were none.

21 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Elaine Ashley addressed the Committee and asked the following two questions.

Are you prepared to ask Brunel for investments based on full Fossil Fuel divestments rather than engagement?

If you support the engagement policy they appear to have, at what point does the time run out to proceed with this?

Two further statements had been submitted and circulated to the Committee in writing from Jim Mayger and Charlie Bessant.

The Chair confirmed that written responses would be sent to all parties and these, along with the statements, would be attached as online appendices to these minutes.

23 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

24 MINUTES: 24TH JUNE 2022

The Committee **RESOLVED** that the minutes of the meeting on 24th June 2022 be confirmed as a correct record and signed by the Chair.

25 FUNDING STRATEGY STATEMENT 2022

The Group Manager for Funding, Investment & Risk introduced the report to the Committee. She explained that approval of the Funding Strategy Statement was being sought subject to confirmation by the Pension Board which will be provided to Committee at the December meeting.

Paul Middleman, the Fund's Actuary addressed the Committee. He said that the statement had now been updated with regard to membership numbers and figures relating to demographic analysis.

He added that they were currently monitoring the markets for any reaction to the Government's mini budget that was announced on 23rd September and said that some adjustments could be expected due to stagflation.

He stated that he believed that the Fund had the right framework in place for the Funding Strategy Statement 2022.

Richard Orton asked for his initial thoughts on how the mini budget would affect pensions.

Paul Middleman replied he would question whether the announcements would be able to control inflation and that a lot would depend on not only the impact it may have on economic growth in the UK, but how much impact the mini budget has globally. He added that he felt that inflation would increase for a longer period than expected.

Jackie Peel asked what the timeline was regarding the 3.9% financial assumption relating to Inflation (Retail Prices Index). She also asked what the previous assumption was.

Paul Middleman replied that this related to the duration of liabilities / cash flow. He said that the average period was around 18 years. He added that the previous assumption was 2.4%.

Jackie Peel asked what the difference was between the past and future Investment Return / Discount Rates shown.

Paul Middleman replied that this was due to the different duration and mix of the liabilities.

Jackie Peel asked if the Average Employer future service contribution rate of 18.5% p.a. was the primary rate.

Paul Middleman replied that it was and that this was an average of all employers and that some would have a lower funding level. He added that the rate was 17.1% at the last valuation.

William Liew commented that the long term salary increase assumption of 4.6% could be difficult for higher education establishments.

Paul Middleman said that he felt that this was a fair assumption, but that there is a facility to enable adjustments to be made. He added that the final salary element is becoming less and less of a factor.

The Committee **RESOLVED** to:

- (i) Note the feedback responses received, and the proposed amendments to the FSS.
- (ii) Approve the FSS as set out in Appendix 1, subject to
 - (i) the insertion of information which can only be included when the actuarial valuation is complete and
 - (ii) confirmation from the Pension Board that the FSS complies with LGPS regulations and CIPFA guidance
- (iii) Delegates the refinement and finalisation of the FSS to Fund Officers, with assistance of Fund Actuary.

26 ANNUAL EMPLOYER AND COVENANT UPDATE

The Funding and Valuation Manager introduced the report to the Committee. She said that the primary focus of the Fund's covenant work is to ensure employers can maintain their legal obligation and financial ability to support the LGPS now and in the future.

She added that at least once a quarter officers meet to discuss developments of employers in the Fund, any flags identified by the Covenant work and what steps are needed to address concerns and this ensures that Covenant risk is regularly reviewed and Officers are aware of affordability constraints and concerns raised by employers.

Charles Gerrish asked what impact there would be in the reduction of unguaranteed admission bodies.

The Group Manager for Funding, Investment & Risk replied that this would have no impact on the Fund and that she expected the numbers to continue to decrease.

Pauline Gordon commented in relation to the benchmarking dials on page 97 that she felt that it would be useful to show how they had moved over the year.

The Funding and Valuation Manager replied that the dials in the report are shown as an example and assured the Committee that the financial analysis that is carried out is very thorough.

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

27 BRUNEL PRESENTATION - RESPONSIBLE INVESTING

Faith Ward, Chief Responsible Investing Officer, Brunel addressed the Committee and gave a presentation on the Brunel Stewardship and Climate Stocktake. A copy of the presentation will be available as an online appendix to these minutes and a summary is set out below.

Faith Ward commented that engagement and stewardship was undertaken by underlying investment managers and via Brunel's appointed voting and engagement provider, Federated Hermes at EOS. Brunel also engage directly with industry / investee companies.

Jackie Peel asked how can that level of collaboration and consistency take place if Asset Managers and Hermes are having talks separately with the same companies.

Faith Ward replied that Asset Managers will have talks with companies re: engagement priorities and processes about particular topics with Hermes potentially having separate meetings. She added that these meetings are monitored and that generally a level of consistency is found.

She stated that Hermes lead talks on our behalf with regard to £60 / 70 trillion pounds worth of assets.

Faith Ward took members through the engagement hierarchy which begins with thematic engagement and follows a predetermined path which retains selective divestment as an option if material progress is not made on a particular engagement.

Pauline Gordon asked if index fund voting alignment could be explained in any further detail.

Faith Ward replied that where there are segregated funds they are able to direct the voting, but this is significantly more complex in pooled passive funds where there is less flexibility in investors ability to direct votes.

She added that an agreement is in place with Legal & General (Brunel's passive fund provider) so that for a limited number of times per year Brunel can direct voting thereby aligning voting with Brunel's policy.

She informed the Committee that Brunel are supporting Legal & General in piloting an exercise with Tumelo who have a role to help investors express their views on voting decisions.

Councillor Shaun Stephenson-McGall asked how often could Brunel update the Fund in relation to companies that are not as engaged in working towards the net zero by 2050 target and whether selective divestment is required. He stated that he felt that more action within this area was required.

Faith Ward replied that this was an ongoing process and that selective divestment has taken place extensively across many of Brunel's portfolios already. She added though that there is a difficulty in ascertaining from the Asset Managers if the divestment was purely in connection to climate change.

She acknowledged that this a challenge and that a judgement is needed as to when should a decision be made to say that enough is enough. She added that on one level the risk to the portfolio can be removed, but in doing so this would not change the company concerned.

She stated that in her view divestment would be seen as a failure as they have not been able to shift the company on its decision making.

She said that there is a struggle within the sector to decide what is the right course of action for an Oil and Gas company to take and that the work within the Stocktake is assessing how portfolios are working. She added that some portfolios are hitting their targets in terms of reducing emission levels, but that alignment overall was not as far forward as they would like as an industry. She said that they are using all of their possible levers.

Councillor Stephenson-McGall asked what happens in future years if companies continue to not be doing a good enough job with regard to their climate change actions.

Faith Ward replied that it needs to be made clear as to what is the methodology behind a transition plan for Oil and Gas companies and that this is being piloted currently by around six of them to establish what a fair and adequate transition plan looks like. She added that Brunel has a low exposure in the main to these types of companies in comparison to a normal pension fund.

Councillor Stephenson-McGall asked if the communications on this matter, in particular the Engagement Hierarchy were right, in terms of the message reaching as many people as possible on the work that is trying to be achieved.

Faith Ward replied that she felt that despite already doing quite a lot there was always scope to do more and that this would be one of the focus areas of the upcoming Brunel Investor Day due to take place next week on 28th September.

She added that they will also look to use different forms of media such as podcasts and videos to engage as widely as possible.

Councillor John Cato commented that it can still feel like a bit of a struggle as the job of the Fund is to maximise the returns of our customers despite the acknowledgement that we would like to reduce our investment in fossil fuels. He added that the sustainability of the Fund was key and asked how the right balance can be found.

Faith Ward replied that in her view there is a fiduciary duty to serve the best interest of your beneficiaries and that this should be both holistic and long term. She added that the financial damages as a result of unabated climate change will be catastrophic to the economy and the world and that action must be taken.

She explained that a large number of the companies concerned do have the cashflow to reinvest and do redeploy capital funds, but not necessarily to the levels that we would like them to.

She gave an example of how Shell could produce aviation fuel in a different way so that it was then less damaging to the environment if regulations were changed and that they were engaging with the aviation industry to seek such changes.

Councillor Cato said that he would also like to see the communication of decisions carried out in such a way that a higher number of stakeholders and companies are informed about why they have been made.

Richard Orton said that he did not feel that a detailed approach to the Climate Stocktake had been carried out. He asked if it could be outlined in more detail and whether it concentrated solely on fossil fuel giants.

Faith Ward replied that respectfully she disagreed and said that the work that has been carried out with certain Banks and the focus on their primary capital flow for the fossil fuel industry is banks and bank loans. She added that in trying to change the way in which banks lend is systemically much more impactful than talking solely with energy companies.

She questioned what an appropriate climate transition framework for the banking sector was and how can a bank be judged whether it is doing a good enough job. She referred back to the presentation to give more information on the Climate Stocktake.

Two years into at least ten years of work. Delighted with our progress, but aware that there is so much more to do.

Alignment will be very key over the coming years.

Faith Ward then referred to some specific case studies of recent engagements including Berkshire Hathaway and the co-filing process Brunel went through with Hermes to target the company on climate disclosures.

Councillor Bruce Shearn stated that he was able to see the progress that Brunel have made and said that the Fund should be positive about its work.

Faith Ward then went on to provide detail of Brunel's approach to human rights, social impact and biodiversity.

Steve Turner asked if it would be possible for Brunel to achieve the net zero target by 2040.

Faith Ward replied that targets are relevant to the agreed investment strategies and the level of risk that Funds are willing to take.

She added that through pooling it is the Funds who approve the strategic asset allocation.

She stated that they do have the ability to be more ambitious, but that this does rely on the cooperation of other parties, therefore if all were in agreement to be net zero by 2040 this could be achieved.

She added they have stated they would achieve the net zero target no later than 2050 and that they would be able to supply a product range for the target the Fund wants.

William Liew asked how the success of the work Hermes does can be gauged and whether it was through KPIs.

Faith Ward replied that they have a proactive engagement plan in place that does contain a number of KPIs. She said that they are judged on the milestones they achieve and their responsiveness.

The Chair thanked Faith for her presentation on behalf of the Committee and said that they would most likely invite her back in the early part of 2023 to discuss the Climate Change Policy and Stocktake Report.

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

28 ANNUAL RESPONSIBLE INVESTING REPORT

The Investments Manager introduced this report to the Committee. He informed them that the Draft TCFD (Taskforce on Climate-related Financial Disclosures) report had been prepared to the fullest extent possible and in line with regulations that currently only apply to private sector schemes. He added that guidance mandating climate disclosures for LGPS will come into force in April 2023 and the Fund will be required to submit its first report in line with the updated guidance by December 2024. He said that a DLUHC consultation on this is currently underway and that the Fund will respond in due course.

He explained that the Responsible Investing (RI) 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. He added that the RI report explains how Brunel and its third-party providers have delivered against policy, and 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 EOS at Federated Hermes.

Charles Gerrish commented that a further recommendation for the report would be required so that officers could finalise the report with the relevant links that were yet to be inserted.

Jackie Peel stated that she felt that the numbering and layout of the TCFD report was slightly confusing as the roman numerals were repeated within separate sections.

The Investments Manager replied that prior to publication the report would go through a final design process with the Communications Team so that it is user friendly.

Charles Gerrish proposed the recommendations within the report at 2.1 and 2.2 with the addition of the following as 2.3.

- Delegate the refinement and finalisation of the Annual RI report to Fund officers.

The Committee **RESOLVED** to:

- i) Approve the Draft Annual Responsible Investment Report for publication and agrees the 2022/23 RI priorities listed in Section 6 of the Draft Report.
- ii) Approve the Draft Taskforce on Climate-related Financial Disclosures (TCFD) Report for publication.
- iii) Delegate the refinement and finalisation of the Annual RI report to Fund officers.

29 INVESTMENT STRATEGY AND BRUNEL UPDATE (FOR PERIODS ENDING 30 JUNE 2022)

The Investments Manager introduced the report to the Committee. He said that the amber ratings seen within the report for this quarter relate to negative investment performance which Mercer could talk about further.

He explained that the Investment Panel were due to discuss the Risk Management Framework Review for Periods Ending 30 June 2022 at their meeting on 30th September and would feedback to the Committee on any issues.

Steve Turner, Mercer addressed the Committee and referred them to page 129 of the agenda pack. He explained that the chart shows the attribution performance of the Fund for 12 months to June 2022.

He said that it has been a challenging period for investment markets due to the high rise in inflation. He added that as a result in the rise of bond yields this has seen a negative performance in equity markets.

He explained that the Fund has 40% of its assets in listed equities and therefore these are down between 5% - 15% for the year. He explained that the Fund has 40% of its assets in listed equities and therefore these are down between 5% - 15% for the year. He drew the Committees attention to the fact the Fund's ESG approach had detracted from returns over a 1 year period. A tilt toward ESG and growth companies within the listed equity portfolios were the main drivers of underperformance given the market had rewarded cyclical companies (which the Fund has a lower exposure to) in light of the fact interest rates and energy costs had been rising.

He said that the Dynamic Equity Protection Strategy remains a positive initiative for the Fund as although since implementation equity markets have gone down around 10%, this is only 8% in real terms.

Pauline Gordon asked if a comparison had been made between the Dynamic Strategy and the previous Static Equity Protection Strategy as to which was better for the Fund over this period.

Steve Turner said that without specifically analysing it he would expect the Dynamic Strategy to have done better because it evolves more as markets move up and down.

He stated that non-traditional asset classes such as Property, Private Debt, Infrastructure and Secured Income really have done well. He added that property really had been a strong performer over the last 12 – 18 months and that this was something they would look to follow up with officers and the Investment Panel.

He said that over this period Liability Hedging had been able to be increased in some capacity resulting in a benefit to the Fund and that Currency Hedging had detracted due to the sterling weakness.

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

30 UPDATE ON LEGISLATION

The Digital Services Project Manager introduced the report to the Committee and highlighted the following areas.

The report provides a summary of the main regulatory updates since the last meeting covering McCloud, Cost Management, Pension Dashboards and Responsible Investment.

McCloud Judgment

The Fund continues to work on collating/analysing data from employers in relation to implementing the remedy. A scoping group has been established to take forward discussions on how LGPS Funds can implement the remedy when data from employers isn't available with a view to centralised guidance being issued in due course. An officer from the Fund will be part of this group.

Pension Dashboard

The latest consultations and guidance issued will aim to provide clarity on the requirements for administering authorities (and software providers) and also how the Dashboard itself may look to members and be used in practice.

The Fund will continue its preparations towards meeting the necessary Pensions Dashboard requirements and welcomes the decision to delay the staging date 5 months given the current burden on administration teams (e.g. implementing the McCloud remedy etc.).

Responsible Investment

Whilst no immediate impact on the administration team, this consultation has been long-awaited and its release may signal movement on other outstanding matters, which may impact on the team. The Fund expects to issue its own response to this consultation in due course.

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

31 WORK PLANS

The Group Manager for Funding, Investment & Risk introduced the report to the Committee. She reminded members that their Annual Report had been circulated for comments, with a deadline of the end of September for them to be received.

She added that the Annual Report was due to be presented to Council at their meeting on November 17th.

She stated that the Brunel Investor Day was due to take place on September 28th at the Marriott Hotel, Bristol.

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 3.49 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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Questions and Statements to the Avon Pension Fund Committee

23rd September 2022

Elaine Ashley – Attending

Are you prepared to ask Brunel for investments based on full Fossil Fuel divestments rather than engagement?

If you support the engagement policy they appear to have, at what point does the time run out to proceed with this?

Jim Mayger – Not Attending

'That I would like the Avon pension fund to divest from all investments in fossil fuel exploration or extraction or any associated industries. I would like global warming to be limited to a rise of 1.5 degrees. I do not think as things currently stand that this will happen as it seems to me there is insufficient action being taken. I would call on Avon Pension Fund to think more about the long term future and divest from fossil fuels. Investing more money in sustainable businesses and activities'

Charlie Bessant – Not Attending

'It has come to my attention that many members are campaigning for the pension to divest from fossil fuels. As a member of the pension scheme, I feel that it would be a big mistake to divest from fossil fuels. It is clear that these ideas are being driven by extreme ideology that have damaged our economy and have contributed to an energy crisis.

From the evidence I have seen, the argument that fossil fuels are the main cause climate change is very weak and many scientists now believe climate change is a natural occurrence. I am concerned that divesting from fossil fuels will leave the pension in a much weaker position. I think the pension needs to invest in effective sources of energy for the financial benefit of its members and not get swayed by extreme environmentalist ideologies. I hope that any decision made on this matter will be made from a financially practical perspective rather than an ideological perspective.

Unfortunately I will be unable to attend the meeting on Friday but feel that I have to make my voice heard on this matter. I am happy for my statement to be read out.'

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Avon Pension Fund

Local Government Pension Scheme

Post: Avon Pension Fund, Bath & North East Somerset Council,
Lewis House, Manvers Street, Bath, BA1 1JG

Web: www.avonpensionfund.org.uk

Tel: 01225 395100

Email: avonpensionfund@bathnes.gov.uk

Fax: 01225 395258



Dear All,

May I thank you for the statements submitted, and delivered in person, at the last meeting of the Avon Pension Fund Committee on 23rd September 2022.

In response to the questions posed to the Committee on the day I can confirm that we do not exclude investments on a sectoral basis for the fact that many of the companies that we invest in that generate revenues from fossil fuel extraction and/or generate power from fossil fuel sources also operate renewables businesses with significant capital allocated to transition and clean energy technologies.

