Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee

Date: Friday, 15th December, 2023
Time: 10.00am
Venue: Kaposvar Room - Guildhall, Bath

Bath and North East Somerset Councillors: Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Toby Simon, Chris Dando and Joanna Wright

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Charles Gerrish (Academies), William Liew (HFE Employers), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Councillor Kate Kelliher (Parish & 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, 15th December, 2023

at 10.00 am in the Kaposvar Room - 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: 22ND SEPTEMBER 2023 (PUBLIC & EXEMPT) (Pages 7 - 24)

8. PENSION BOARD - DRAFT MINUTES - 7TH DECEMBER 2023 (TO FOLLOW)

9. CLIMATE POLICY REVIEW (Pages 25 - 136)

10. 2023 ANNUAL RESPONSIBLE INVESTMENT REPORT (Pages 137 - 182)

11. INVESTMENT STRATEGY (FOR PERIODS ENDING 30 SEPTEMBER 2023) (Pages 183 - 232)

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 233 - 238)

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

13. PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT (Pages 239 - 266)

The purpose of this report is to present the Fund's administration performance for the three months to 30 September 2023 vs key performance indicators (KPI's).

14. GOVERNANCE UPDATE (Pages 267 - 366)

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 22nd September, 2023, 10.00 am

Bath and North East Somerset Councillors: Paul Crossley (Chair), Toby Simon and Chris Dando

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Charles Gerrish (Academies), William Liew (HFE Employers), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

Advisors: Steve Turner (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Carolyn Morgan (Governance and Risk Advisor), Nicky Russell (Technical & Compliance Advisor), Jeff Wring (Director - One West), Anna Capp (Member Services Manager) and Jason Morel (Communications & Public Relations Manager)

16 EMERGENCY EVACUATION PROCEDURE

The Chairman drew attention to the emergency evacuation procedure.

17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Joanna Wright, Councillor Kate Kelliher and Councillor Shaun Stephenson-McGall had all sent their apologies to the Committee.

18 DECLARATIONS OF INTEREST

Councillor Toby Simon declared that he is a pensioner member of another LGPS Fund - Greater Manchester PF - which administers Probation Service pensions; and is also a pensioner and Trustee of a private sector fund - The Chartered Society of Physiotherapy PF.

19 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Elaine Ashley had submitted a question to the Committee. A copy of this and the response are attached as online appendices to these minutes.

21 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

22 MINUTES: 23RD JUNE 2023 (PUBLIC & EXEMPT)

The Committee **RESOLVED** that the minutes of the meeting on 23rd June 2023 be confirmed as a correct record and signed by the Chair.

23 PENSION BOARD DRAFT MINUTES: 6TH SEPTEMBER 2023

The Committee **RESOLVED** to note the minutes of the Board meeting held on 6th September 2023.

24 LOCAL IMPACT PORTFOLIO FRAMEWORK

The Group Manager for Funding, Investments & Risk introduced the report to the Committee. She explained that the strategic asset allocation agreed by the Committee includes a 3% allocation to a Local Impact Portfolio.

She stated that the key principles for the Framework were as follows:

i) All assets will be managed by external fund managers, either via Brunel or directly where Brunel is unable to help.
ii) Working through Brunel is the preferred implementation route.
iii) Internal decision making must be flexible, robust and timely so that opportunities are not missed.

She said that investment decisions for this portfolio will be delegated to a named Officer (Head of Pensions) who will consult a Working Group consisting of Investment Panel members and officers. The Working Group will consist of at least 3 Panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group Manager Investments and the Investments Manager.

She added that the officers and advisors will provide the due diligence for the working group to consider and that decisions taken by the named Officer will be based on the agreed recommendation of the Panel members on the Working Group.

Councillor Mike Drew asked how much of the portfolio would actually be formed of assets within the Avon Area.

The Group Manager for Funding, Investments & Risk replied that it was difficult to assess at this stage. She said there were likely more infrastructure opportunities outside of Avon, but more niche ones within it. She added that if they were minded to invest in a wider fund they would seek that 15-20% of it was within the South West.

Councillor Toby Simon said that one category of investment that should be approached with caution was Public Sector Infrastructure, in particular Care Homes and Children's Homes, as it could come with a degree of reputational risk.

Councillor Chris Dando said that he was happy with the proposed Framework and felt that the Investment Panel were in a good place to proceed with this work.

The Committee **RESOLVED** to agree the proposed Local Impact Portfolio Framework as set out in this paper.

25 LGPS CONSULTATION: NEXT STEPS ON INVESTMENTS

The Group Manager for Funding, Investment & Risk introduced the report. She explained that the report is supported by two exempt appendices: 10 a) covers proposed answers to Questions 2-15 of the government consultation, where we believe there is a clear answer for each question: 10 b) addresses Question 1 and provides three very different options for the Committee to consider.

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

26 ADMINISTRATION PERFORMANCE UPDATE

Nick Weaver, Chair of the Pension Board addressed the Committee. He informed them that at their meeting in September the Board had expressed its concern over the performance levels of the service. He said that he was also aware that many other Funds were facing the same backlog issues.