Outside of the extractives industry some of the most carbon intensive companies we invest in are those currently making the largest financial and environmental contribution to emissions reductions. This highlights the complexity of the issue and how wholesale divestment is sub-optimal both from a risk and return perspective and in its ability to deliver real world emissions reductions, which the Fund is committed to delivering under the Institutional Investors Group on Climate Change (IIGCC) framework.

Where engagement is not progressing fast enough and a company is clearly lagging in its adaptation plans for the low carbon economy then we will consider divesting. Brunel's review of its climate policy, which is currently underway, includes an analysis of engagement activity. The review is set to conclude in the first quarter of next year with any decisions around divestment from specific companies clearly communicated to all stakeholders.

There is a full statement on our website about our approach to exclusion and divestment and how we monitor engagement progress [here](#) as well as responses to past public statements made to the Committee on this critical topic. You will also find literature on the positive steps the Fund has taken to date to deliver on real world emissions reductions including its £1.4bn investment in Paris-aligned and sustainable equity strategies and over £400m allocated to renewable infrastructure projects.

Yours sincerely,

Councillor Paul Crossley, Chair of Committee, Avon Pension Fund

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Brunel Stewardship and Climate Stocktake

update

Avon Pension Fund

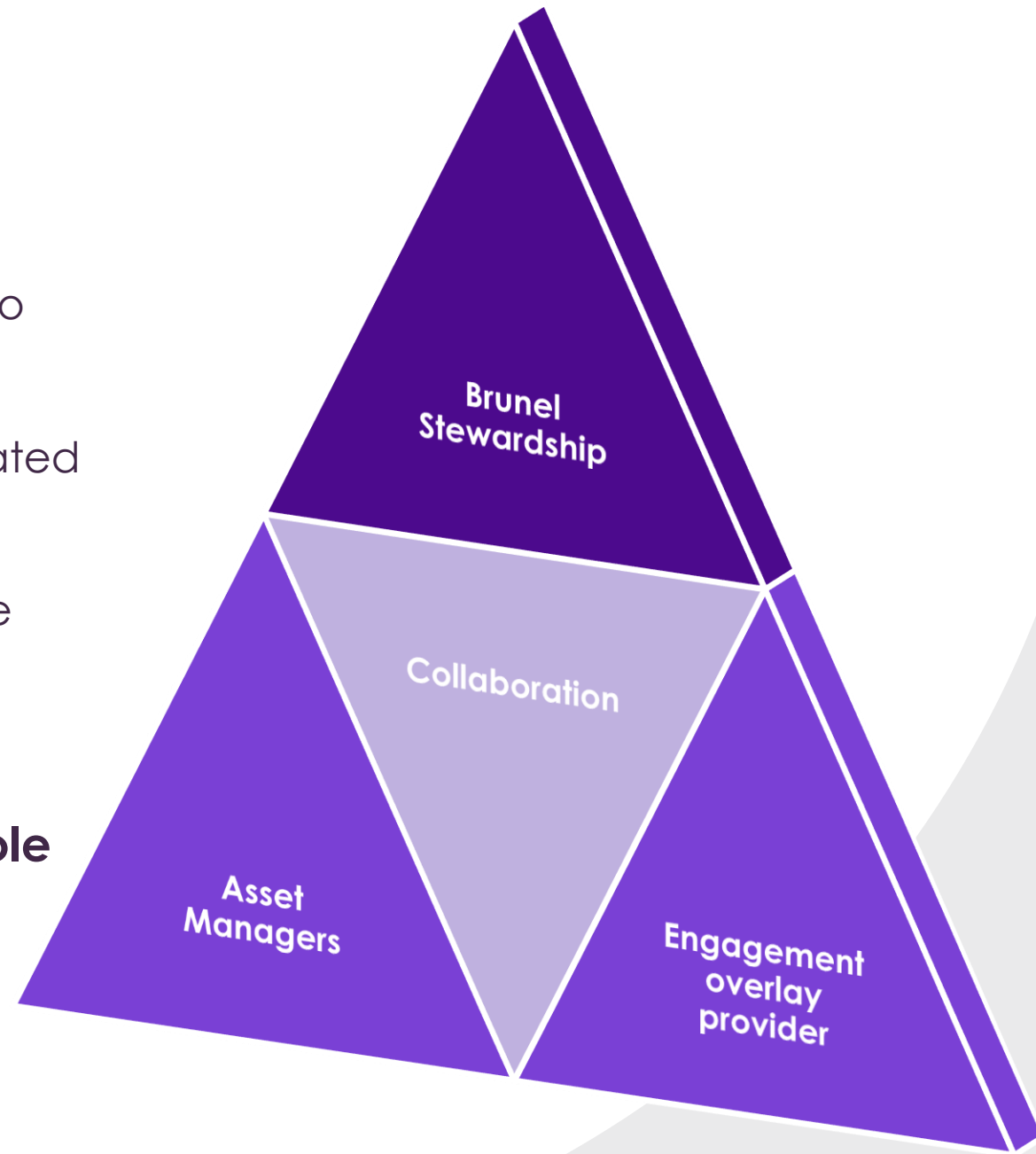


Stewardship Approach

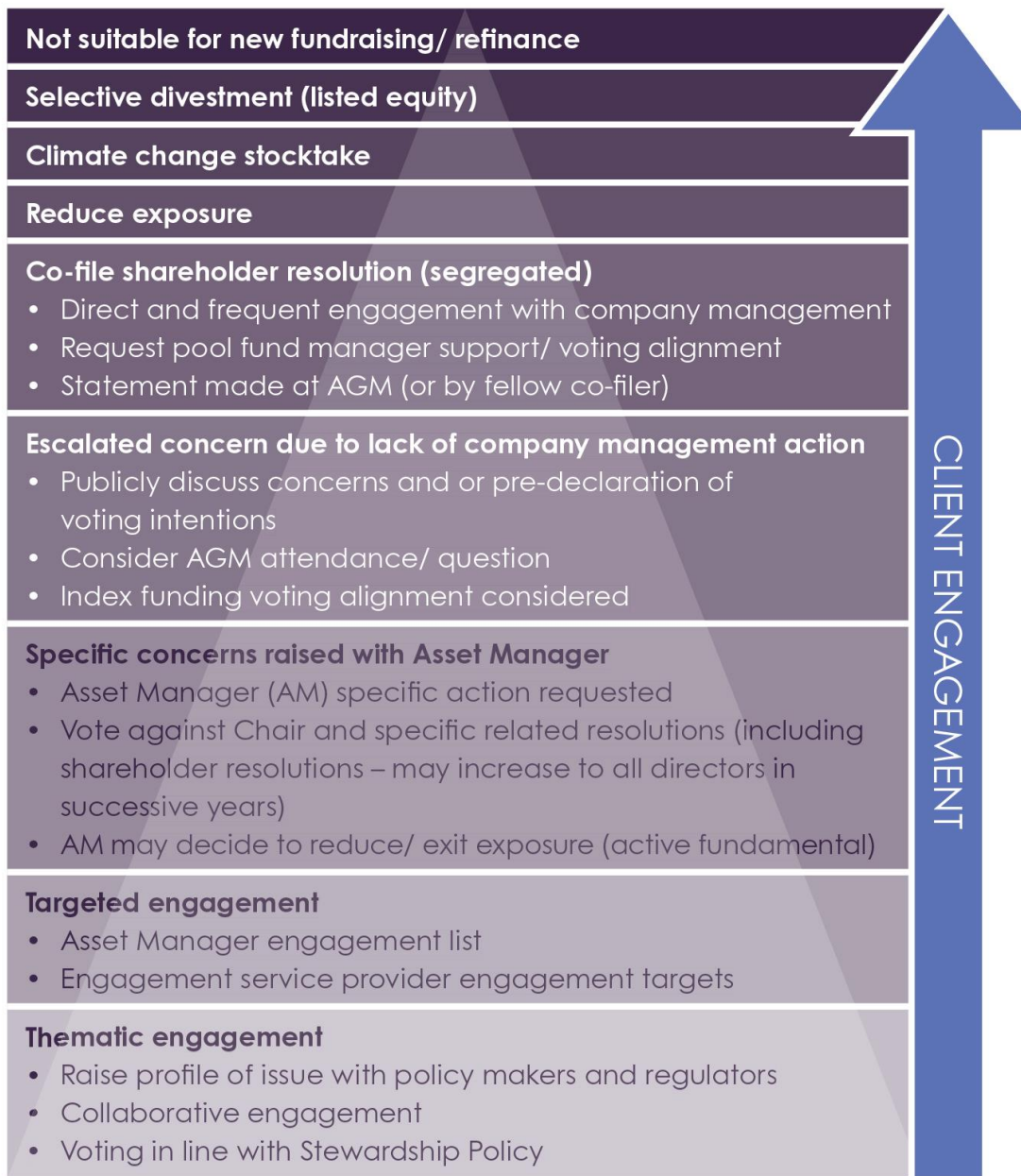
- **Asset managers** – active managers who select assets
- **Engagement overlay provider** - Federated Hermes EOS
- **Brunel** – policy advocacy and selective corporate engagement

Page 28

Collaboration working across the whole industry and society



Engagement Hierarchy



Engagement escalation

Banks play a vital role in aligning the real economy with the goal of net zero emissions by 2050

Engagement

- ShareAction
- IIGCC
- Hermes EOS
- Managers

Page 28

Shareholder Resolutions

- Barclays 2021
- HSBC 2022



Engagement escalation

Objective: Parent-company annual assessment of climate physical and transitional risks

- Hermes co lead CA100+ Shareholder resolution co-filed with Brunel by Hermes in 2021 and 2022
- **47% of independent shareholders supported** (26.4% overall)



BH Insiders, including chair and CEO Warren Buffet, control 35% of the company's voting power

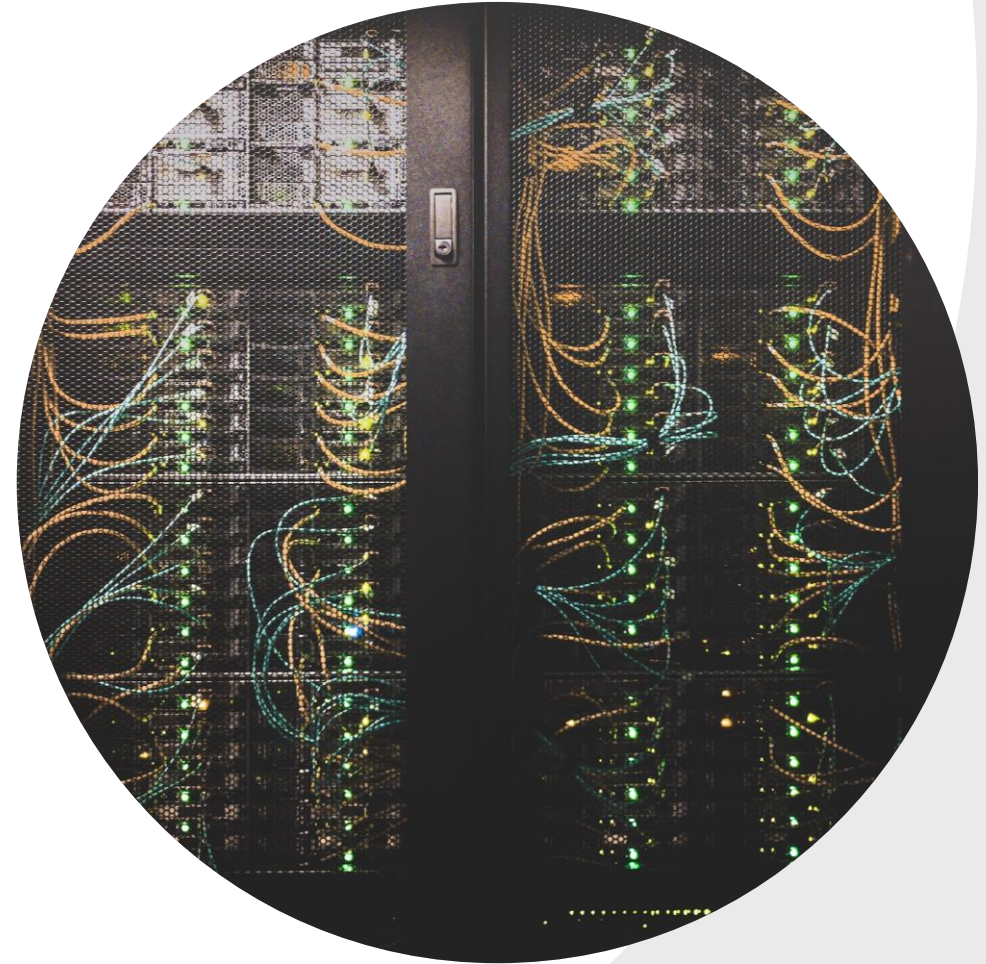
Cyber and Climate - Technology Sector

The combined power usage of Amazon, Google, Microsoft, Facebook and Apple is more than 45 terawatt-hours a year, about as much as New Zealand

Page 26

Emissions Disclosure: EU Tech Sector

- Montanaro: Deep dive data centres
- Bath University Research project - 2022



Human rights – Modern Human Slavery

- Investor coalition with £3.2 trillion AUM coordinated by Rathbones
- Wrote to **FTSE 100 companies identified as non-compliant** with meeting the Modern Day Slavery Act 2015 requirement **of having a modern day slavery statement**

Page 27
In 2020, twenty companies had become compliant as a result of the engagement, a **hit rate of 90%**.

- In 2021-22 expanded to FTSE 350 companies, results to date have been positive



Social issues – Good Work Coalition

- Engaging on a real living wage an hours
- 50% FTSE 100 are accredited with the real living wage foundation
- Brunel co-filed UK's first living wage resolution at Sainsbury's in November 2021
- In April 2022, a pay uplift was announced for London staff, resulted in **19,000 direct employees receiving a real living wage**
- Secured 17% of shareholder support

Page 28



Biodiversity - Deforestation

Agriculture, forestry and land use account for 24% of the greenhouse gas emissions arising from human activity

Investor Policy Dialogue on Deforestation (IPDD) supported by a membership of 58 financial institutions, including Brunel, with approximately US\$8.5 trillion in assets under management

Sector lens on all issues - Collaborative

Brunel joined the **Investor Mining and Tailings Safety Initiative**, led by the Church of England and the Council on Ethics of the Swedish National Pension Fund

This initiative led to

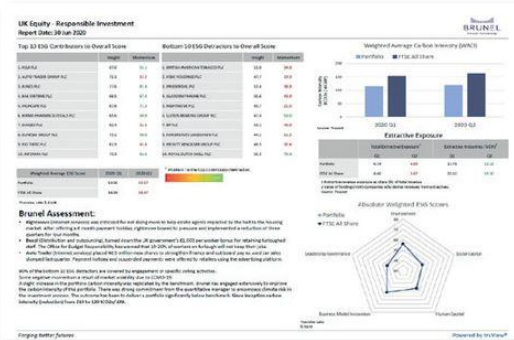
- Page 30
- The first global industry standards on tailings management
 - the establishment of a global database of tailings dams ([Global Tailings Data Portal](#)), with company disclosures of over 1900 tailings storage facilities for investors, regulators and communities to freely access.

The initiative has morphed into the **Mining 2030** Investor agenda, throughout 2022 the initiative will consider eight systemic issues faced by the mining sector and key interventions needed.



Reporting on Progress

Regular Reporting



Responsible Investment & Stewardship Review

While our planned work in responsible investment and policy advocacy continued, the rise of COVID-19 globally added a new dimension to our priorities. We have had to re-evaluate issues with companies and their approach to effective stakeholder engagement in a world where digital media has become the norm and on modern human stories in supply chains. Each of these issues has been exacerbated by the various lockdowns imposed around the world. However, climate has remained our top priority and we have been active in highlighting the need for a socially inclusive, green recovery through our advisory work at both UK and global level.

Fulfilling the '3' back to ESG

The ongoing pandemic continues to shine a light on a whole range of social challenges and inequalities, highlighting the need for the investment sector to further engage on the social component of ESG. Social factors are complex and challenging to quantify. To help improve this, Brunel set out the **Workforce Disclosure Initiative**. The initiative calls for greater transparency on workforce policies and conditions, which engages with companies on the importance of a real living wage and long hours, respect for human rights and a global ban on slave practices and highlights the newly launched Living Wage Incentive Board and Justice for Migrants in engaging with companies. Brunel will continue to engage on this throughout the year.

Working with policy makers and regulators

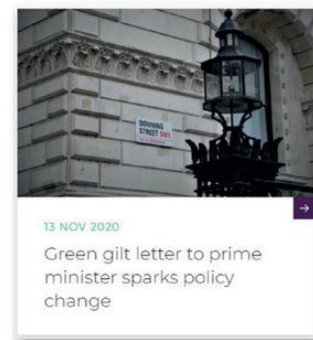
The Department for Work & Pensions launched a consultation in August, proposing mandatory **Workforce Disclosure** for all companies. Brunel has been instrumental in the consultation. The public consultation, launched by the **Responsible Climate Risk Industry Group** of which Brunel is a member, sought views on policy proposals to require 'business of higher occupational pension schemes and occupational schemes to disclose climate change risks and opportunities through effective governance and risk management measures.

Our key message to the DWP and the same one we shared with the **ICCA in their consultation** on climate disclosure of companies is that if we are to have a green recovery, the investment sector has a responsibility to improve transparency. There needs to be reporting at the very start of the investment chain. Currently, the ICRA proposes a company or employer approach, while the DWP is looking for more detailed reporting - we have flagged this disparity. The report in line with TCFD recommendations each year and one quarterly starting our disclosure for inclusion in our 2020 Annual Report and Accounts.

Annual Reporting



News Alerts



Social Media



Climate Stocktake

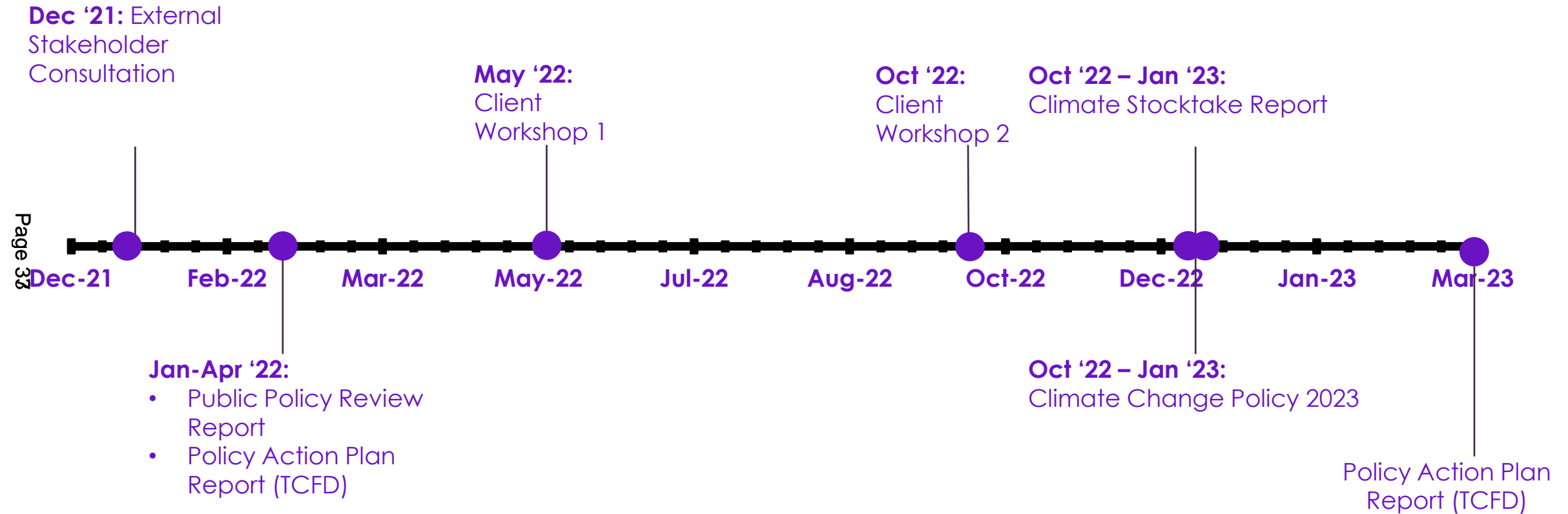
It will seek to address the following questions:

- **Did we deliver?**
- **Does it still meet your expectations and needs?**
- **Is it best practice?**
- **What are other stakeholder views?**
- **Are asset managers aligned?**
- **Are there companies of concern?**

Page 38



Climate Stocktake: 2022 high-level timeline

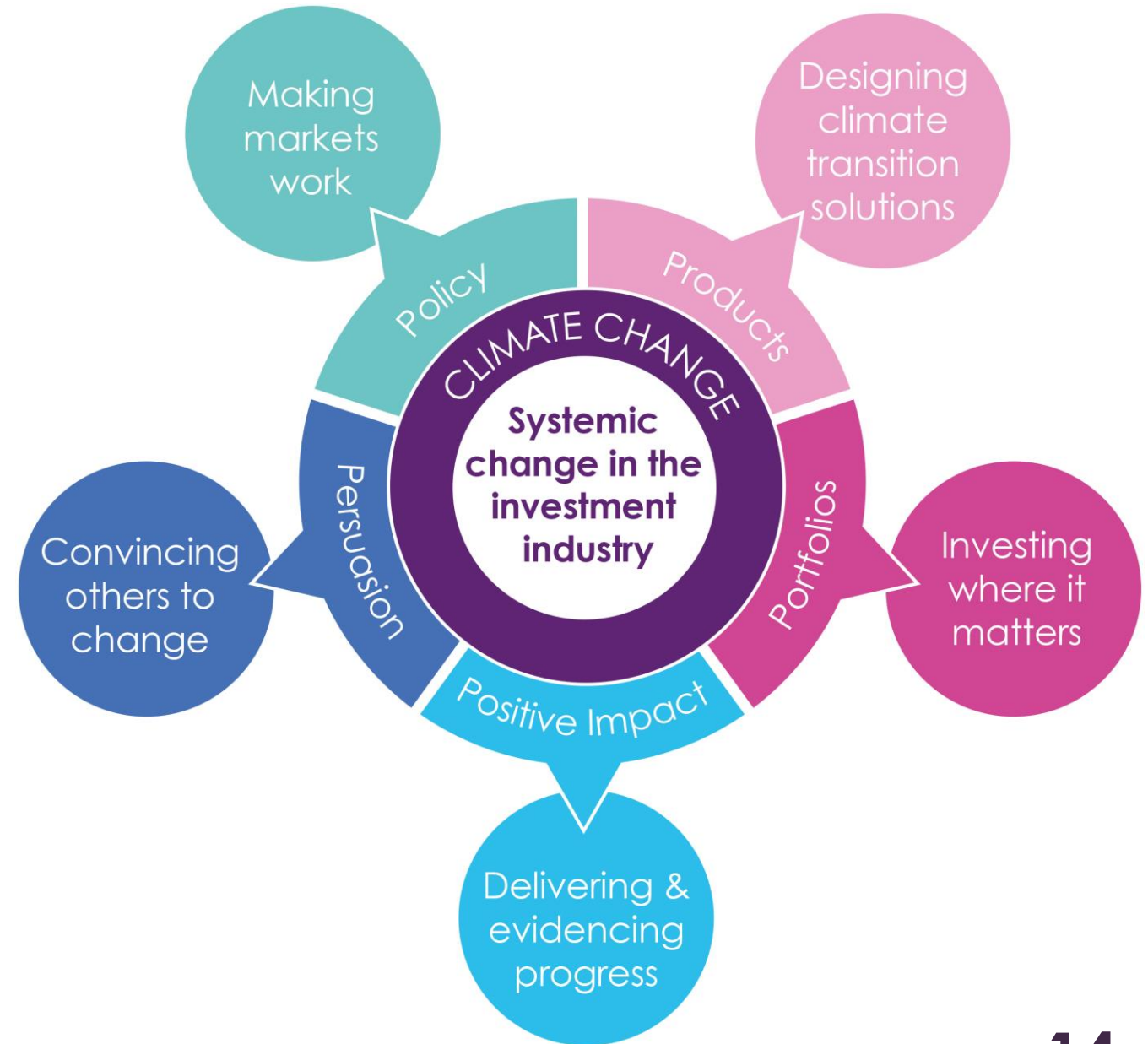


Brunel's Climate Change Policy

Challenges identified in 2020 policy

- Emphasis on short-term
- Need for more investment on low carbon economy
- Absence of suitable products
- Market failure and perverse incentives
- Backward looking risk models

Page 38



2021 WACI vs Baseline

Portfolio	Reduction %	2021 Portfolio	2019 Baseline
Brunel Aggregate	35.16%	222.2	343
<i>Active Portfolios</i>			
Brunel UK Active Portfolio	25.89%	209.0	282
Brunel Global High Alpha Portfolio	50.37%	149.3	301
Brunel Emerging Markets Portfolio	32.89%	382.7	570
Brunel Active Low Volatility	35.70%	214.7	334
Brunel Global Sustainable Portfolio	15.44%	282.3	334
Brunel Core Global Equities	65.13%	116.4	334
Brunel Smaller Companies*	27.11%	225.2	309
Brunel Sterling Corporate Bond Fund**	-0.67%	185.4	184
<i>Passive Portfolios</i>			
Brunel Passive Low Carbon	53.35%	140.3	301
Brunel Passive Smart Beta	31.46%	379.5	554
Brunel Passive UK	-4.67%	294.4	281
Brunel Climate Transition Benchmark UK Equity Index	18.47%	229.3	281
Brunel Passive World Developed	16.98%	251.6	303
Brunel Paris Aligned World Developed Equity Index	43.42%	171.5	303
Brunel Climate Transition Benchmark Developed Market Equity Index	22.50%	234.9	303

*Trucost updated methodology in 2020 means we have taken December 2020 as a baseline for the Smaller Companies Portfolio

** This Portfolio has a baseline of 31 December 2020

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	16 December 2022
TITLE:	New Risk Management Process & Risk Register
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Avon Pension Fund Risk Register</p> <p>Appendix 2 – Avon Pension Fund Risk Management Policy</p>	

1. THE ISSUE

1.1. The purpose of this report is to update the Committee with the new risk management policy and new look risk register.

2. RECOMMENDATION

2.1. That the Committee notes the report.

3. FINANCIAL IMPLICATIONS

3.1. There are no direct implications related to the Committee in connection with this report.

4. REPORT – RISK MANAGEMENT PROCESS & RISK REGISTER

4.1. The Fund has reviewed its risk management process and documented it in a new risk management policy attached as appendix 2.

4.2. The policy sets out the Fund’s approach to risk, process for review and update of the risk register. 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.

4.3. The new risk register is attached as appendix 1.

- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. It also sets out mitigating actions.
- The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
- All risks are also reviewed quarterly or when there has been a material change to the risk.
- Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Manager
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

4.3.1. All risks are linked to the relevant Fund strategy documents and how they are reported to Pension Committee and Pension Board.

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 Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

1 OTHER OPTIONS CONSIDERED

1.1 None

2 CONSULTATION

2.1 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	

Appendix 1

Risk Number	Risk	Impact	Mitigating Actions / Control Framework	PC/PB Review	Impact Level	Likelihood	Risk Score	Trend	Current Factors Impacting Risk Score	Risk Owner	Next Review Date
Administration											
NR01	The Fund's ability to deliver the administration service to members and employers within the agreed standards	Poor member outcomes and/or breach of regulations.	All aspects of service delivery are considered and set out in the Fund's Administration Strategy and Service Plan, including the Communications Strategy and plan to improve digital services. KPIs and complaints are monitored and reviewed.	Administration Strategy reviewed every three years. Service plan reviewed annually in March. KPIs reviewed every quarter.	Critical	Possible	15		Digital Transformation Project Recruitment, skills and experience of staff Appointment of new AVC provider	Pensions Manager	Mar-23
Regulatory											
NR02	Regulatory changes will impact ability to deliver service in accordance with LGPS and wider legislation. Political pressures may influence scheme changes	Breach of regulations, poor member outcomes, increased workloads for administration officers and the Investment Strategy Statement may have to change if political pressure directs how we invest.	Regulatory changes are monitored via LGE resources and professional advisors. Officers attend SWAPOC/Tech Group. Project plans are monitored in the Service Plan. Regulatory breaches and IDRPs cases are monitored and reviewed. Officers respond to consultations. Asset allocation decisions must contribute to investment objectives set out in the Investment Strategy Statement.	Administration, legislation and Service Plan updates given periodically to PC/PB. Regulatory breaches reviewed annually in December.	Low	Unlikely	4		McCloud judgement Pension dashboard Exit payment cap Levelling up agenda TCFD consultation	Technical & Compliance Advisor	Mar-23
Governance											
NR03	Pension Committee cannot operate effectively due to knowledge and understanding of members and election cycles impacting consistency of membership	Delays in decision making for the Committee and Fund. Failure to meet MIFID & TPR regulations.	Representation of PC is set out in Fund's representation policy, knowledge requirements in Training Policy, and compliance against statutory requirements in Governance Compliance Statement. Responsibility for decisions are set out in the decision making matrix.	Governance review annually in June.	Medium	Unlikely	6		Low engagement with training modules	Governance & Risk Advisor	Mar-23
NR04	The governance of the Fund is not in accordance with BANES and APF policies and codes of practice and internal controls are not adequate	Fines for non-compliance, disciplinary issues and reputational risk.	Annual plan of internal and external audits. Managers and officers undertake training in accordance with the Council and APF's codes of practices and standards.	Annual audit report in December and governance report in June.	Medium	Unlikely	6		SAB Good Governance Review TPR Single Code of Practice	Governance & Risk Advisor	Mar-23
NR05	Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	Personal data is corrupted, compromised or illegally shared resulting in fines and reputational damage.	One West acts as Data Protection Officer for Fund and advises on all data protection matters. Record of processing activities and privacy notice set out how data is managed. Processes in place for dealing with data breaches and other data protection requests. DPIAs used. Regular officer training.	Data breaches reported to PB annually in December.	High	Possible	12		Skills and experience of staff Submission of data electronically	Governance & Risk Advisor	Mar-23
NR06	Fund is not prepared for an unexpected incident or cyber attack	Fund is unable to operate and members do not receive pension payments on time.	All aspects of dealing with an incident or cyber attack are set out in the Fund's disaster recovery/business continuity plan and BANES' cyber security policy.	Review annually	High	Unlikely	8			Governance & Risk Advisor	Mar-23
Employers and Funding											
NR07	Employers do not understand or comply with statutory responsibilities under the LGPS regulations and TPR requirements	Poor member data, late contributions, fines and greater scrutiny by TPR. Employer liabilities could be incorrect if data is incorrect.	Management of employers is set out in the Fund's Administration Strategy/SLAMOU. Employer KPIs are recorded and data monitored against TPR standards of data. Training Strategy includes employer training. DIPS in place.	KPIs and TPR standards of data reported to PC/PB quarterly.	Medium	Possible	9		iConnect roll-out TPR Single Code of Practice	Employer Services Manager	Mar-23
NR08	The employer is unable to meet their legal and financial obligation to the Fund now and in the future (employer covenants)	Financial cost to other employers in the Fund.	The Fund's policies on the financial stability of employers is set out in the FSS & ISS. Covenant framework and plan is in place. Quarterly review and update of issues.	Annual review to PC.	High	Possible	12			Funding & Valuation Manager	Mar-23
Investments											
NR09	Governance risk of investment managers, custodian and other investment suppliers	Loss of assets or inability to trade due to assets being inaccessible.	Review of internal control reports. Diversification of investment portfolio (ISS). Quarterly service review with Brunel and their suppliers. Brunel quarterly risk dashboard (BOB).	Quarterly monitoring reports to PC/IP.	High	Possible	12			Investments Manager	Mar-23
NR10	Failure to earn investment returns	Scheme cannot meet liabilities and employer contributions could rise.	ISS and risk management strategy supports the Funding Strategy. FRMG & Investment Panel monitor performance and markets. Professional advice supports decision making (Mercers). Periodic strategic reviews carried out.	Quarterly monitoring reports to PC/IP	Critical	Possible	15		Market conditions not favourable to ESG tilt in portfolios Stagflation Weakening sterling	Investments Manager	Mar-23
NR11	Brunel fails to deliver its objectives to clients in terms of service delivery	Affects the Fund's ability to achieve its own investment objectives and/or implementing its strategy.	Brunel governance framework (client group, oversight board) and Avon's Brunel working group.	Brunel report and dashboard reported to PC quarterly.	High	Possible	12		Current impact factors on Brunel dashboard	Investments Manager	Mar-23
NR12	Failure to achieve decarbonisation targets in the required timescales in accordance with climate change priorities	Significant reputational risk and financial risk to the value of the investments assets.	ISS/RI Policy. Brunel's climate change policy and approach to investing. Use of professional advice. Strategic partnerships (IGCC) who are developing investment frameworks for climate risks. Policy advocacy work. Periodic strategic reviews.	Quarterly monitoring reports to PC/IP. Annual RI report. TCFD report. FRC Stewardship Code.	Medium	Possible	9		Limited ability to control systemic risk Public policy is not driving agenda	Investments Manager	Mar-23
NR13	Loss of capital or income on treasury investments	Delayed return of principle or investment income.	B&NES manage Treasury management policy on APF's behalf in consultation with treasury management advisors.	Annual treasury management report to PC.	Medium	Unlikely	6			Investments Manager	Mar-23
NR14	Liability driven investing- regulatory pressure and/or reputational risk leads to managers withdrawing from the market	Fund's LDI strategy may have to be unwound or inability to increase hedge ratio.	Maintain collateral and buffer at levels to withstand significant/rapid move in rates/inflation. Set hedge triggers/hedge ratio at a level that can be adequately collateralised.	IP & FRMG monitor quarterly.	Critical	Possible	15		UK gilt market environment	Investments Manager	Mar-23

NR15	Liquidity levels within the Fund are insufficient to support investment and risk management strategies	Being forced to sale liquid assets in order to meet collateral and private market calls. Could lead to changes in asset allocation which means investment return objective is no longer achievable.	Maintain collateral and buffer at levels to withstand significant/rapid move in rates/inflation. Collateral policy in place to enable decisions around source of funds. Cashflow monitoring covers all other cashflows and updated continuously.	IP & FRMG monitor quarterly.	Critical	Possible	15		High stress market conditions	Investments Manager	Mar-23
Finance											
NR16	Cashflow profile is maturing	Not enough cash in bank account to meet pension payments.	Monthly monitoring of cashflow. Forecast inflows and outflows, liaise with Investments Team to ensure sufficient funds are available.	Cashflow monitoring quarterly to PC/PB.	Critical	Unlikely	10		Pressure on cash available to pay pensions	Finance & Systems Manager	Mar-23
NR17	Late/incorrect contributions from employers	Cashflow, employer funding position, default (exiting employer/covenant) TPR breach.	Monthly reconciliations of contributions, manager review and action. Contributions are reviewed quarterly and sent to Mercers to update funding monitor tool. FRS process review contributions annually. Larger employers pre pay contributions.	Late payers are monitored and reported to PC/PB periodically.	Low	Possible	6		Employer budgets stretched by economic crisis	Finance & Systems Manager	Mar-23



Risk Management Policy

Avon Pension Fund

Administered by Bath & North East Somerset Council

INTRODUCTION

The Avon Pension APF (APF) Committee must ensure robust risk management is in place, to enable compliance with regulations and manage risks faced by the APF. The Investment Panel strengthens risk management regarding investment issues.