He acknowledged that a huge effort has been made by the team to put in place steps for improvements to be made and that officers are showing the drive and determination required to make it happen.

The Head of Pensions thanked him for his support and said that the service level was not where the team want it to be and that they are working towards achieving the SLA targets.

He gave the following reasons for the current performance levels.

- Staff vacancies
- Payroll – Transfer of staff from Member Servicing to assist with this process.
- Demand for the service – This has risen substantially.
- Management Information (MI) – This needs to improve.
- Process weakness – Manual data entry

He stated that they are actively recruiting to the service and that a market supplement has been put in place for these salaries. He added that a more dynamic solution for MI was being developed.

He said that they were also working on forming an organisational structure that has more capacity and resources built into it.

The Member Services Manager added that four Pensions Officers had been recently appointed, as well as a Senior Pensions Officer within the Employer Services Team. She added that meetings take place on a weekly basis to analyse the work within the services and that deaths and retirements are always considered to be a priority.

She added that a task force has been established to support the Member Contact Team with the increase in enquiries and that this helped in some degree for some pressure to be alleviated.

She stated that the forthcoming regulatory changes, such as McCloud, would also affect the service with likely complications leading to delays.

Wendy Weston asked if following the resignation of a Team Leader and subsequent structure review, has the post now been readvertised.

The Member Services Manager replied that recruitment to this position has been postponed at the present time to make sure that we have the right people in the right positions.

William Liew commented that he could imagine that recruitment into this work area could be difficult. He asked whether Chatbox or another form of AI could be used for answering regular questions.

The Head of Pensions said that in terms of addressing customer queries, this was part of a longer-term process to enable self-service and improve the technology behind it, but it could not be implemented to make a difference in the near term.

Councillor Chris Dando said that he would like to have some assurance that service levels will begin to improve and put in place a deadline for this to happen. He added that the Fund needs to retain as much credibility as possible for the services that it provides.

The Head of Pensions replied that expectations need to be managed carefully as performance will likely get worse before they start to get better. He added that he did not expect there to be much change in the reports the Committee receives in December 2023 and March 2024, but expected improvements to show from June 2024 onwards.

Councillor Dando asked if there would be any merit in amending the SLAs at this current time.

The Head of Pensions replied that, rather than amending them in response to currently poor performance, a strategic review of SLAs be carried out so that they can be refined in line with current member expectation.

The Chair, on behalf of the Committee, wished to record their thanks to officers across the service for all their work.

The Board **RESOLVED** to:

i) Note the service performance for the three months to 30 June 2023.
ii) Request a strategic review of the SLAs be carried out and that progress on this be reported to the March 2024 Committee meeting.

27 INVESTMENT STRATEGY AND BRUNEL UPDATE (FOR PERIODS ENDING 30 JUNE 2023)

The Investments Manager introduced the report to the Committee. He reminded them that the Fund will be reviewing its climate objectives as part of the Climate Workshop taking place on 19th October and will be undertaking a series of engagement sessions including a dedicated ESG member survey in the lead up to the workshop.

Steve Turner, Mercer highlighted the following areas from within Appendix 2.

- Funding level: 97%. Estimated to be c.6% higher over year to 30 June.
- Rally in Equity Markets over the past 12 months, being particularly driven by a small number of stocks known as the 'Magnificent Seven'.
- Recovery in Credit Markets.
- Asset class headwind for Property.
- Inflation appears to be steadying.

He stated that the upcoming Climate Review in October will be very important as well as the review of the Equity Protection Strategy that is due to be reported to the Committee in December.

Charles Gerrish said that in his view the presentation from Brunel was less positive with regard to the state of inflation and questioned if there was any correlation between now and what occurred during the 1970's whereby a slight fall in the rate was seen before it rose again.

Steve Turner replied that he could not rule that possibility out and that the dominant factor in driving markets was the level of Interest Rates. He added that it was hoped that these had now peaked and said that the portfolio was diversified with a degree of risk management in place.

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

28 APF REBRAND PRESENTATION

The Head of Pensions introduced this item to the Committee. He stated that the main aim of the rebrand was to make our branding more digital-friendly and accessible for all stakeholders, so we can effectively communicate our ethos, goals and key messaging.

He said that there were challenges to this work, including the current use of heavy technical language, long documents and brand clutter and confusion.

He said that they had identified some common sense objectives and that these would focus on what we communicate, how we speak – tone of voice – plain English, visual identity and colour schemes. He added that these would be applied consistently online and in letters, guides and forms.

The Communications and Marketing Manager addressed the Committee and highlighted the following areas from the presentation.

<u>Discovery process</u>

We've conducted a deep dive into the brand core, positioning and identity. Stakeholder interviews took place, an all staff survey was carried out and Discovery Workshops were held.

<u>New logo</u>

A new logo has been designed and samples for posters, social media posts and marketing emails have been drafted.

<u>Tone of voice</u>

We will aim for all communications to be simple, welcoming and matter of fact. Jargon and technical language will be minimised, with focus on facts and being neutral.