The APF has a fiduciary duty to manage risk, to protect its employees, members, and assets. The APF acknowledges that risk is inherent in pension management, and that robust risk control involves management of complex trade-offs. Seeking to eliminate risk typically causes indirect problems such as cost escalation or the emergence of new risks.

The APF will adopt best practice risk management to support a structured approach to managing risks, embedded in operational management and governance. The over-arching objective is to embed risk management into the processes and culture of the APF to help it achieve its objectives and enhance service quality.

OBJECTIVES

The APF's seeks to:

- integrate risk management into its day-to-day activities, for all employees and partners.
- encourage a culture of openness which surfaces risks so they can be managed.
- maintain a robust framework for identification, assessment and management of risk, and its reporting and recording.
- ensure consistent application of APF's risk management framework across all activities, including projects and partnerships.

KEY MECHANISMS FOR DELIVERY

The APF has identified key mechanisms through which risk management will be delivered:

- maintain clear roles and responsibilities in the APF.
- create a culture of cross-team working, to openly communicated and shared.
- ensure risk management is explicitly considered in all policy decisions, strategies, and projects, e.g. committee reports, strategy documents, delegated decisions.
- maintain a single APF risk register assessing each risk for likelihood and impact with mitigating controls.
- review each risk at least quarterly.
- ensure there is appropriate leadership and risk monitoring of key projects.

The risk register reflects where the relevant risk is addressed and how it is reported to the Pension Committee and Pension Board.

Process for Review and Update of the Risk Register

- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. And it sets out mitigating actions.
- The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
- All risks are also reviewed when there has been a material change to the risk.
- Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Managers
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

Roles & Responsibilities

- Risk Owners are responsible for day-to-day management of risks in their areas, ensuring the agreed control framework is in place and operating effectively.
- Each risk is reviewed quarterly or when facts change the impact / probability of the risk. Any changes should be agreed through the quarterly Managers' Meeting.
- The Head of Pensions is responsible for overseeing the work of risk owners and ultimately agreeing any changes to the risk register.
 - The detailed work, e.g. development of the risk framework, ensuring team leaders identify and manage risks, is delegated to the Governance & Risk Advisor.
 - The Governance & Risk Advisor also ensures the risk register is accurately updated, with reports prepared for Pension Committee & Pension Board.
- Committees & Boards:
 - The Pensions Committee is responsible for ensuring risks are effectively managed. It reviews the risk register at each quarterly meeting.
 - The Investment Panel focuses on investment risks and makes recommendations to the Pension Committee and risk owners.
 - The Pension Board has an independent oversight role, to ensure the overall risk framework is robust and compliant with regulations.

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	16 December 2022
TITLE:	Additional Voluntary Contributions (AVC) Provider Review & Appointment
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:	

1. THE ISSUE

1.1. The purpose of this report is to update the Committee with progress on appointing a new provider for Additional Voluntary Contributions (AVCs).

2. RECOMMENDATION

That the Committee notes:

2.1. The selection of the AVC provider which is a decision delegated to the Head of pensions

2.2. That the AVC arrangements including fund selection will be reviewed every 2 years.

3. FINANCIAL IMPLICATIONS

3.1. There are no direct implications related to the Committee in connection with this report.

4. REPORT

4.1. Background

4.2. 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.

4.3. 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).

4.4. 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 and the range of funds offered. For the Fund it will be more operationally efficient with all the employers set up as one scheme.

4.5. L&G manage AVC assets for a number of LGPS funds as well as being a major pension provider to many employers in the private sector. The new AVC arrangements will benefit from the development of L&G's pension business and will be part of a pilot exercise with a few local authorities of which Avon Pension Fund is one. The pilot is not generally available to other local authorities at present.

4.6. Implementation Plan

4.7. 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.

4.8. 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.

4.9. Investment Advice

4.10. Hymans have provided investment advice and with the Investment Team have agreed the range of funds to be offered to members. Initially members will be invested in the default fund.

4.11. The default fund targets cash at retirement because most LGPS members take their AVC pot as cash while using their LGPS pensions for monthly pension income. For members some years from retirement the default fund invests with the aim of giving a good return relative to inflation over the longer-term. As members get nearer to retirement, the fund gradually moves to a more cautious mix of investments to help protect the value of their savings. In the last few years before retirement, funds are moved into a mix of investments intended for someone expecting to take all their AVCs as a cash lump sum when they retire.

4.12. For members who do not wish to be in the default fund there is a selection of self-select funds.

4.13. L&G's default fund and all their 'Future World' funds have a strong emphasis on responsible and sustainable investment.

4.14. One concern when organising the transfer of all AVCs from Aviva and Utmost to Legal & General is the risk that the value of members' AVCs could be adversely affected by changes in investment market conditions during the days while the transfers are going through. The Fund and L&G have agreed how this risk will be mitigated.

4.15. Governance Arrangements

4.16. Moving forward APF will carry out a biennial governance review and conduct a further market test in five years time.

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 Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

1 OTHER OPTIONS CONSIDERED

1.1 None

2 CONSULTATION

2.1 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 01225 395277
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:	16 DECEMBER 2022
TITLE:	INVESTMENT STRATEGY AND BRUNEL UPDATE (for periods ending 30 September 2022)
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Brunel Monitoring Dashboard</p> <p>Appendix 2 – Investment Strategy Dashboard</p> <p>Appendix 3 – Mercer Quarterly Investment Performance Report</p>	

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, policy and operational aspects of the Fund.
- 1.2 Exempt Appendix 1 updates the Committee about Brunel and the wider pool covering delivery of service, performance, governance and risk management aspects of the pool.
- 1.3 Appendix 2 summarises progress in respect of the investment strategy (including the risk management framework), portfolio performance and responsible investment issues. Investment performance remains behind the strategic benchmark. Significant headwinds i.e., high inflation and the uncertain macro-outlook persist. Brunel portfolios continue to underperform on a medium-term basis due to active style tilts but have shown signs of alpha generation in the quarter, hence the direction of travel is positive.
- 1.4 The Mercer Investment Performance Report at Appendix 3 contains performance statistics for periods ending 30 September 2022. Mercer will present their paper at the meeting.
- 1.5 Section 8 sets out the proposed timeline of the Strategic Investment Review. The key objectives of the Review will be to determine the optimal asset allocation to deliver the required return in the funding plan to maintain stable and affordable contributions. It will also re-examine the role of the Risk Management Strategies, consider if new investment opportunities including Social/Local investing could be built into the strategy and whether the Fund's net zero ambition can be accelerated without detracting from the overriding return objective.

1.6 Further appendices to this report including Minutes of the Investment Panel and the LAPFF Quarterly Engagement Report are now available in the Modern Gov library.

2 RECOMMENDATIONS

The Avon Pension Fund Committee is asked to:

2.1 Note the information set out in the report and appendices.

2.2 Note the outline and timetable for the Strategic Investment Review

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 BRUNEL UPDATE

4.1 The dashboard of key indicators covering strategic aspects of Brunel is set out in Exempt Appendix 1. It covers all aspects of service delivery, governance, finance and risk. It is updated quarterly to reflect current activity and developments and changes to ratings are highlighted in the commentary. A verbal update will be provided at the meeting.

4.2 Governance:

- a) The next BOB meeting will be held virtually on 15th 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 are 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.

4.3 Investments:

- a) Brunel now manages £4.5bn (at 30/09/22) of the Fund's assets (83%). This includes £721m in private market portfolios (invested capital).
- b) Brunel's quarterly investment performance and stewardship activity reports are included in the Investment Panel meeting agenda; Panel will highlight any issues or areas of concern via its normal investment reporting (covering all our managers) to Committee.
- c) The current focus of work is the 2022 Stocktake. This will review Brunel's climate policy and the approach the pool has taken given the evidence of progress/achievements over the last 2 years. The outcome (and Brunel's revised Climate Policy) will feed into our strategic investment review later in 2022/23.

4.4 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.
- b) The project to improve investment reporting to clients is in full swing with a new provider appointed. New reports were published for 3Q 2022. Further refinements to Brunel performance reporting will be implemented over time.

4.5 The Brunel Working Group (BWG) is next due to meet 12th December ahead of the December BOB meeting.

5 INVESTMENT STRATEGY

A – Funding Level and Investment Performance (‘Amber’ Ratings)

- 5.1 The Fund’s assets decreased by £91m in the quarter (-1.2% net investment return) ending September 2022 giving a value for the Fund of £5,365m.
- 5.2 The liabilities are expected to have risen c.1.6% due to the rise in inflation. The combined effect of this, allowing for cashflows over the period, saw the estimated funding level decrease to c.89%. The deficit was estimated to have widened over the quarter to £675m.
- 5.3 Manager performance is monitored in detail by the Investment Panel. The Fund’s investment return and performance relative to the benchmark is summarised below.

Table 1: Fund Investment Returns (Periods to 30 September 2022)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-1.2%	-6.0%	2.2%
Avon Pension Fund (excl. currency hedging)	0.4%	-3.1%	2.7%
Strategic benchmark (no currency hedging)	1.5%	0.6%	5.8%
Currency hedge impact	-1.6%	-2.9%	-0.5%

B – Portfolio Performance

- 5.4 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are available in the Modern Gov library.
- 5.5 Brunel listed market portfolios delivered moderate performance during the quarter. Listed equity portfolios delivered positive absolute returns while Credit and DRF portfolios declined by c.1%. Style characteristics were less of a driver of underlying manager returns this quarter with underperformance driven largely by stock selection, which is expected in high conviction, active portfolios. Underperformance on a 1-year basis is largely attributed to the growth/quality and ESG bias in the portfolios hence they remain ‘amber’ rated. The DRF and credit portfolios underperformed in part because their performance is measured against a cash benchmark. Both portfolios were broadly in line with secondary benchmarks made up of comparable assets. Pace of capital deployment across the Brunel private market portfolios is currently on track.
- 5.6 The currency hedge that forms part of the Fund’s Risk Management Framework is rated ‘amber’. As GBP has fallen the currency hedge has caused a drag on returns. The significant decline in the value of GBP against the USD has led to

a -2.9% drag on returns over a 1-year period although post period end GBP has recovered from c.1.12 to c.1.20 against the USD.

- 5.7 The 'amber' RI factors reflect current work in progress. Enhanced climate metrics and disclosures form part of the ongoing Brunel climate stocktake.
- 5.8 **Returns versus the strategic assumptions:** Global Sustainable Equity returns are below expected returns due to portfolio biases. Multi Asset Credit is also behind due to negative returns from fixed income markets in 2022. The private markets mandates are either still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

6 LIABILITY DRIVEN INVESTMENT UPDATE

- 6.1 Prior to the 'mini-budget' announcement the Fund had implemented a revised interest rate trigger framework to capture opportunities presented by rising UK interest rates. As a result of the subsequent extreme move in yields in late September, a number of the triggers within the framework were breached within a short timeframe taking the hedge ratio on interest rates from c.12% to c.40% as a percentage of assets. As such, the framework was suspended and it was agreed by FRMG that the case for reactivating the trigger framework would be revisited once we have confirmed the role and scope of LDI as part of the overarching investment strategy in 1Q 2023.
- 6.2 In addition to breaching a number of interest rate triggers, rising interest rates and the fall in equity markets experienced over the period led the Fund to breach its collateral top-up notification point. As a result, steps were taken to recapitalise the risk management framework by drawing on assets contained within the risk management framework as well as transferring in additional assets in the form of listed equities to ensure all risk management strategies were supported with adequate collateral, while the Fund's overall asset allocation remained stable.
- 6.3 A robust collateral monitoring framework, which specifies where collateral should be sourced from in the event of extreme market volatility combined with a nimble governance process (in the form of FRMG), meant the Fund did not become a forced seller of assets and maintained a strong collateral position throughout. At the end of September, the Fund could sustain a 2.7% rise in interest rates, a 3.6% fall in inflation or a 35% fall in the value of the equity protection strategy relative to the hedged exposure (all in isolation) before the early warning test triggered.
- 6.4 Reactivation of the trigger framework, as well as a broader review of LDI, will be examined as part of the forthcoming strategic review. Post-event, regulatory scrutiny of LDI mandates has increased and will likely lead to higher collateral buffers being required for those Funds who operate leveraged LDI programmes. Officers and FRMG are currently working with the investment manager to determine the appropriate level of collateral and any implications it may have for the Fund's wider investment strategy.

7 INVESTMENT PANEL ACTIVITY

- 7.1 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.

7.2 The Panel last met on 25 November. At the meeting the Panel received a presentation from Brunel on the Cycle 3 infrastructure portfolio and discussed the key areas of focus for the forthcoming Strategic Investment Review. Discussions were had on the cashflow profile/illiquidity budget of the Fund and options for aligning the equities in the Risk Management Framework with the goals of the Paris agreement, with implementation of the latter delegated to Officers. A copy of the draft minutes will be made available in the Modern Gov library.

8 STRATEGIC INVESTMENT REVIEW

8.1 The key piece of work this year is the Strategic Investment Review. At the last review in 2019/20 we made significant changes by allocating to Private Debt and changing the allocation within equities to increase (i) the alignment with the low carbon transition and (ii) the allocation to sustainable/impactful investments as well as set interim decarbonisation targets. Initially it was anticipated that the 2022/23 review would be relatively light touch, focussing on the climate targets and Social/Local Impact investing. However, the significant changes in the economic and market environment during 2022 makes it necessary to review the asset allocation and risk management strategies more holistically in light of a higher interest rate and inflation environment.

8.2 To assist the process, prior to the workshop in February Mercer will prepare a number of short papers to summarise the key issues or analysis to be discussed at the workshop. The timetable is tight if the review is to be concluded before the next committee cycle; therefore if the discussions are not concluded by the 17 March committee meeting the review will be taken forward by the next committee.

8.3 The key areas of focus for the Review will be;

- (I) **Review of the Fund's core investment beliefs and principles** – how this influences the design of the investment strategy and its implementation, taking into account key investment and ESG objectives and any potential constraints.
- (II) **Overriding objective** – Consider a few potential strategies that meet the risk return profile and test each under differing investment/funding scenarios.
- (III) **Other principles and goals** – Consider the impact of asset allocation decisions on the ability to meet ESG/climate targets, and whether strengthening climate targets would constrain the asset allocation in any way.
- (IV) **Asset allocation** – Review of underlying asset classes and rationale for their inclusion in the strategy in light of current markets and long-term prospects, including:
 - Equities** – allocation; active vs passive management, Equity Protection Strategy role, level of protection, impact on collateral
 - Illiquid growth** – role of Local/Social Impact portfolio and its parameters; implications for allocation to other illiquid growth assets.
 - Currency hedging** - review level of hedging for overseas assets and impact on collateral.

Liability Driven Investing - revisit the case for using synthetic/leveraged exposure vs no hedging of liabilities

Overall cashflow/liquidity - consider liquidity budget; impact on overall allocation between liquid/illiquid assets.

1.1 The timetable for the Review is:

- a. **January 2023** – Officers and Mercer develop key areas for consideration
- b. **28 February 2023** – Committee workshop to agree objectives and investment beliefs, consider asset allocation options and risk management strategies to conclude preferred option.
- c. **17 March 2023** – Committee meeting to approve preferred option and timetable for implementing any changes.
- d. Following the Review the Investment Strategy Statement will be updated.

9 RESPONSIBLE INVESTMENT ACTIVITY

9.1 **Voting and Engagement Summary:** Federated Hermes EOS provide voting and engagement services on behalf of the Fund. Summary reports available in the Modern Gov library disclose the number of companies and topics engaged on over the quarter.

9.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report which is also available in the Modern Gov library.

9.3 The Fund is currently a signatory to the FRC Stewardship Code. Post period end the Fund submitted its second annual Stewardship Code statement and will find out whether it has maintained signatory status in 1Q 2023.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. 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.

11 CLIMATE CHANGE

11.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global 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 Head of Pensions has reviewed this paper 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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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Investment Dashboard at 30 September 2022

1. Investment Strategy

	Objective	Commentary	RAG	Trend
1	Funding level	<ul style="list-style-type: none"> 89% (92% in Q2) £675m deficit (£490m in Q2) 		↓
2	Investment Performance	<ul style="list-style-type: none"> Behind strategic benchmark over 1 and 3 years 		↓
	Qtr return	<ul style="list-style-type: none"> Negative quarter of -1.2% due to impact of weakening GBP/rising UK yields on currency hedge, LDI, corporate bonds and property portfolios 		↓
	1 Year return	<ul style="list-style-type: none"> Behind funding objective at -6.0% p.a. 		↓
	3 Year return	<ul style="list-style-type: none"> Behind funding objective at 2.2% p.a. 		↓
	Social/Impact investing	<ul style="list-style-type: none"> Social/Impact portfolio spec being developed for 2022/23 strategic review 		↔
3	Risk Management			
	LDI	<ul style="list-style-type: none"> Trigger framework currently suspended Interest rate hedge ratio c. 40% Inflation hedge ratio c. 40% Mandate performed as expected. Manager in compliance with investment guidelines 		↔
	EPS	<ul style="list-style-type: none"> Since inception the dynamic EPS has added value (c. £64.2m in net gains at 30 Sept 2022) 		↑
	FX	<ul style="list-style-type: none"> Detracting from returns over Q, 1 year and 3 years GBP/USD has recovered c.1.12 to 1.20 post Qtr end 		↑
	Collateral adequacy	<ul style="list-style-type: none"> Sufficient to withstand scenarios in monitoring framework FRMG currently working on future collateral requirements 		↔
4	Rebalancing/cashflow	<ul style="list-style-type: none"> JPM Hedge Fund wind down on track Trimmed DRF and Core infrastructure allocations to replenish cash position and fund future private markets calls Equities transferred into QIF to reduce leverage 		↔

2. Portfolios

	Objective	Commentary	RAG	Trend
1	Brunel Listed Market portfolios	<ul style="list-style-type: none"> In Equity portfolios, stock selection beginning to play a larger role than style DRF and MAC saw negative returns on weak credit markets however relatively large floating rate exposure offsets to an extent 		↑
2	Private Markets Portfolios			
	Infrastructure (Brunel)	Performance: n/a - portfolio in build-up New commitments: 6 (Including a Solar ESG Fund)		

		<p>Capital deployment:</p> <ul style="list-style-type: none"> • Cycle 1: 73% • Cycle 2: 31% <p>Cycle 3 deployment to begin in Q4</p>		↑
	Secured Income (Brunel)	<p>Performance:</p> <ul style="list-style-type: none"> • Underperformed due to underlying movements in gilt prices causing a softening of values. Direction of travel moved to negative • Portfolio still well positioned for current environment with high quality tenant base and inflation linked leases. <p>New commitments: None. Cycles 1 & 2 fully committed</p> <p>Capital deployment:</p> <ul style="list-style-type: none"> • Cycle 1: 100% • Cycle 2: 100% 		↓
	Private Debt (Brunel)	<p>Performance: n/a – portfolio in build-up</p> <p>New Commitments: Cycle 2 fully committed</p> <p>Capital deployment:</p> <ul style="list-style-type: none"> • Cycle 2: 36% • Committed capital is expected to be fully deployed over the next 12-36 months. 		↔
	UK Property (Brunel)	<p>Performance:</p> <ul style="list-style-type: none"> • Outperformed benchmark while producing negative absolute returns. Direction of travel moved to negative as Sept NAVs do not fully reflect most recent interest rate moves on asset values, which will be more evident in Q4 numbers. • Late Q4 will also offer opportunities for cash investors due to forced selling. <p>Capital deployment:</p> <ul style="list-style-type: none"> • Further deployments made into affordable housing, life sciences & residential property 		↓
3	Legacy portfolios			
	IFM (infra)	<ul style="list-style-type: none"> • Mercer supportive of continuing to hold given portfolio's decarbonisation plan. • Currently overweight (7% vs 5% allocation). Redemption request submitted, to receive by Q1 2023 at the earliest. 		↔
	JPM Hedge Funds	<ul style="list-style-type: none"> • Orderly liquidation with c.90% liquidated by end 2022. 		↔
	Partners (Intl Property)	<ul style="list-style-type: none"> • Majority of funds in realisation phase. c.70% of unrealised value held in fund with 2029 contractual expiry. 		↔
	Schroder (UK Property)	<ul style="list-style-type: none"> • Single closed end debt fund (£12m) due to expire in 2025 		↔

3. Responsible investing

Objective	Commentary	RAG	Trend
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1	Climate change targets			
	43% reduction in absolute emissions by 2025	<ul style="list-style-type: none"> Fund has decarbonised by 41.6% versus baseline (updated annually). Further 2% reduction in absolute emissions to 2025. 		↑
	30% of total assets in sustainable and Paris-aligned investments by 2025	<ul style="list-style-type: none"> c.21% invested in Sustainable and Paris-aligned equities and invested in Brunel renewable infrastructure portfolio. Decrease versus prior Q as equities sold from Paris-aligned fund to move into QIF. Expected to increase with proposal to move equities in QIF to a Paris-aligned solution 		↑
2	Voting activity (active equity portfolios)	<ul style="list-style-type: none"> Voting recommendations at 142 meetings (1,498 resolutions). At 69 meetings recommended opposing one or more resolutions. 78% of the issues voted against management on comprised board structure and remuneration. 		↔
3	Engagement activity (active equity portfolios)	<ul style="list-style-type: none"> Engaged with 149 companies across 529 ESG issues in Qtr Environmental 37% Social 30% Governance 18% 		↔
4	Progress on engagement and selective divestment policy	<ul style="list-style-type: none"> Brunel 2022 Stocktake is on track for agreeing a new Brunel climate policy in early 2023 (to feed into Avon's strategic review) 		↔
5	Equity fund held in in Risk Management QIF	<ul style="list-style-type: none"> To replace equities in QIF with transition aligned solution. Panel delegate implementation to Officers Nov 22. 		↑
6	Capability to measure SDG impact across portfolios	<ul style="list-style-type: none"> Work progressing on reporting against SDGs, expect update in 2023. Brunel want to progress this but the issue is availability and consistency of the data. Brunel are currently piloting 'green revenues' reporting on sustainable equity portfolio. 		↔

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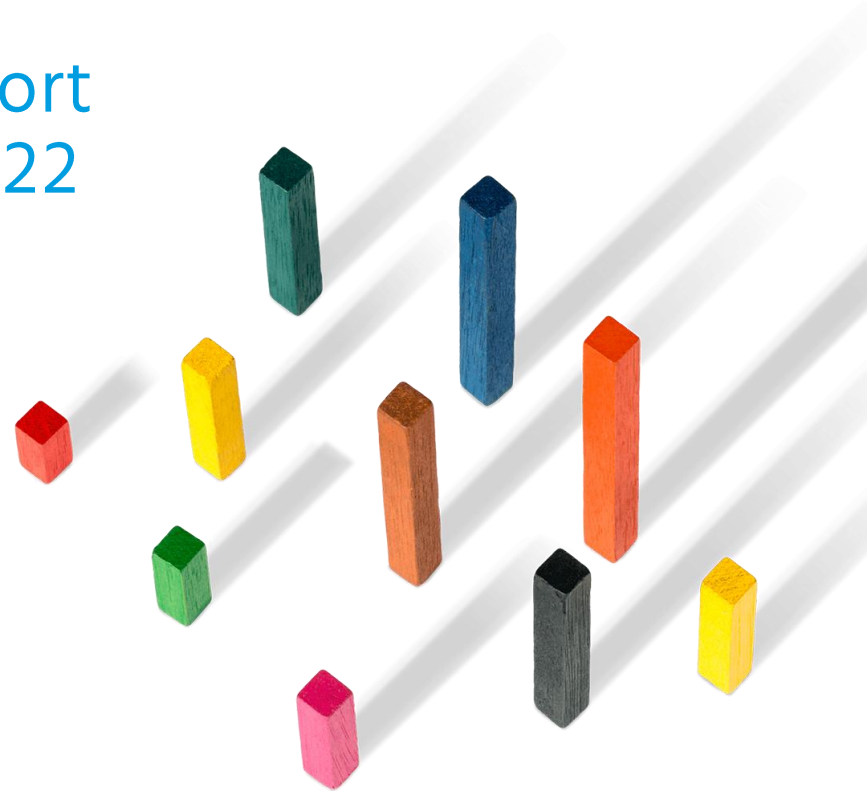
Avon Pension Fund

Committee Investment Report Quarter to 30 September 2022

Page 63

November 2022

Steve Turner
Joshua Caughey



Contents

1) Executive summary	2
2) Market background	5
3) Funding level and risk	8
4) Performance summary	11
5) Asset allocation	15
Appendices	18

Page 64

Executive summary



Executive summary

Market background

- Inflation and central bank policy continued to drive markets in the third quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility.
- 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.
- Sterling weakened significantly.

Page 56 Mercer market views

- Our medium term outlook (as at October 2022) is mixed given the big cross currents in 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.
- Our outlook for returns over a 1-3 year time horizon for the major asset classes are summarised below:

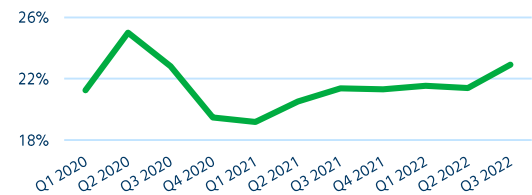


Funding level and risk

- The funding level is estimated to have decreased over Q3 to c.89%, as the assets contracted whilst the estimated value of the liabilities rose.
- It is estimated to have decreased by c.12% over the year to 30 September 2022 (as illustrated to the right).



- The Value-at-Risk rose over the quarter to £1,384m due to increases in the expected underlying volatility of the assets.
- It rose as a percentage of liabilities at 22.9%.
- Risk as a proportion of liabilities has increased over the year due to rises in expected volatility. It is lower than the peak in 2020 due to the move from a static to dynamic equity protection strategy.



Executive summary

- The Fund assets fell in value primarily due to the impact of the Currency Hedge as Sterling weakened, although this was partially offset by positive returns elsewhere where there was overseas exposure. Corporate Bonds saw a big sell-off due to rises in yields.
- UK Property and Secured Income also lost value in a challenging market.

Performance

- Underperformance relative to the strategic benchmark over the one year period to 30 September 2022 is mainly due to the underperformance of the active equity and multi-asset mandates.
- The main detractors over the three year period were the Equity Protection and Overseas Property portfolios.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	-1.2	-6.0	2.2
Strategic Benchmark (2) (ex currency hedge)	1.5	0.6	5.8
Relative (1 - 2)	-2.7	-6.6	-3.6

- The Currency Hedge overlay has detracted from returns over all time periods shown. An important factor here is that the benchmark does not make allowance for the currency hedge.
- Absolute returns for the global equity mandates compared to the strategic returns modelled at the strategy review in 2019 have been mixed. The most recently-incepted Paris-Aligned mandate has underperformed due to its point of inception, though the underperformance of the Sustainable Equity mandate is due to active management.
- The Diversified Returns and Multi-Asset Credit mandates have also fallen short of expectations due to this year's negative returns, however the alternative assets have generally outperformed.
- Around the end of the quarter, the BlackRock QIF was topped up by £350m after the strain on the collateral pool due to market movements. This was funded from the Paris-Aligned Equity mandate, though overall equity exposure was maintained by adding an equivalent amount of synthetic exposure to the MSCI World index accessed by the BlackRock mandate.
- At quarter-end, there were some deviations from the underlying asset allocation targets within the Equity portfolio, due to the changes outlined above.
- A net amount of c£55m was drawn down to the Brunel private market portfolios during the quarter.
- Core Infrastructure was above its control range, but offset by an underweight to Renewable Infrastructure.

Page 67

Asset allocation and strategy

Liability hedging mandate

- BlackRock were in compliance with their investment guidelines over the quarter.
- The inflation and interest rate trigger framework was revised over the quarter. It was suspended after a number of interest rate triggers were breached in order to ensure the portfolio was sufficiently collateralised. The triggers being achieved resulted in the hedge ratio being increased to c40% as a percentage of assets compared to c10% previously.
- The inflation hedge remains at c40%.

Equity option mandate

- Market value of options at end of the quarter was positive (£66m) as equity markets have fallen since the inception of the current (dynamic) strategy in May 2021.
- In this environment, the protection has worked as expected and helped to protect the portfolio, with estimated performance of 0.4% over Q3 due to falls in markets in local currency terms.

Collateral position

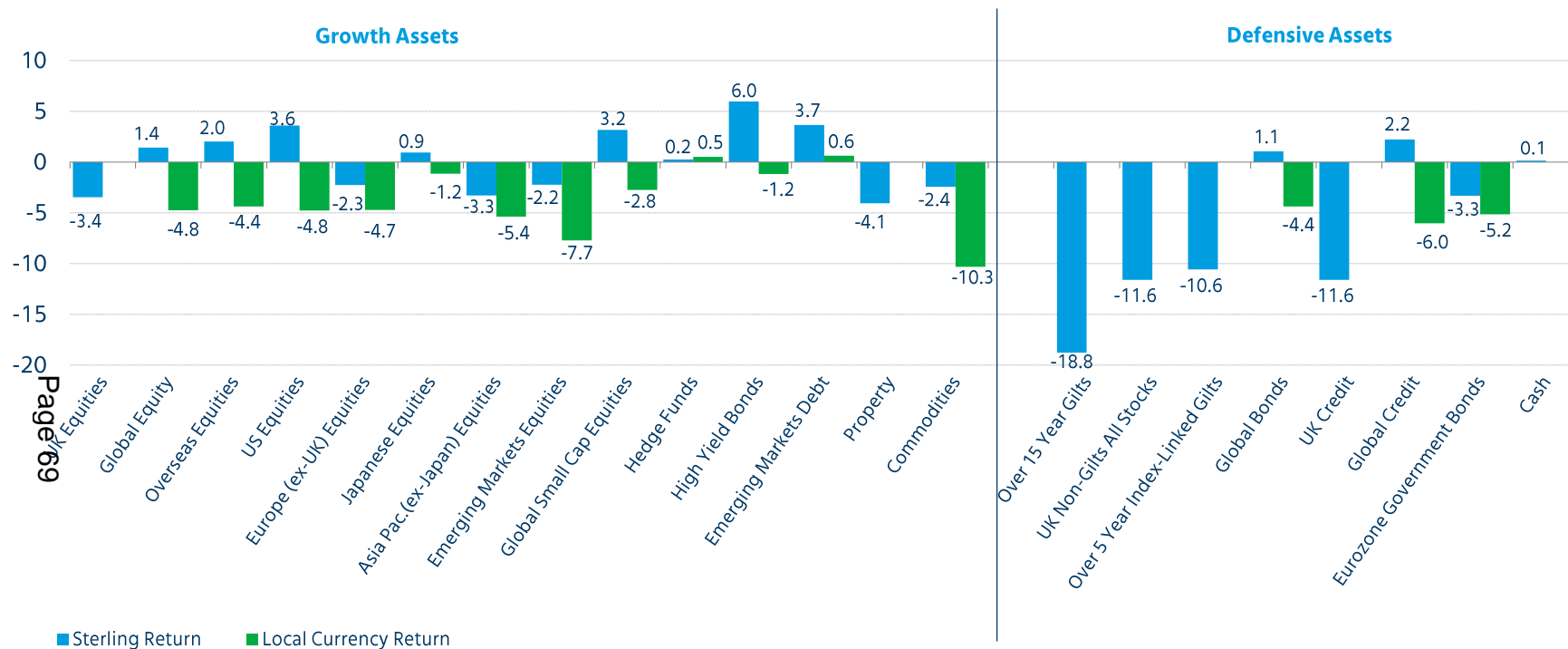
- Collateral within agreed constraints.
- The BlackRock QIF could sustain a 2.7% p.a. rise in interest rates, a 3.6% p.a. fall in inflation or a 35% fall in the value of the equity protection strategy before the early warning trigger is breached.

Market background



Market background

Return over 3 months to 30 September 2022 (%)



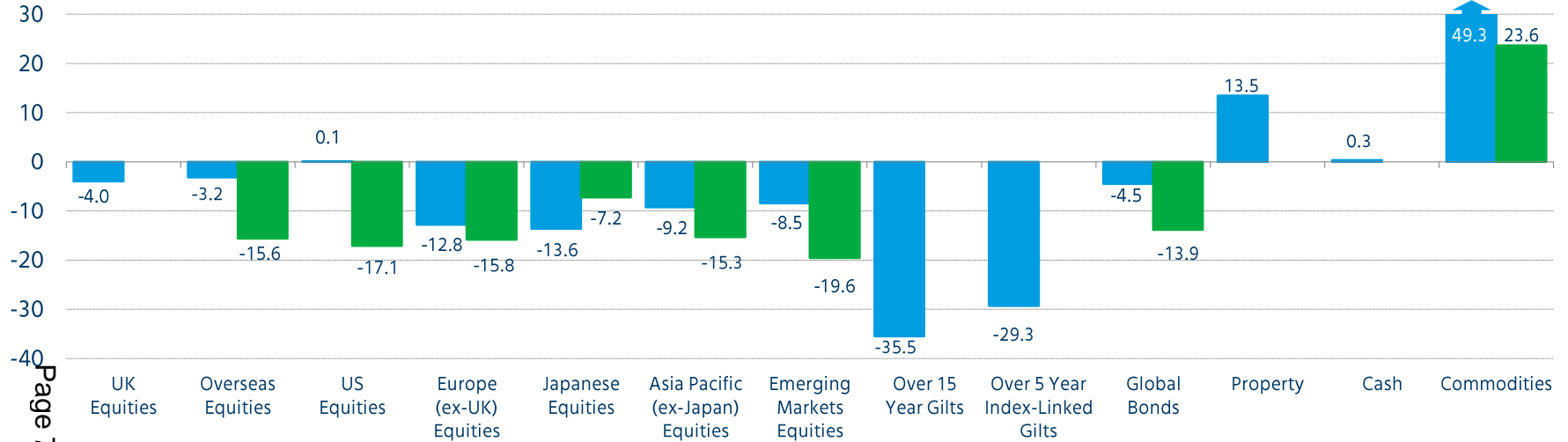
Page 69

Inflation and central bank policy continued to drive markets in the third quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. 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 resulting from the monetary tightening. Therefore most major asset classes ended the quarter with negative returns. Significant continued weakening in sterling mitigated the drawdown for unhedged UK investors.