<u>Next steps</u>

- **October / November 2023** - Update all APF documents with the new brand, including Altair Word documents, re-writing some copy for frequently used documents.
- **November 2023** - Branding templates, PowerPoint etc. delivered.
- **Early December** - Prepare updates to APF email signatures and share brand guidance with APF staff. Communications to employers and members begin.
- **Mid December** - 'Brand in action' presentation delivered to the Pension Committee.
- **2024 Q1** - Member website & rebrand launch - the new branding should feature on all documents.

The Chair asked if the proposed changes have been made with the needs of specific disability groups taken into account.

The Communications and Marketing Manager replied that they have followed all the procedures as set down by the guidance on gov.uk. He added that the colours used will aim to make text clear and that a suitable large font will be used.

Wendy Weston asked how much would the process cost.

The Communications and Marketing Manager replied that over the two years of the project the cost would be around £25,000.

Charles Gerrish commented that he could see in the long term how the branding could be more helpful, but was tentatively concerned that any changes at this current time could lead to further enquiries.

The Communications and Marketing Manager replied that the current website platform is reaching the end of its life and this was seen as an opportunity for this project to come to fruition. He added that additional step by step guides will be in place on the new website to assist with enquiries.

Councillor Steve Pearce said that he strongly approved of the logo update.

William Liew said that he commended the work so far and that the communication to members about the changes would be key.

Councillor Chris Dando said that he supported the changes and liked the way that different elements of the work of the Fund could be signposted through the use of different colours.

Nick Weaver asked if the new website would be used effectively to help members self-serve.

The Member Services Manager replied that they were working with the Communications Team on the content of the website in order to improve access to information.

The Head of Pensions thanked the Chair and Jackie Peel for their part in selecting the logo.

The Committee **RESOLVED** to note the report and proposed new brand.

29 UPDATE ON LEGISLATION

The Technical & Compliance Advisor introduced the report to the Committee. She explained that since the publication of the report the regulations have been received for the McCloud remedy and a response to the consultation from Government in respect of some of the processes that the team will now have to deal with.

She informed the Committee that they have three months to communicate the regulations to all Fund members as per Disclosure regulations.

She said that the regulations were very detailed, although at the same time were open to a degree of misinterpretation and that further statutory guidance was expected to be issued.

She wished to highlight the following three key areas.

- Aggregation – Combining of member's posts. In the original consultation Funds were told that members would have a 12month window to aggregate member benefits. However, in the second consultation DLUHC have confirmed that benefits no longer have to be aggregated, but Funds are to take into consideration any earlier or later service that falls within the remedy period. This period being between on or after 31st March 2012 and still active on 1st April 2014.

- Club Transfers into the Fund – The Government in the first consultation proposed that Funds could only take into account service that had been transferred in from another Public Sector scheme. In the second consultation DLUHC have confirmed that members do not have to transfer other service that falls within the remedy period, but it will count if it falls within the qualifying period.

- Excess Teacher Service – This issue has been raised during the second consultation in terms of retrospective admissions into a Local Government Pension Scheme for teachers that have a secondary role. It is not known at this stage how many members this will affect.

She said that the Fund are currently testing the capability of their system and that the software provider has been able to give some functionality to allow BAU from 1st October and also to be compliant with the new regulations. She added that unfortunately it was unlikely that any of the more complex cases would be accounted for.

Councillor Toby Simon asked if the software provider would be able to provide a solution in time or will there need to be a period of manual processing.

The Technical & Compliance Advisor replied that these processes will commence on 1st October and a solution will not be in place by then, therefore a degree of manual calculations will need to be carried out.

Nick Weaver commented that it would be interesting to find out at some stage how much the remedy has cost to implement -v- how much costs have actually been paid out.

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

30 RISK MANAGEMENT PROCESS & RISK REGISTER

The Governance and Risk Advisor introduced this report to the Committee and highlighted the following points from within it.

- NR06 – the likelihood of a cyber attack has been increased from unlikely to likely due to the recent high profile attacks in the public domain. The Fund is seeking further re-assurances from Heywood on system security.

- NR02 – due to a couple of regulatory risks, the impact has been increased from low to medium and the likelihood from unlikely to likely. This is to reflect the impact of the McCloud remedy on the administration and the possible impact of the pooling consultation on the Fund.

- NR12 – failure to achieve decarbonisation targets has been reduced from High to Medium impact given the increased alignment of the portfolio with current carbon targets.

- NR01 – Ability to deliver admin service to members and employers within agreed standards – this is the most critical risk and is already an issue. Current factors impacting this issue and measures to address it are set out in item 11 – Pension Fund Administration report.

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

31 GOVERNANCE UPDATE (INCLUDING WORKPLANS)

The Governance & Risk Advisor introduced the report to the Committee and drew their attention to the following sections.

- Appendix 4 - The service plan monitoring currently includes ongoing projects and now includes the Administration Change Programme.

- Terms of Reference - Following a recent audit it was brought to officers' attention that a clause should have been removed from the TOR. The Council Constitution was updated last year to reflect that the Director, One West is the LGPS designated senior officer and therefore this sentence was removed from the TOR.