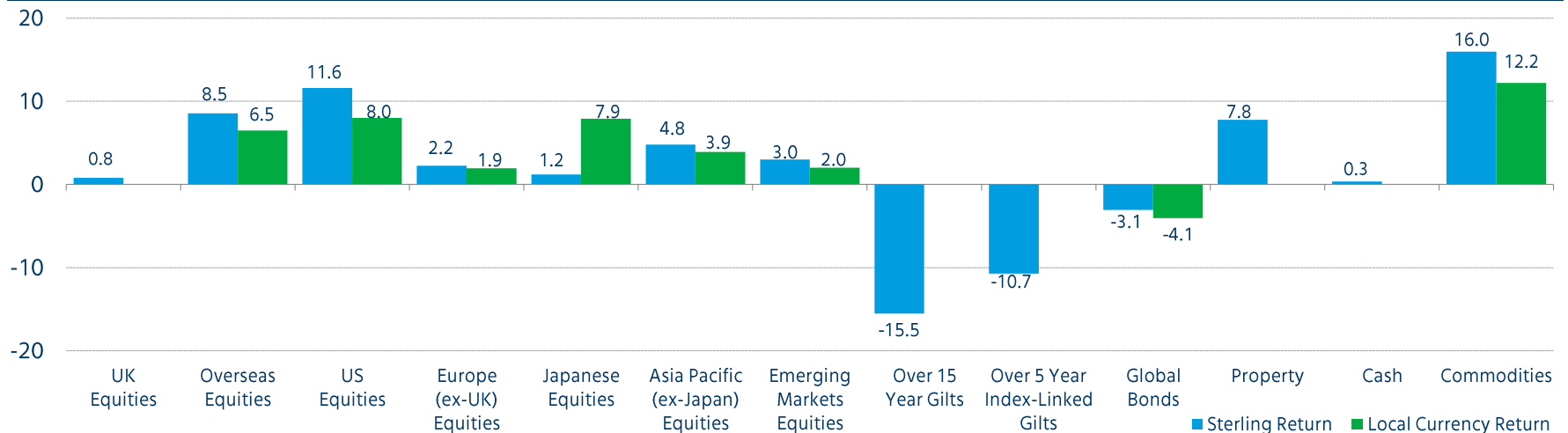
The conflict in Ukraine added to negative sentiment as Russia stepped up its anti-west rhetoric and further restricted natural gas supplies to Europe which exacerbated the energy crisis. On the other hand, supply chains continued to improve.

Market background – 1 & 3 years

Return over 12 months to 30 September 2022 (%)



Return over 3 years to 30 September 2022 (% p.a.)



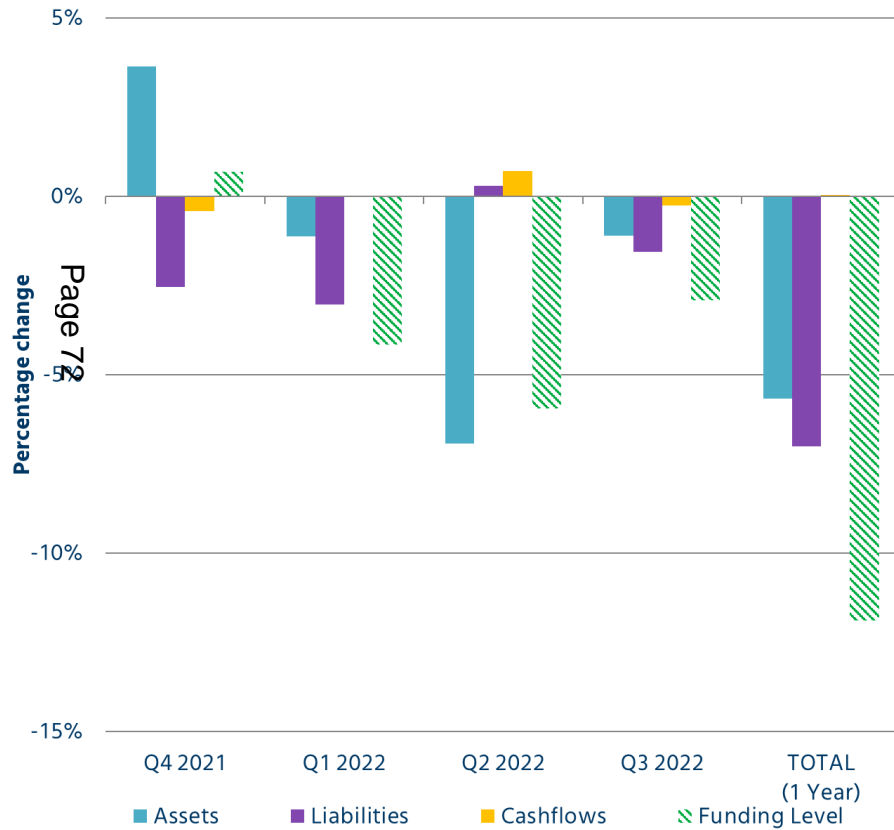
Funding level and risk



Funding level and deficit

The Fund's assets contracted by 1.2% over the quarter, whilst the liabilities are expected to have risen by c. 1.6% due to the rise in inflation. The combined effect of this, also allowing for expected cashflow over the period, saw the estimated funding level decrease to c.89%.

The funding level is estimated to have decreased by c. 12% over the year to 30 September 2022.



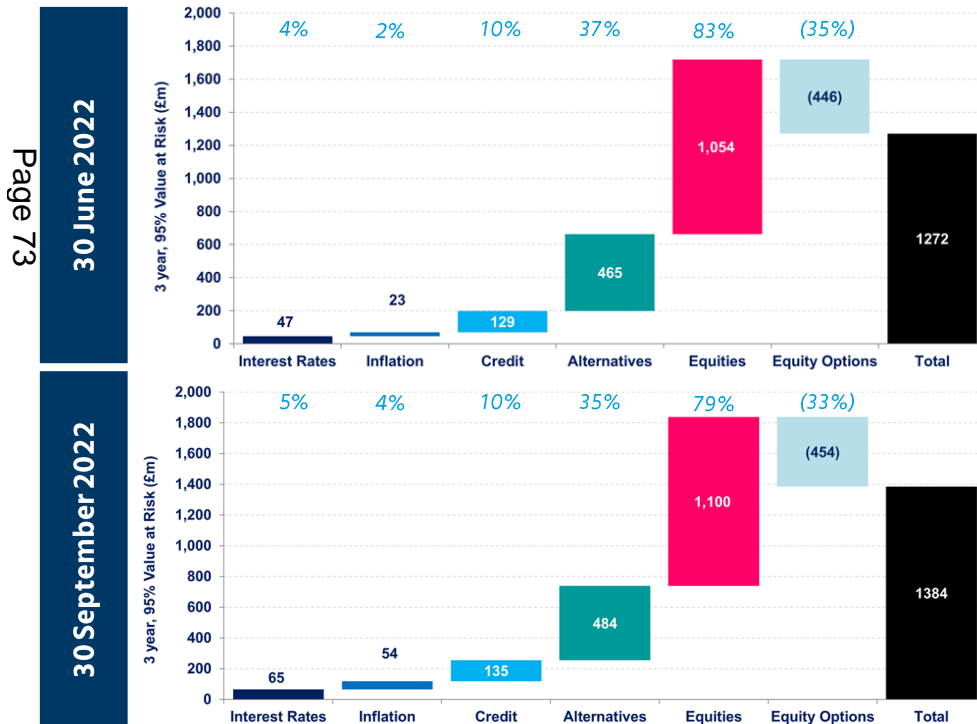
The deficit was estimated to have widened over Q3 to c.£675m:



Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis. Impact figures are estimated by Mercer.

Risk decomposition – 3 year Value at Risk

- The two charts below 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 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 final columns show 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.



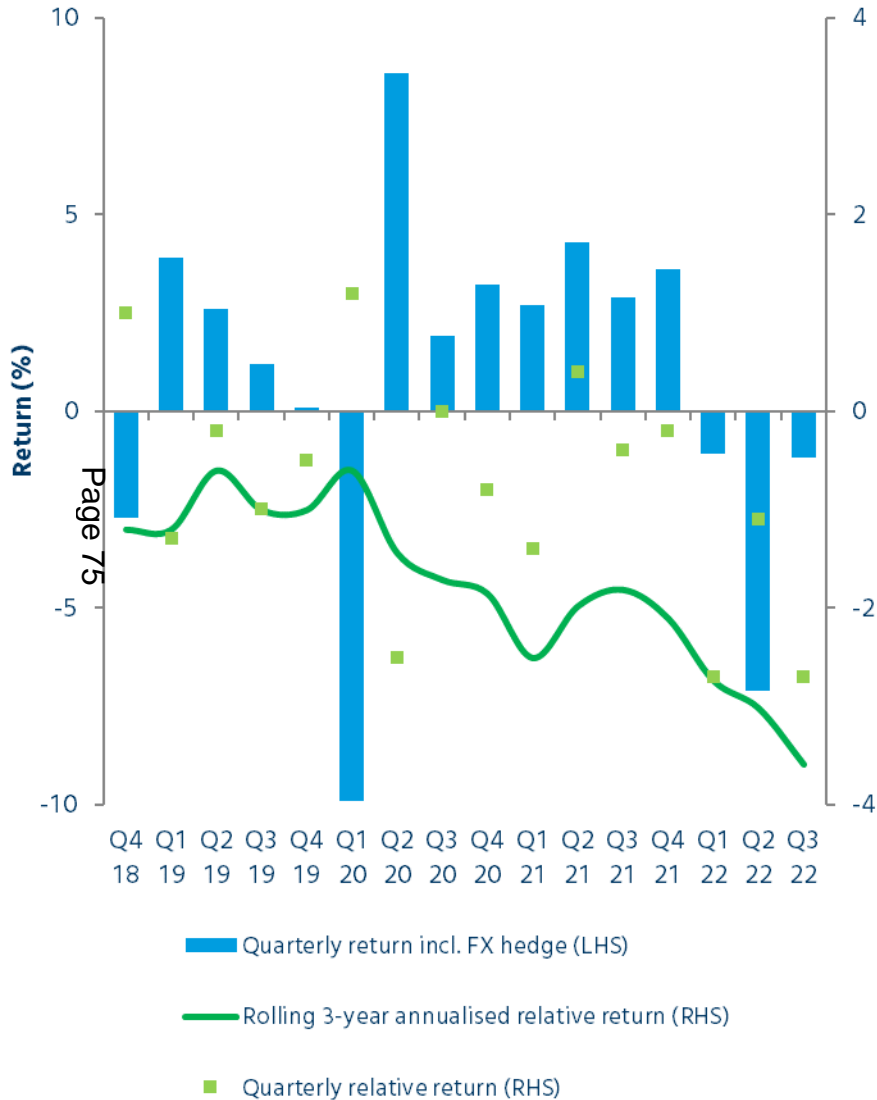
- As at 30 September 2022, if a 1-in-20 ‘downside event’ occurred over the next three years, the funding position could deteriorate by at least an additional **£1.4n**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR increased over the quarter**, due to increases in the expected underlying volatility of the assets.

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.

Performance summary



Total Fund performance



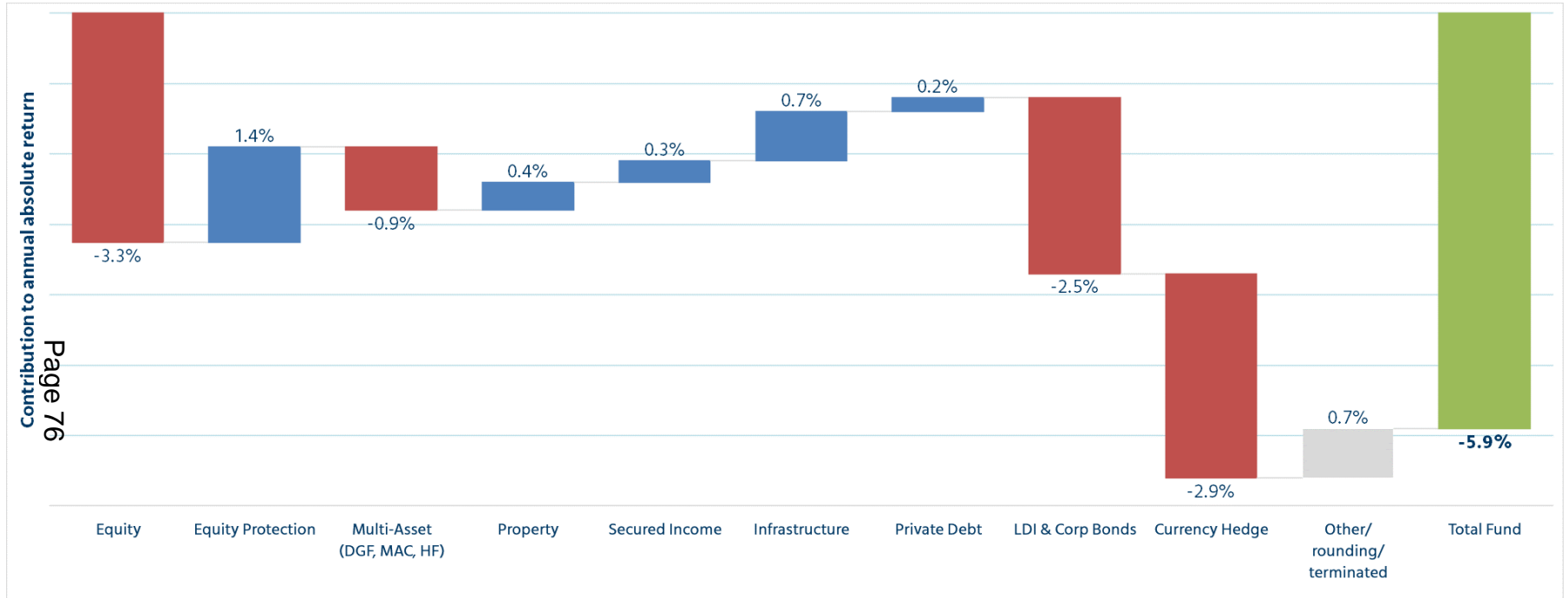
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	-1.2	-6.0	2.2
Total Fund (ex currency hedge)	0.4	-3.1	2.7
Strategic Benchmark (2) (ex currency hedge)	1.5	0.6	5.8
Relative (1 - 2)	-2.7	-6.6	-4.6

Source: Custodian, Mercer estimates. Returns are net of fees.

Commentary

- As illustrated on the next slide, the fall in the value of Fund assets over the quarter was driven mainly by the Currency Hedge as Sterling weakened, although this was partially offset by positive returns elsewhere where there was overseas exposure. Corporate Bonds also saw a big sell-off due to the rise in gilt yields.
- In terms of relative performance, the Equity portfolio was overall broadly in line with the benchmark, although it has detracted over the one year period. Diversified Returns and Multi-Asset Credit detracted over the quarter and year.
- Within the Alternatives portfolio, Renewable Infrastructure has been a highlight over the quarter and one year. The UK Property portfolio contracted over the quarter but outperformed the broader property market and remains strongly up over the longer-term.
- Drivers of underperformance over three years include the Equity Protection strategy (as we would expect given the positive performance from the physical equity holdings, but this has provided valuable protection recently), Overseas Property and the more recent underperformance of the active equity and multi-asset mandates.

Total Fund performance attribution –1 year



Source: Custodian and Mercer estimates

'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The negative returns from equities, LDI and currency hedging drove negative performance over the 1 year period.

The alternative investments and Equity Protection cushioned losses.

Mandate performance to 30 September 2022

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 Passive Global Equity	2.1	2.1	0.0	-3.0	-2.9	-0.1	8.1	8.1	0.0	-	N/A (p)
Brunel Global High Alpha Equity	1.8	2.2	-0.4	-10.6	-2.5	-8.3	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	1.9	1.5	+0.4	-11.9	-3.7	-8.5	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Equity Paris-Aligned	1.8	1.7	+0.1	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	-1.0	1.2	-2.2	-3.1	3.8	-6.6	N/A	N/A	N/A	+3-5	N/A
JP Morgan FoHF	-0.2	1.2	-1.4	-2.2	3.8	-5.8	7.3	3.3	+3.9	-	Target met
Brunel Multi-Asset Credit	-0.9	1.4	-2.3	-11.5	4.8	-15.6	N/A	N/A	N/A	-	N/A
Brunel UK Property	-3.5	-4.3	+0.8	15.9	10.9	+4.5	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	0.5	2.5	-2.0	8.2	10.0	-1.6	1.7	10.0	-7.6	-	Target not met
Brunel Secured Income - Cycle 1	-3.9	1.6	-5.4	3.9	10.1	-5.6	3.8	4.5	-0.7	+2	Target not met
Brunel Secured Income - Cycle 2	-2.6	1.6	-4.1	11.3	10.1	+1.1	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	-1.8	1.7	-3.4	7.4	5.8	+1.5	6.6	5.6	+0.9	-	Target met
Brunel Renewable Infrastructure - Cycle 1	8.0	1.6	+6.3	19.8	10.1	+8.8	9.1	4.5	+4.4	+4	Target met
Brunel Renewable Infrastructure - Cycle 2	6.7	1.6	+5.0	14.6	10.1	+4.1	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-20.8	-20.2	-0.8	-34.8	-34.3	-0.8	-11.9	-11.7	-0.2	-	N/A (p)
BlackRock LDI	-1.1	-1.1	0.0	-15.7	-15.7	0.0	-0.4	-0.4	0.0	-	N/A (p)
Equity Protection Strategy	0.4			3.0			-3.0			-	N/A

*Since inception performance for Partners, which was the largest underperformer over the three year period, has been at 5.6% p.a.

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees.

Returns are in GBP terms, except for JP Morgan whose performance is shown in local terms.

Relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically.

A summary of the benchmarks for each of the mandates is given in the Appendix.

Green = mandate exceeded benchmark. Red = mandate underperformed benchmark. Black = mandate performed in line with benchmark (mainly reflecting passive mandates).

Performance for JP Morgan and Partners in IRR terms. Performance for IFM is in TWR terms.

Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.

*Partners performance is to 30 June 2022, as this is the latest data available. The mandate's inception was in 2009.

Asset allocation



Valuations by asset class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Relative (%)
Global Equity	960,653	1,328,632***	17.6	24.8	16.5	11.5 - 21.5	+8.3
Global Sustainable Equity	719,751	733,562	13.2	13.7	15.0	10 - 20	-1.3
Paris-Aligned Equity	522,026	256,262	9.6	4.8	10.0	5 - 15	-5.2
Diversified Returns Fund	522,169	481,942	9.6	9.0	6.0	4 - 10	+3.0
Fund of Hedge Funds*	119,113	58,096	2.2	1.1	-	No set range	+1.1
Multi-Asset Credit	288,351	285,847	5.3	5.3	6.0	3 - 9	-0.7
Property	399,363	393,148	7.3	7.3	7.5	5 - 10	-0.2
Secured Income	503,068	498,032	9.2	9.3	10.0	0 - 15	-0.7
Core Infrastructure	441,256	434,221	8.1	8.1	5.0	2.5 - 7.5	+3.1
Renewable Infrastructure	101,434	127,711	1.9	2.4	5.0	0 - 7.5	-2.6
Private Debt	64,267	95,518	1.2	1.8	5.0	0 - 7.5	-3.2
Corporate Bonds	108,803	126,403	2.0	2.4	2.0	No set range	+0.4
LDI & Equity Protection	593,303	603,696	10.9	11.3	12.0	No set range	-0.7
Other**	112,446	-58,164	2.1	-1.1	-	0 - 5	-1.1
Total	5,456,148	5,365,047	100.0	100.0	100.0		

Source: Custodian, Investment Managers, Mercer. Red numbers indicate the allocation is outside of tolerance ranges.

Totals may not sum due to rounding and other residual holdings.

*Mandate due to be terminated.

**Valuation includes the internal cash, the ETF and currency instruments.

***Includes £275m for illustrative purposes, which was in flight as at 30 September; arriving 5 October. £375m of exposure to this asset class on the valuation date is synthetic, however in practice the physical assets would be located within the LDI allocation.

The deviations from target for Global Equity and Paris-Aligned Equity are because assets were transferred from the latter to the former to support the BlackRock QIF. In aggregate the Equity portfolio was only overweight by 1.7%.

The overweight to Core Infrastructure reflects its stronger relative recent performance. It is offset by the underweight to Renewable Infrastructure.

The underweight to 'Other' reflects the negative mark-to-market value of the Currency Hedge portfolio.

Valuations by manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity**	321,713	350,000	678,367	5.9	12.6
Brunel	Global High Alpha Equity	624,338		635,774	11.4	11.9
Brunel	Global Sustainable Equity	719,751		733,562	13.2	13.7
Brunel	Passive Global Equity Paris Aligned	522,026	-275,000	256,262	9.6	4.8
Brunel	Diversified Returns Fund	522,169	-35,000	481,942	9.6	9.0
JP Morgan	Fund of Hedge Funds	119,113	-65,873	58,096	2.2	1.1
Brunel	Multi-Asset Credit	288,351		285,847	5.3	5.3
Brunel	UK Property	221,124	-114	213,281	4.1	4.0
Partners	Overseas Property	166,227	-2,165	167,737	3.0	3.1
Brunel	Secured Income – Cycle 1	389,926	-2,047	372,574	7.1	6.9
Brunel	Secured Income – Cycle 2	113,142	15,337	125,458	2.1	2.3
Brunel	Core Infrastructure	441,256		434,221	8.1	8.1
Brunel	Renewable Infrastructure – Cycle 1	76,871	7,408	90,944	1.4	1.7
Brunel	Renewable Infrastructure – Cycle 2	24,562	9,721	36,767	0.5	0.7
Brunel	Private Debt – Cycle 2	64,267	24,405	95,518	1.2	1.8
BlackRock	Corporate Bonds	108,803	33,780	126,403	2.0	2.4
BlackRock	LDI & Equity Protection	593,303		603,696	10.9	11.3
Record	Currency Hedging*	-73,019	35,000	-125,946	-1.3	-2.3
BlackRock	ETF	95,672	-96,740	1,980	1.8	0.0
Internal Cash	Cash	102,417	248,407	78,853	1.9	1.5
Total		5,456,148		5,365,047	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding and other residual holdings.

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.

*Valuation includes the collateral holdings for the currency overlay.

**Includes £275m for illustrative purposes, which was in flight as at 30 September; arriving 5 October. £375m of exposure to this asset class on the valuation date is synthetic, however in practice the physical assets would be located within the LDI allocation.

Appendix

Q3 2022 equity market review

Equity markets weakened across the globe as financial conditions tightened, input prices rose and recessionary risks increased. Equities staged a recovery rally early in the quarter on the back of hopes of the tightening cycle coming to an end, but optimism dissipated in August.

Global Equities returned -4.8% in local currency terms (but +1.4% in sterling terms as the currency depreciated sharply versus the dollar).

US equities returned -4.8% in local terms, whilst European (ex-UK) equities returned -4.7%. Japanese equities returned -1.2%.

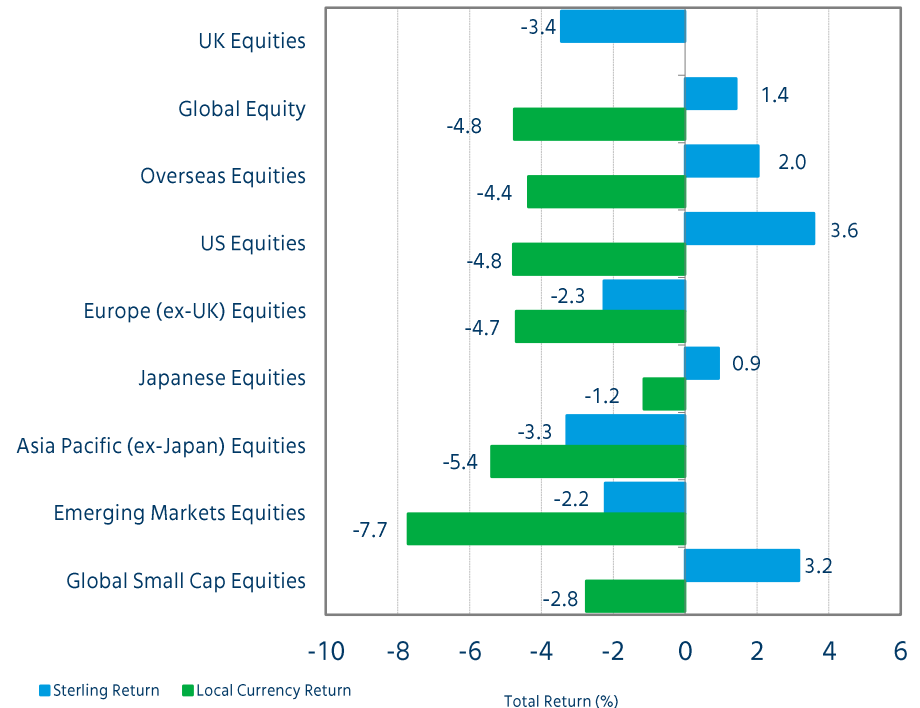
Emerging markets ('EM') equities -7.7% in local terms.

Global small cap stocks returned -2.8% in local terms. Small caps slightly outperformed global equities due to their lower implied duration but remain vulnerable in a recessionary environment due to their cyclical nature.

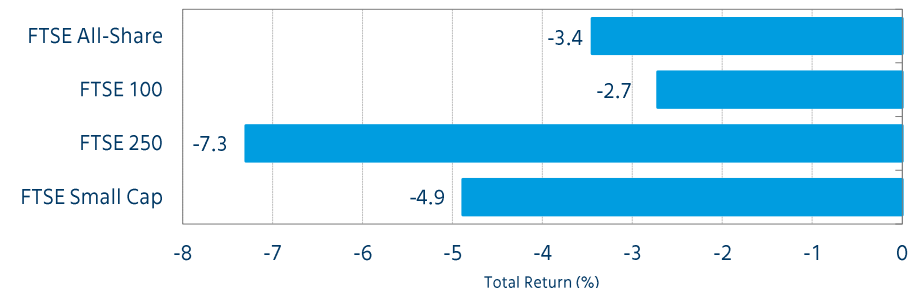
The FTSE All Share index returned -3.4% over the quarter with the large cap **FTSE 100** index returning -2.7%. Overall sentiment towards the UK was weakened over the quarter as a result of general market volatility but the high share of companies with significant foreign earnings mitigated the shock somewhat, leading to an overall outperformance of UK over global equities. Exposure to oil & gas also helped.

UK small cap and mid-cap stocks that are more reflective of the domestic UK economy produced negative returns, reflecting the economic challenges the UK is facing and expected impact on earnings for companies more exposed to the domestic market.

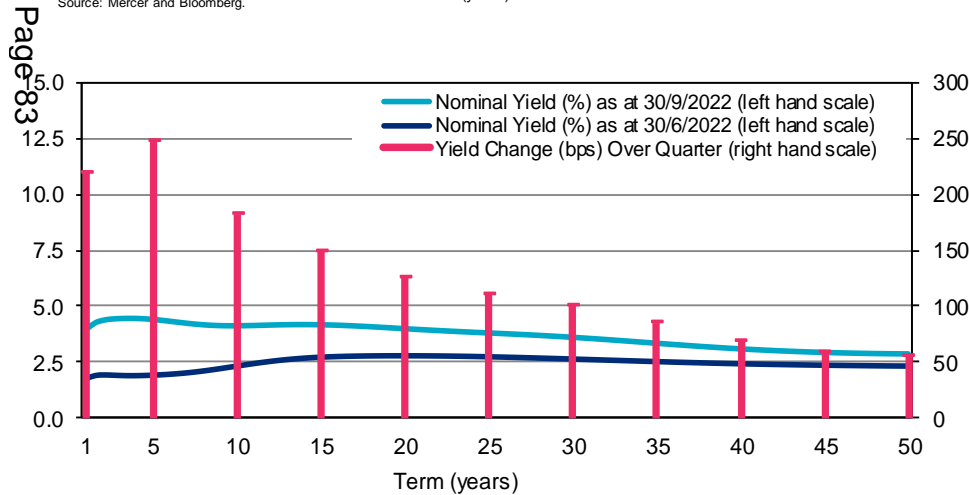
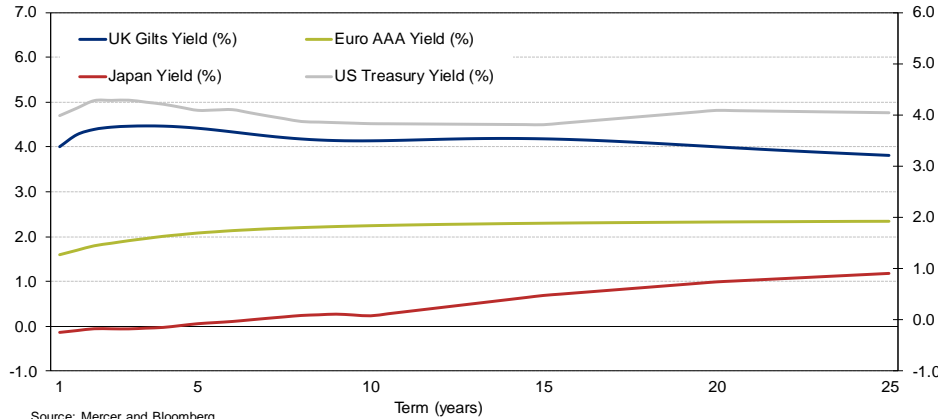
Equity Performance - Three Months to 30 September 2022



FTSE Performance by Market Cap - Three Months to 30 September 2022



Q3 2022 bond market review



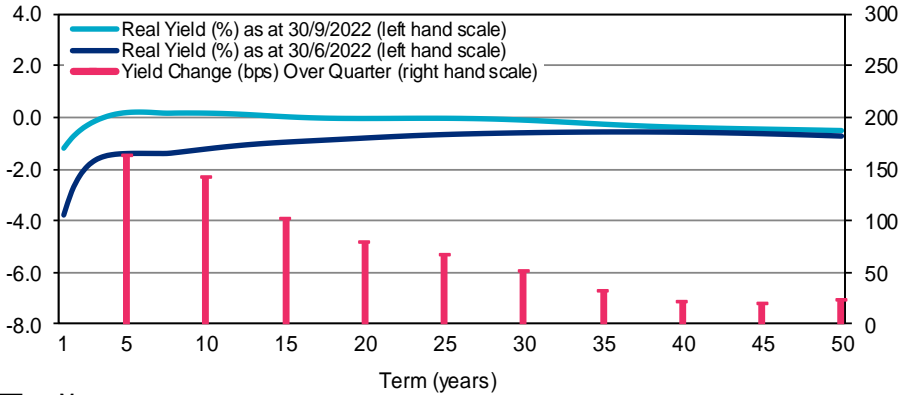
Government Bond Yields

Global government bond yield curves rose significantly over the quarter. Central bank tightening led to higher yields at the short end of the curve. Longer dated yields rose as well but to a lesser degree which kept yield curves flat.

The UK went through a major government bond (gilt) sell-off after its government announced a mini budget that markets deemed fiscally unsound. The 10-year gilt yield soared by over 130 basis points and ended the quarter at over 4%. 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 a scramble for collateral by UK pension plans who use leverage for liability hedging strategies. This ultimately led to the Bank of England providing liquidity support at the longer end of the yield curve.

Both the Fed and the Bank of England raised interest rates over the quarter several times and are expected to continue to tighten policy throughout the rest of 2022 and into 2023. Eurozone yields also rose significantly; the European Central Bank raised rates twice over the quarter, frontloading the normalization period, noting inflation remains "far too high" and that further hikes would likely be appropriate.

Q3 2022 bond market review

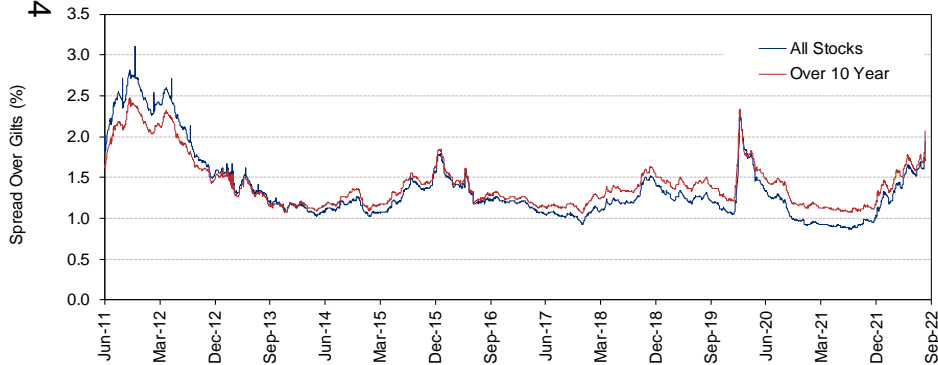


UK Index-Linked Gilt Yields

UK real yields rose across the curve for the same reason as nominal yields. Market based measures of inflation expectations, in the form of breakeven inflation, rose over the quarter. The UK 10-year breakeven rate rose to 4.2%, 46bps higher than at the end of last quarter. The increase in breakevens and the increase in real yields led to a much larger increase in nominal yields.

Source: Mercer.

Page 84



Source: Refinitiv.

Corporate bonds

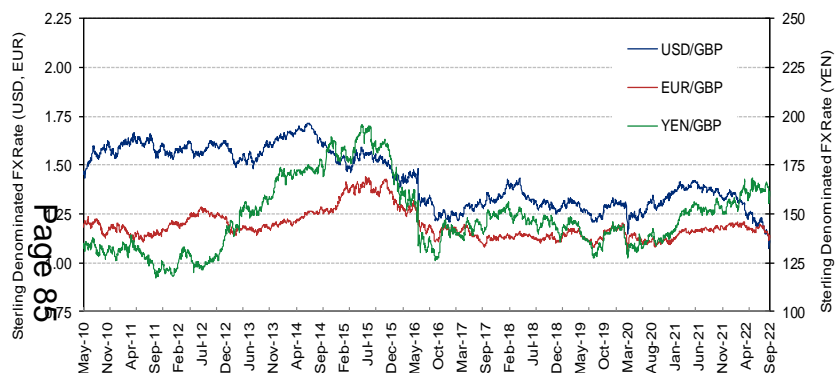
Spreads on UK investment grade credit widened for the quarter, as corporate bond yields increased in light of slowing growth concerns and fiscal headwinds.

Q3 2022 currency market review

Sterling sharply depreciated versus major currencies over the quarter. Monetary policy divergence between the regions was one of the drivers as well, as the market sell-off in the UK late in the quarter.