- Conflicts of Interest Policy - The Fund's Conflicts of interest Policy has been updated to reflect how internal conflicts of interest should be treated for the Fund's officers. A paragraph has been added on the last page of the policy.

Wendy Weston asked why within Appendix 4 was the Employers website listed as on hold.

The Communications and Marketing Manager replied that priority has had to be given to the Members website at the present time.

The Committee **RESOLVED** to:

i) Note the Committee & Investment Panel workplans, training programme and service plan.

ii) Note the correction to the Committee's Terms of Reference

iii) Note the amendment to the Conflicts of Interest Policy.

The meeting ended at 12.58 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

Document is Restricted

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**15 DECEMBER 2023**
TITLE:	**CLIMATE POLICY REVIEW**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Mercer analysis (public) Appendix 2 – Brunel presentation (public) Appendix 3 – Climate Engagement Sessions – Summary note Appendix 4 – Member Survey – Summary results	

1 THE ISSUE

1.1 In March the Committee approved Phase 1 of the 2023 strategic investment review, which confirmed a diversified asset allocation with robust risk management to underpin more predictable employer contribution rates.

1.2 Phase 2 of the review focuses on the Fund's net zero target, aligned with short- and medium-term climate objectives.

1.3 Specifically the review examines whether the Fund can raise its ambition by bringing forward the current 2050 net zero target date, recognising the urgent and material financial risk climate change poses. The aim is to set targets that will drive real world change whilst achieving the appropriate risk/return required to meet our overriding investment objective.

1.4 Appendices 3 and 4 summarise the extensive engagement with various stakeholders through this process including elected councillors, employers, and trade unions as well as a member survey. In addition, the Committee held a workshop in October to discuss the implications of the climate analysis undertaken by the Fund's investment consultant in terms of the impact on investment strategy.

1.5 Broad consensus across the workshop, engagement sessions, and member survey frame proposals in this paper for the Committee to consider and approve.

2 RECOMMENDATIONS

The Committee agrees:

2.1 **The following climate targets for the Avon Pension Fund:**

a) Clear tangible targets for climate action in the years 2024-30:

- **By 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050.**
- **The Fund will reduce carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).**
- **By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).**
- **70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027.**

b) To bring forward its overall net zero target to 2045 (from 2050) and review this formally again in 2026.

2.2 **To endorse and support collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies.**

2.3 **That the Committee supports nature-based investments and asks the Investment Panel to explore investment opportunities in 2024/25 and bring a recommendation to Committee.**

3 FINANCIAL IMPLICATIONS

3.1 Costs of the climate analysis and advice was provided for in the 2023/24 budget.

4 CURRENT STRATEGY

4.1 The Strategic Investment review confirmed the following investment beliefs that guide its strategic decision making:

- We believe in a long-term investment horizon.
- That diversification is core to managing risk.
- That we should invest responsibly.
- Lower costs drive higher net returns.

4.2 As a responsible investor the following beliefs underpin our climate policy:

- Climate change poses an existential threat to the wider world and long-term investments.
- By working with like-minded investors we can engage companies to drive positive real-world impact.
- That there is increasing convergence between financial returns and climate friendly investments. We accept that investing sustainably can lead to periods of over/underperformance vs an investment strategy that does not integrate climate risk, but we fundamentally believe that sustainable companies are more likely to deliver strong returns over the long-term.

4.3 The current climate objectives have been in place since 2020. Since then the Fund has made good progress against the objectives and the data and science around climate analysis has improved. As a result there is an appetite to be more ambitious, albeit at an acceptable risk in terms on the financial impact on the Fund.

4.4 Greater ambition is required given the temperate rise is already +1.2 degrees versus the Paris Agreement goal of limiting the increase to +1.5 degrees. Real world action based on current national policies projects a +2.7 degrees increase (by 2100). Pledges and targets submitted and binding long-term targets would take us to +2.0 degrees and the most optimistic forecast which assumes all announced targets are implemented would still result in +1.8 degrees. If the pace of transition does not increase, the greater the probability that our investment objectives will not be achieved; it poses a financial risk to the Fund.

4.5 The current targets and progress against each are as follows:

	Current Target	**Progress**
Net Zero	By 2050	Equities = good progress Other assets = insufficient data
Pathway reduction in equity emissions	-43% by 2025 -69% by 2030	Ahead, declined 49% vs. 2019 baseline
Sustainable assets **% in renewable infrastructure**	30% by 2025 5%	Delivered = £2bn invested Delivered = £500m committed

5 SETTING NEW CLIMATE TARGETS WITHIN THE INVESTMENT STRATEGY

5.1 When considering the climate policy, wider investment constraints must be taken into account such as the overarching investment return objective of CPI + 4.25% to protect the funding position, the impact on employer contributions and the need to manage liquidity within the asset portfolio to meet pension payments over time (currently have a c.34% cap on illiquid assets). Investment risk is not a constraint as long as the overall risk return profile will still deliver the funding objective.

5.2 The Avon Pension Fund determines the investment strategy and policies which includes the climate policy and targets. Brunel implements the strategy (except for one legacy portfolio and potentially any local impact investments). As a recognised leader in responsible and climate investing, Brunel has well developed policies and portfolios to drive the change that the Fund is seeking to achieve. Therefore, where possible, the Fund's policies will be consistent with Brunel's so that we can implement our strategy cost effectively; if not we will seek to develop investment solutions with Brunel that meet the Fund's requirements. Furthermore as part of the Brunel partnership, we have far greater influence when engaging with investee companies and policy makers.

5.3 In framing a more ambitious climate policy a number of important trade-offs were discussed as follows:

- Real world change means there should be greater focus on the future transition rather than carbon intensity. This will mean that we continue to invest in high carbon assets where they are fundamental to the transition and have credible plans to decarbonise.

- At what point should we divest from high carbon impact companies? If we stay invested, through engagement we can encourage and demand credible transition plans are in place. If we divest then there may not be the same pressure on companies to implement transition plans, particularly if the asset sold by the Fund is picked up by an investor who does not consider climate change a risk. But at what point will we need to divest and on what criteria?
- The earlier the net zero target date the less diversification within the universe of listed assets which will increase investment risk within the portfolio (mainly through concentration of assets). Is this consistent with the overriding risk/return objectives and fiduciary duty? The earlier the net zero date the wider dispersion of returns, which will increase the risk of higher /lower employer contribution rates in the future and was this in line with our funding strategy.
- The earlier the net zero date the less real-world impact we will have as we would have to invest in companies that already have a lower carbon intensity due to the nature of their business.

5.4 The proposed targets address these trade-offs, ensuring the climate targets are as ambitious as possible without compromising the overriding investment objective.

6 STAKEHOLDER ENGAGEMENT

6.1 During 2023 the Fund has extensively engaged key stakeholders on our climate policy, through 7 sessions during October-November 2023 discussing options to increase ambition across the portfolio. In parallel a survey was undertaken to obtain views from members.

6.2 The engagement sessions considered climate targets and policy, focusing on trade-offs within the context of the Fund's overarching objective to pay pensions over time and to keep employer contributions as low and stable as possible.

6.3 Feedback received from the member survey and employer engagement sessions were largely aligned and supportive of the recommendations in this paper. In summary:

Member survey - this survey received over 5,000 responses.

- Climate change is important when making investment decisions.
- There is support for taking on more risk to get to net zero more quickly but not by increasing risk excessively.
- Both engaging with investee companies and divesting are tools the Fund should use.

Non-member Stakeholder engagement

- Net Zero – bring forward and move faster with acceptable risk.
- Transition alignment – invest in assets aligned to net zero, engage to influence, divest where insufficient impact has been achieved.
- Employer contributions – there is little appetite to increase risk around employer costs to meet NZ ambition. Employers stressed the importance of stable and affordable contribution levels, given the current difficult funding environment for public sector bodies.
- Communicate – the Fund needs to improve and do more with all stakeholders on climate issues, to explain the positive actions more widely being taken and help councillors explain its climate strategy.

6.4 Further information relating to the stakeholder engagement sessions and member survey can be found in Appendix 3 and 4, respectively.

7 PROPOSED CLIMATE TARGETS

7.1 At the workshop in October, the Committee discussed Brunel's climate policy (see Appendix 2 for overview of their presentation) and the wider investment context as well as Mercer's climate analysis (which included detailed analysis of portfolios that could meet earlier net zero dates) and advice on new targets for the Fund (see Appendix 1).

7.2 It was acknowledged that there are material weaknesses, e.g. incomplete and inconsistent data across asset classes and geographies, lack of policy commitments, and investment solutions that are still developing. In addition, economic modelling for climate change and the transition scenario analysis is still developing and it is accepted that these models may currently understate financial risks. Despite this, it is still possible to have an ambitious but credible policy that meets the Fund's fiduciary duty both in the short and longer term and does not leave the Fund open to accusations of green-washing or reputational risk.

7.3 The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC) and are a signatory of the IIGCC Net Zero Investment Framework which provides a framework for monitoring investments against net zero criteria. Our current and proposed targets are consistent with this framework.

7.4 There are three pillars of our climate strategy namely, decarbonisation to manage transition risk, transition alignment to drive real economic change and climate solutions to support economy wide decarbonisation. In addition, other levers such as climate metrics will monitor progress and provide transparency, and stewardship activities including engagement will help drive greater transition alignment.

7.5 The proposed climate targets are as follows:

	Current Target	New Target
Transition Alignment	None	All developed market equity holdings in high impact sectors must be achieving net zero, aligned or aligning (meeting specific criteria) by 2030; if not will divest.
Pathway reduction in equity emissions	-43% by 2025 -69% by 2030 versus 2019 baseline	-43% by 2025 -69% by 2030 No change as already ambitious and consistent with a 2045 target.
Carbon analysis % assets coverage	None	Reduce carbon intensity in Corporate Bonds by 60% by 2030. Coverage of the portfolio has increased from 42% to 62% and the Fund seeks to increase coverage to 100% of assets over time.