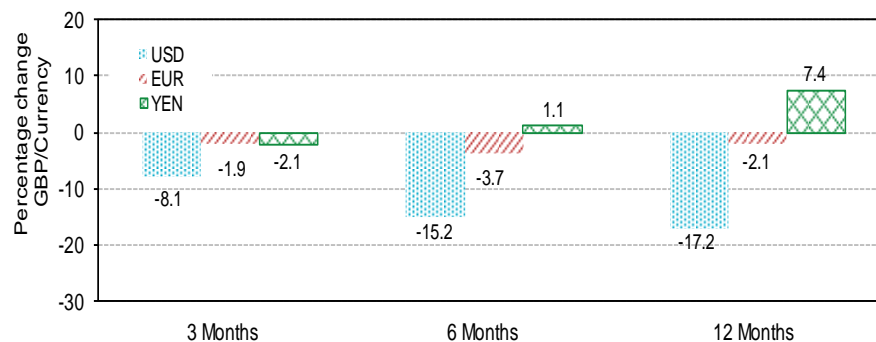
On a 12-months basis, sterling has appreciated versus yen as the prospect of tighter monetary policy and thus higher real rates made Sterling more attractive relative to the former. Sterling weakened against US dollar (-17.2%), as both growth prospects and the real yield outlook favoured the latter. Over 12-months Sterling has depreciated 2.1% versus the Euro.

Sterling Denominated FX Rate



Source: Refinitiv.

Change in sterling against foreign currencies



Source: Refinitiv.

Q3 2022 property

UK property as measured by the MSCI Index decreased by 4.1% over the quarter to 30 September 2022.

Summary of mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Global Equity	MSCI World	-	December 2017
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-	July 2018
Brunel	Passive Global Equity Paris Aligned	FTSE Developed World PAB Index	-	October 2021
Brunel	Diversified Returns Fund	SONIA +3-5% p.a.	-	July 2020
JP Morgan	Fund of Hedge Funds	SONIA +3% p.a.	-	July 2015
Brunel	Multi-Asset Credit	SONIA +4-5% p.a.	-	June 2021
Brunel	UK Property	MSCI/AREF UK Quarterly Property Fund Index	-	January 2021
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-	September 2009
Brunel	Secured Income	CPI	+2%	January 2019
IFM	Core Infrastructure	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure	CPI	+4%	January 2019
Brunel	Private Debt	SONIA + 4% p.a.	-	September 2021
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-	February 2016
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-	February 2016
Record	Passive Currency Hedging	N/A	-	March 2016
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-	March 2019
Cash	Internally Managed	-	-	-

Market background indices

Asset Class	Index
UK Equity	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equity	FTSE World ex UK
US Equity	FTSE USA
Europe (ex-UK) Equity	FTSE World Europe ex UK
Japanese Equity	FTSE Japan
Asia Pacific (ex-Japan) Equity	FTSE World Asia Pacific ex Japan
Emerging Markets Equity	FTSE AW Emerging
Global Small Cap Equity	MSCI 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
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

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Bath & North East Somerset Council		
MEETING	AVON PENSION FUND PENSION COMMITTEE	
MEETING	16 December 2022	Agenda Item Number
		12
TITLE:	Update on Legislation	
WARD:	All	
AN OPEN PUBLIC ITEM		

1 THE ISSUES

- 1.1 The purpose of this report is to update the Pension Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. An updated list is available to view in the Modern Gov Library.

2 RECOMMENDATION

The Committee is asked to:

- 2.1 Note the current position regarding the developments that could affect the administration of the fund.

3 THE REPORT

The table below provides a summary of the main regulatory updates since the last meeting covering McCloud and Pension Dashboards, including brief comment on what the implications are for the Fund and what next steps will be. Confirmation of the new DLUHC minister is also included for reference alongside brief comment on a couple of areas where further updates are expected in the coming weeks, which could have implications for the administration team. Further details can be found in the updated list which is accessible on the Modern Gov library via the following text path – Modern Gov/Library/Avon Pension Fund/2022-2023 Quarter 03/01Regulatory Update.

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
New DLUHC Minister	Lee Rowley was appointed Minister of State at the Department for Levelling Up, Housing and Communities on 27 October 2022 replacing Paul Scully who had been in post since 8 July.	https://www.gov.uk/government/ministers/parliamentary-under-secretary-of-state--172 https://lgpsboard.org/images/Other/Letter to Lee Rowley M P from Cllr Phillips November 2022.pdf	<p>No action – just to note and to acknowledge that the appointment of the new minister and potential for further delays in current workstreams.</p> <p>The Chair of the Scheme Advisory Board has written to the new minister to welcome him to his new role.</p>
Page 92 McCloud Judgment	<p>It is expected that the expected timing for guidance and regulations will be delayed (relative to the earlier timetable issued by DLUHC).</p> <p>It has been confirmed that certain Teachers will also be eligible for LGPS membership due to the McCloud remedy.</p>		<p>Fund to continue work on collating/analysing data from employers in relation to implementing the remedy An officer from the Fund is also represented on the scoping group setup to discuss how Funds can implement the remedy.</p> <p>Any delays in the relevant stages may have administrative implications given the time available to respond/progress may be shortened.</p> <p>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.</p>
Pension Dashboard	<p>The Pension Dashboard Programme gathers pace with developments in a number of areas.</p> <p>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 15 November by MPs and Peers and approved.</p>	https://www.legislation.gov.uk/ukdsi/2022/9780348239645/contents? https://www.pensionsdashboardprogramme.org.uk/2022/11/16/dashboards-standards-released-following-consultation/	<p>The Fund will continue its preparations towards meeting the necessary Pensions Dashboard requirements and awaits further guidance from central bodies e.g. LGA in relation to what action LGPS Funds should be considering.</p>

	<p>The rules that will ensure the stability and security of pensions dashboards have also been finalised and published by the PDP.</p> <p>Further information can be found on the PDP and PASA websites.</p>	<p>https://www.pensionsdashboardsprogramme.org.uk/pur/</p>	
<p>Other areas expected to have implications for administration team (expected shortly)</p> <p>Page 93</p>	<p>SCAPE Discount Rate Response to June 2021 consultation expected in coming weeks, including potential revision to SCAPE discount rate.</p> <p>Oasis Academy Consultation Response to December 2021 consultation expected in coming weeks.</p> <p>CARE Revaluation Date Consideration currently being given to amending the revaluation date to 6 April from 1 April to increasing number of members potentially subject to annual allowance charges.</p>		<p>Once decisions emerge in these areas, depending on the outcomes, there is likely to be knock-on implications for the administration team, which will need to be considered as required in terms of resource management / stakeholder communication / process changes etc.</p>

4 FINANCIAL IMPLICATIONS

- 4.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates.
- 4.2 Any other specific financial implications will be reported as appropriate.

5 RISK MANAGEMENT

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

6 EQUALITIES STATEMENT

- 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. 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	Geoff Cleak, Pensions Manager; <i>Tel 01225 395277</i>
Background papers	LGA Bulletins SAB Meeting Minutes National Technical Group Meeting Minutes
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	16 December 2022
TITLE:	Governance
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Committee Work plan</p> <p>Appendix 2 – Investments Panel Work plan</p> <p>Appendix 3 – Training Programme</p> <p>Appendix 4 – Service Plan monitoring 2022-23</p>	

1 THE ISSUE

- 1.1 Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.
- 1.2 The provisional training programme for 2022 is included as Appendix 3.
- 1.3 The quarterly monitoring report for the Service Plan is also attached. This covers a high level overview of all projects for the Investments and Pensions Administration teams including progress to date.

2 RECOMMENDATION

- 2.1 That the committee:

Notes the Committee & Investment Panel workplans and training programme plus the service plan monitoring report for the relevant period.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no financial considerations to consider. The cost of the LGPS Online Learning Academy licences is within the budget already agreed.

4 THE REPORT

4.1 Workplans

a) 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 Modern Gov Library

- a) From March 2022 the following monitoring reports will be available on the Modern Gov library only:
 - i. Regulatory Update
 - ii. Investment Performance Monitoring (appendices and supporting detail)
 - iii. Budget Monitoring

4.3 Training Programme

a) The provisional training programme for 2022 is also included so that Members are aware of intended training sessions and workshops. The plan will be updated quarterly.

4.4 Hymans LGPS Online Learning Academy (LOLA)

a) In order to meet the additional knowledge and skills requirements of SAB’s Good Governance Review the Fund has introduced Hymans LGPS Online Learning Academy (LOLA). The training is split into a number of modules covering the revamped CIPFA Knowledge & Skills Framework and TPR’s Code of Practice 14. The schedule for completion of the modules is contained within the training programme (Appendix 3).

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2022	2023
16 December	24 March 23 June 22 September 15 December

5.2 The provisional dates for the Investment panel meetings are:

2022	2023
25 November	8 March 14 July 08 September 01 December

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 Paris Aligned Global Equities, Sustainable 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 1

Committee Workplan	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Quarterly Items						
PB minutes						
Brunel Update						
Review of Investment Performance (including Brunel Portfolios)						
Update on Legislation						
Pension Fund Administration –Performance Indicators and Risk Register						
Budget & Cash flow Monitoring						
Workplans						
Annual Items						
Annual Review of Risk Register						
Budget and Service Plan						
Treasury management Policy						
Annual Employer Update						
Roles & Responsibilities of the Committee, Governance Compliance Statement						
Annual Review of Investment Strategy & Performance						
Brunel Corporate update (presentation by Brunel)						
Annual Responsible Investing Report						
Annual Review of Risk Management Strategies						
Interim valuation Results / Section 13						
FRC Stewardship Code						
Review of Admin Strategy						
Agree draft FSS						
Approve FSS (after consultation)						
2022 valuation outcome						
Audit Plan & Reports						
Approve Investment Strategy Statement						
To be circulated outside of Meetings						
CMA Order Compliance (for Investment Consultant)						
Noting of Final Accounts 2020/21						
Approval of Committee’s Annual Report to council & PB Annual Report for noting						

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Appendix 2

Investment Panel Workplan	Feb-22	May-22	Sep-22	Nov-22	Feb-23	May-23	Sep-23	Nov-23
Quarterly monitoring Items								
Review performance & RM Framework								
Annual Items								
Annual Risk Management review								
Strategic items								
Collateral plan								
Mercer ACT Climate Analysis								
Blackrock Equity Fund in QIF								
Impact Investing Paper								
Cashflow/Liquidity Review								
TCFD Statement								
Update on 2022 Stocktake project								
Update on Brunel's revised Climate Policy								
Decision of Private Market allocations for Cycle 3								
Review of LDI triggers given new liability benchmark (post 2022 valuation)								
Low risk corporate bond strategy – updated benchmark outcome (post 2022 valuation)								

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**Appendix 3
Committee Training Plan**

Type of training	Date	Content
Workshop	Jun-22	Funding Strategy Review & Valuation
Workshop	TBA	Cyber Security Review
Workshop	Feb-23	Investment Strategy Review

Hymans Learning Academy	To be completed by	Title of Module	Content
Module 1	Mar-22	Intro to the LGPS	Intro to LGPS (12 mins) Role of a Councillor (20 mins)
Module 2	Jun-22	Governance & Oversight	LGPS governance (20 mins) LGPS Oversight Bodies - TPR (15 mins) LGPS Oversight Bodies - DLUHC & GAD (10 mins) Business Planning (10 mins)
Module 3	Dec-22	Administration & Fund Management	Intro to Administration (22 mins) Accounting & Audit (11 mins) Additional Voluntary Contributions (12 mins) Policies & Procedures (21 mins) Public Procurement (11 mins)
Module 4	Jun-22	Funding & Actuarial	Introduction to Funding Strategy (10 mins) LGPS Actuarial Valuation - Process & considerations (17 mins) LGPS Actuarial Valuation - Technical aspects (15 mins) LGPS employers (19 mins)
Module 5	Sep-22	Investments	Intro to Investment Strategy (10 mins) Investments - Mifid II (18 mins) LGPS Investment Pooling (12 mins) Performance Monitoring (18 mins) Responsible Investing (12 mins)
Module 6	ongoing	Current Issues	Understanding McCloud (8 mins) Understanding Goodwin (4 mins) Cost Sharing (10 mins) Climate Change & TCFD (13 mins)

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Appendix 4 - Service Plan Monitoring		
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Administration Strategy

Key Objectives	Tasks	Completion Date	Status
Communication			
Member digital engagement	Activate online ABS availability - Active members	Aug-22	Complete
Member Website	Develop website inline with digital services objectives	Nov-23	In progress
Employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Nov-23	In progress
IT Development			
Progress full employer electronic data delivery	Completion of i-connect project	Mar-23	In progress
Progress software developments with Heywood	Review processes to use portal and roll out to ER's inc training	Mar-23	In progress
	Hand back loading of files to ER's with tolerance limits	Jul-22	Complete
Heywood Insights - Perf Reporting & Dashboard	Implementation & roll out	Dec-22	In progress
Other Projects			
Revise Fire Service model	SLA to be approved by AFA & APF	Mar-22	In progress behind schedule
McCloud	Data collection exercise LGPS	Dec-22	In progress
	Implementation of remedy - LGPS	Mar-23	In progress
1* McCloud Sargeant (Fire Schemes)	Implementation of remedy - Fire	Oct-23	In progress
2* McCloud Sargeant (Fire Schemes)	Implementation of MOU & ID Framework Agreement	Mar-22	On hold
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-23	In progress
DWP Pensions Dashboard	To enable Pension Dashboard Compliance	Apr-24	In progress
Implement new operating model	Agree structure and review job descriptions	Sep-22	In progress behind schedule
	Review of pay structure with Aon advice	Mar-23	In progress
	Consultation, recruitment & implementation	Apr-23	In planning
	Set up temporary Digital Services Team & redefine workflows	Dec-22	In progress
	Revise Communications Strategy	Jun-22	In progress behind schedule
	Implement Digital Office	Nov-23	In planning
	IT Systems Development	Mar-24	In progress
	New office accommodation	Dec-22	Complete
	Channel shift to enable support & consultancy to members & employers	Mar-24	In planning

New Administration Strategy	Develop new strategy document & committee approval	Mar-23	In planning
	Consultation & implementation	Jun-23	In planning
Funding Strategy			
Key Objectives	Tasks	Completion Date	Status
Covenant assessment of employers during valuation period	Explore options with employers to mitigate covenant risks	ongoing	In progress
	Ongoing monitoring via quarterly reports and annual report to PC	ongoing	In progress
Valuation and FSS	2022 Valuation as at 31/03/22 - agree funding assumptions, set contribution rates and disseminate	Mar-23	In progress
	draft FSS , consult with employers and PB and publish	Mar-23	In progress
	Update policies for changes in regulations	Mar-23	Complete
Managing employer exits/increase in security	Manage exits in line with Fund policy to protect Fund; liaise closely with employer and ensure have obtained actuarial and legal advice	ongoing	In progress
Funding Communications Strategy	o Website	ongoing	In progress behind schedule
	o Forums/ meetings	ongoing	In progress
Recruitment	Review resource requirements of Team	Jun-23	In progress behind schedule
Investment Strategy			
Key Objectives	Tasks	Completion Date	Status
Monitoring of Brunel portfolios	Input as member of Brunel Client Group	Nov-22	Complete
	Quarterly monitoring by Inv Team	Ongoing	In progress
Strategic Review 22/23	In line with valuation review required risk/return profile, asset allocation and other investment objectives.	Mar-23	In progress
	Revise ISS following review	Sep-23	In planning

Brunel 2022 Stocktake	To review impact of Brunel's Climate Policy. Fund officers and PC members will be involved /consulted. Outcome/new policy due 1Q23.	Mar-23	In progress
Collateral Plan	Develop plan in event need to access assets outside QIF to support hedging strategies	Jun-22	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
	Annual review of trigger points and strategy	Annually 3Q	In progress
	Arrange Panel & committee training as needed	ongoing	In progress
Climate Change disclosures & monitoring	TCFD: Report in line with TCFD recommendations for 2020/21 year end reports	Annually 3Q	Complete
	ACT analysis	Jun-22	Complete
Review of Responsible Investing Policy	Review policy as to effectiveness and incorporate new initiatives/objectives post t2022 Stocktake	2023	In planning
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	annually in December	In progress
FRC Stewardship Code	annual FRC compliance statement	31/10/22	Complete
Team Resources	Consider team structure post asset transition	2023	In planning
Investment Communications Strategy	Agree strategy across all stakeholders		In progress behind schedule
	o Website		In progress
	o Newsletters		In progress
Governance			
Key Objectives	Tasks	Completion Date	Status
Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Jun-22	Complete
	Review Governance Compliance statement	Jun-22	Complete
	Review register of interest forms	Jun-22	Complete

	Review scheme of delegation	Jun-22	Complete
Action Plan from Good Governance Review	Conflicts of Interest Policy	Mar-23	Complete
	Training Strategy Policy	Mar-23	Complete
	Policy on Committee Representation - add to GCS	Mar-23	Complete
	Decision Making Matrix	Mar-23	Complete
	Add requirements of LGPS senior officer to TOR		Complete
TPR SCOP requirements	Gap analysis & action plan for new requirements	Dec-22	In planning
	Cyber security policy	Dec-22	In progress
	Review disaster recovery / business continuity plan	Mar-23	In progress
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	In progress
Annual governance review for Pension Board	Review all items on governance checklist	Jun-22	Complete
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in June	In progress
Review of Committee Reports	Continue to review report content & Modern Gov Library	Mar-23	In progress behind schedule
Review of risk register	Review format, content & process	Sep-22	Complete
GDPR	Ensure ongoing compliance with regulations	ongoing	In progress
	Training for staff		In progress
Contract Retenders	AVC contract review	Dec-22	In progress
	Software Contract	Mar-23	Progress delayed
Finance			
Key Objective	Tasks	Completion Date	Status
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	ongoing	Complete
iConnect Project to improve process for reconciliation of contributions	Create Project plan	Mar-23	In progress

Salary budgeting	Develop process for better monitoring of salary budget/vacancies	Feb-23	In progress

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