Sustainable & transition-aligned assets	30% by 2025	The Fund has exceeded this target and will seek to adopt more formal targets around climate solutions utilising best practice definitions (e.g. green revenues) in time. The Fund will also consider whether a dedicated allocation to Nature Based Solutions is appropriate in the context of its existing private markets allocations.
% in renewable infrastructure	5%	5% allocation to renewable infrastructure.
Stewardship	None	70% of financed emissions in material sectors to be covered by active engagement by end 2024 and 90% by 2027 for all listed equities across Brunel portfolios.
Policy advocacy	None	To endorse and support collaborative engagement and advocacy work through membership of various industry leading climate advocacy bodies.
Net Zero	By 2050	By 2045 recognising the need for greater public policy actions if we are to achieve this target.

7.6 A summary of each target is as follows:

a) Transition alignment of equity portfolio

- Developed market companies in high impact sectors (a company whose activities are intrinsically high carbon) must be either aligned with or aligning with NZ by 2030 and to divest if this is not achieved.
- This will be monitored against specific criteria provided by external organisations such as Climate Action 100+.
- This is in line with Brunel's climate policy and will be monitored annually by Brunel in consultation with the client group. This target gives a strong steer to managers and investee companies as to Avon's expectations in terms of transition alignment and that the Fund will divest from companies that do not demonstrate a process of alignment between now and 2030.

b) Decarbonisation

- The current carbon reduction targets for the equity portfolio for 2025 and 2030 are already very ambitious. The Fund has made good progress but without significant asset allocation changes the targets are challenging. Therefore these targets will be retained.
- New target to reduce the carbon intensity of the Corporate Bond portfolio by 60% by 2030 versus 2019 baseline, on a carbon footprint basis.

- Ambition is to have 100% coverage across assets but highly dependent on industry developing and reporting on meaningful metrics in all asset classes.

c) Explicit engagement target

- Have 70% of the financed emissions covered by active engagement in 2024 and 90% by 2027.
- Engagement is an important tool to achieve the Fund's desired outcomes and early engagement with companies that are essential to the economy and need to decarbonise is vital for a successful transition to net zero.

d) Policy advocacy

- Prioritise policy advocacy as the development and implementation of public and regulatory policy is essential if we are to meet our ambition.
- To endorse and support collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies.
- We are currently members of IIGCC and LAPFF and a signatory of Climate Action 100+. The Fund currently spends c.3% of the investment advisory budget on subscriptions which provide significant engagement activity for the Fund, far more than could be done by the Fund in isolation.

e) Net Zero Target

- Bring forward from by 2050 to by 2045 to be kept under regular review (at least every 3 years in line with our investment strategy but more frequently as required).
- States our ambition but acknowledges that significant progress needs to be made in public policy implementation for this target to be achieved.
- If too early a target date, fewer transition companies qualify for investment which translates into less real-world impact.
- It is accepted that it will not lead to any material changes in the investment strategy at this time but will inform future asset allocation decisions.

7.7 **Nature Based investments** – This is a nascent asset class such as investing in forests/timber, agriculture and funds targeting biodiversity solutions that can be considered alongside climate solutions. Such investments are less liquid and would be held for the long-term. Therefore an allocation would have to take the overall liquidity of the Fund into account (currently at c.32% of assets). It is recommended that the Investment Panel explore the potential of such investments in 2024 before bringing a report to committee.

8 ANNUAL REVIEW OF CLIMATE TARGETS

8.1 The climate targets will be reviewed at least every 3 years, as part of the investment strategy review cycle. However, if for example, new opportunities arise, climate metrics/data improve, there is significant progress in public policy or the pace of transition increases or slows, the targets will be revised in between the normal review cycle.

8.2 Each year the Fund will receive a climate analysis from Mercer which will inform the Committee if any changes to targets should be considered.

9 RISK MANAGEMENT

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

10 EQUALITIES STATEMENT

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

11 CLIMATE CHANGE

11.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. 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, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

12 OTHER OPTIONS CONSIDERED

12.1 None.

13 CONSULTATION

13.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk 01225 395306
Background papers	None
Please contact the report author if you need to access this report in an alternative format.	

Mercer

welcome to brighter

Avon Pension Fund

Net Zero Review

Summary review for publication

19 October 2023

A business of Marsh McLennan

1. Review of progress to date on net zero
2. Levers and considerations: implementation of net zero
3. Accelerating net zero within the portfolio before 2050
4. Deeper dive: Decarbonisation, Stewardship & Alignment and Climate Solutions
5. Summary & next steps
6. Appendix

Agenda

Executive summary

Four strategic pillars

Key areas of progress to date:

- **Listed Equity decarbonisation is ahead of target.**
- **Good progress on total fund climate solutions** versus target (to have 30% invested in sustainable/transition aligned investments by 2025).

Extending portfolio coverage of carbon analysis

Total Fund

- **Total Fund decarbonisation**: **Progress required** to bring additional asset classes into target setting and take a "**whole of portfolio**" approach.
- **Private markets**: Use findings from the climate data exercise to explore whether target setting is possible given data availability within private debt, property and infrastructure.
- **Multi-Asset Credit**: Start the conversation with Brunel around underlying managers' progress versus pledges.

Accelerating targets

- Current total Fund **net zero target is 2050**.
  - Consider if an **accelerated target** is feasible while balancing portfolio decarbonisation and meeting fiduciary duty of the Fund.
- The Fund is in a position to set **new targets**:
  - **Alignment and stewardship** for listed equity portfolio.
  - **Decarbonisation target** for **corporate bond** portfolio.

Engagement

- How to achieve targets is important, with **stewardship needed** to play a key role. Develop a more **formal engagement plan** for key emitters in the portfolio.

Selective divestment

- **Selective divestment of fossil fuel companies is a theoretical option** for the Fund but implementation is a challenge due to pooling. Should be explored as part of a suitable governance framework.

Review of progress to date on net zero

Progress to Date

How ACT Analysis has been used to date

2021

Set targets:

- Total Fund 2050 net zero target
- Adopted listed equity portfolio carbon reduction targets of 43% by 2025 and 69% by 2030, versus 2020 baseline position
- Total Fund sustainable and transition aligned investments target of 30% by 2025

Page 35

2022

Monitor Progress

- Monitor progress vs. 2025 and 2030 decarbonisation targets: **On track**

Investment Manager decisions

- Helped inform decision to switch from Brunel Emerging Market Fund to Brunel Global High Alpha Equity Fund and Global Sustainable Equity Fund

Stewardship & Engagement

- Identified most strategically important companies to engage with from a climate perspective

2023

Monitor Progress

- Monitor progress vs. 2025 and 2030 decarbonisation targets: **On track**
- Increased investment in Paris Aligned equities*

Strengthening Targets

- Proposed stewardship and alignment targets for listed equity and corporate bond portfolios.

Next 12-18 Months

Enhance Net Zero Plan

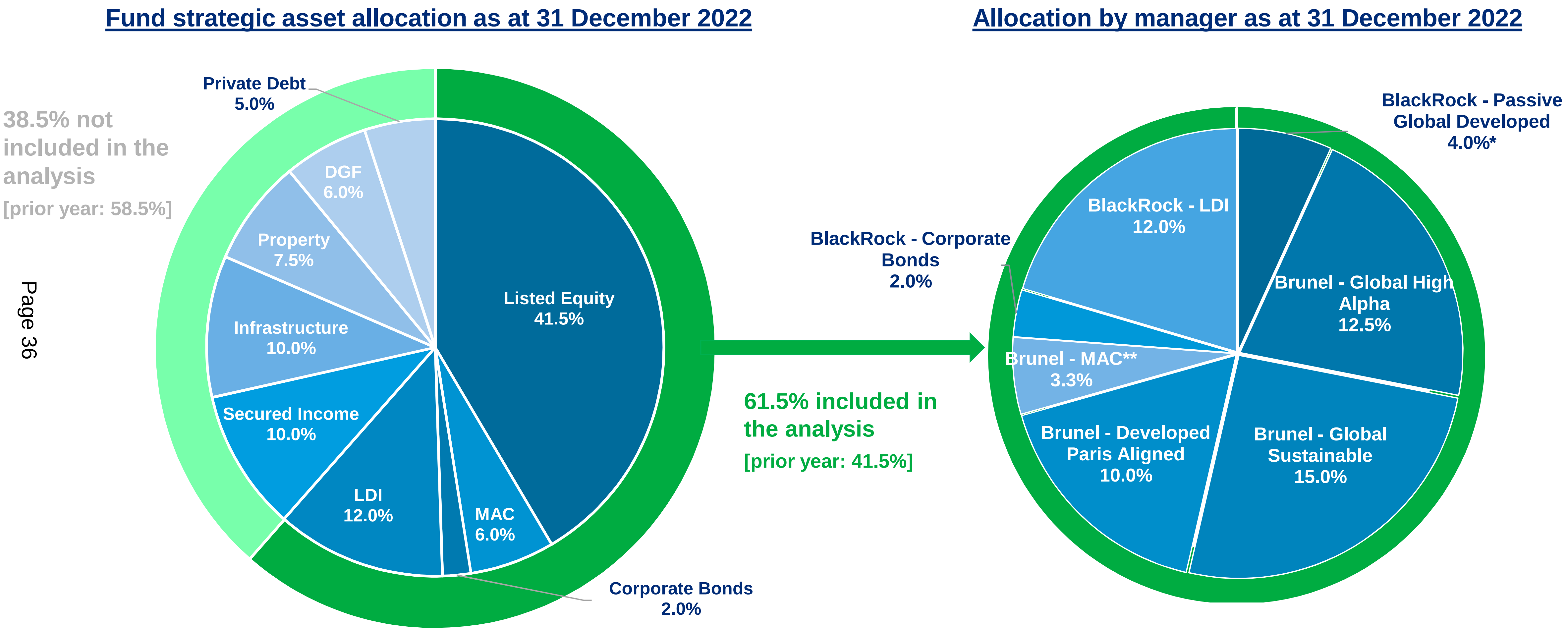
- Revisit suitability of listed equity decarbonisation target
- Setting more granular plans/targets across:
  - Sustainable / climate solutions
  - Transition alignment
  - Stewardship
- Expand net zero approach beyond listed equity portfolio to MAC and private markets.
- Potential connections to biodiversity / natural capital

Support the Responsible Investment strategy and policy approach / Provide insight into transition capacity and monitor progress / Understand consistency with Brunel climate policy

* Following date of analysis

Proportion of Holdings Analysed
As at 31 December 2022

Page 36



Notes: The data analysed excludes e.g. cash and derivative allocations within the funds analysed. Where there is partial coverage of a portfolio we scale up the Absolute Emissions to estimate coverage for 100% of the mandate.

*Sold following date of analysis

** The total SAA for the Brunel Multi-Asset fund is 6.0%. However, only the Corporate Bonds portion is being included in the analysis (c.3.3% of the total Fund's SAA).

Current Fund Targets in Place

Scope	Current Target
Total Fund	• Total Fund target of net zero by 2050.
Total Fund + Renewable energy Infrastructure	• Invest sustainably to support a Just Transition to a lower carbon economy with the aim of investing at least 30% of total assets in sustainable and transition aligned investments by 2025. • To invest 5% of total assets in renewable energy infrastructure.
Listed Equities	• A listed equities decarbonisation target of net zero by 2050 underpinned by interim targets of: - 43% reduction by 2025 (vs 2020) - 69% reduction by 2030 (vs 2020) • For listed equities to be 30% less carbon intensive than our benchmark.

Target setting is challenging. It is important to assess whether targets remain appropriate through annual monitoring and evolve target setting as data availability, methodologies and the science evolves

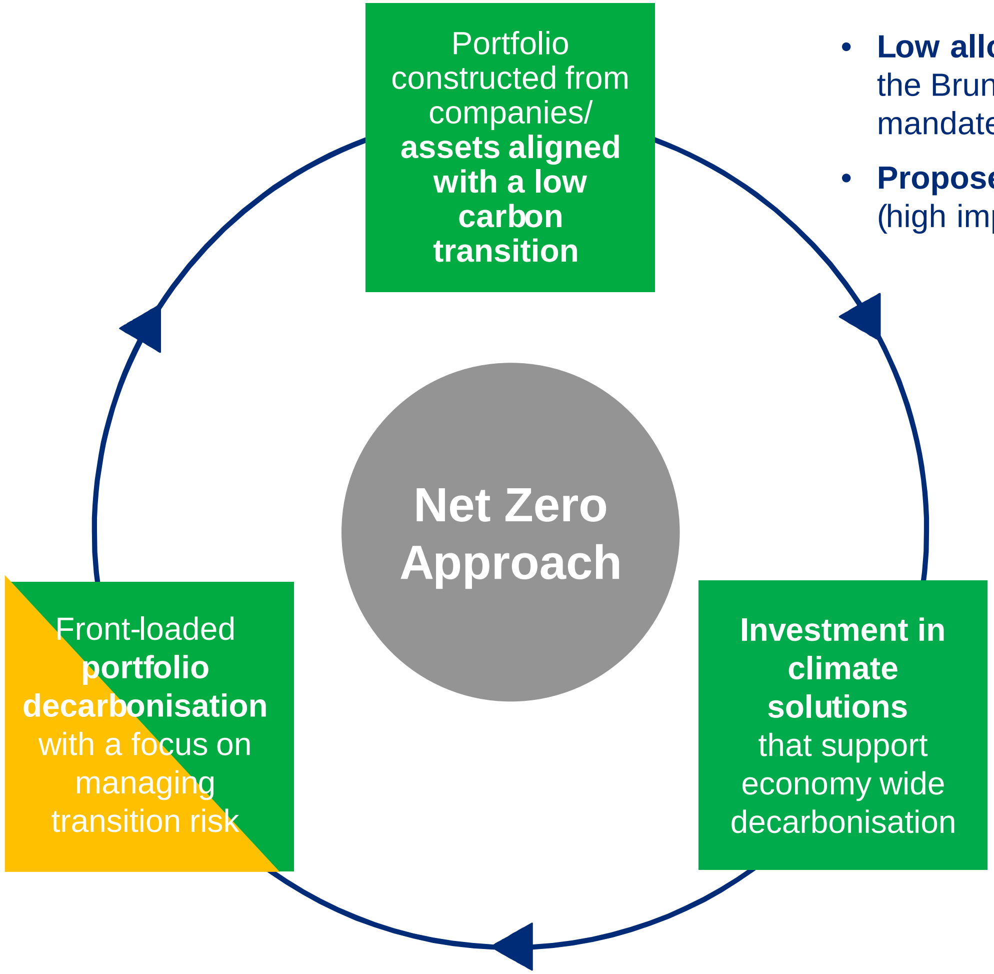
Net Zero Approach

Summary of progress

On Track

Progress Required

- **Low allocations to Grey assets***, concentrated primarily in the Brunel - MAC and the BlackRock – Passive Global Dev. mandates.
- **Proposed alignment and stewardship targets** for material (high impact) sectors.



Page 38

- **Further work required** to bring other asset classes into target setting.
- **Listed equity carbon footprint has fallen c.48.7%** over 2020-2022 and **ahead of target** decarbonisation pathway.**

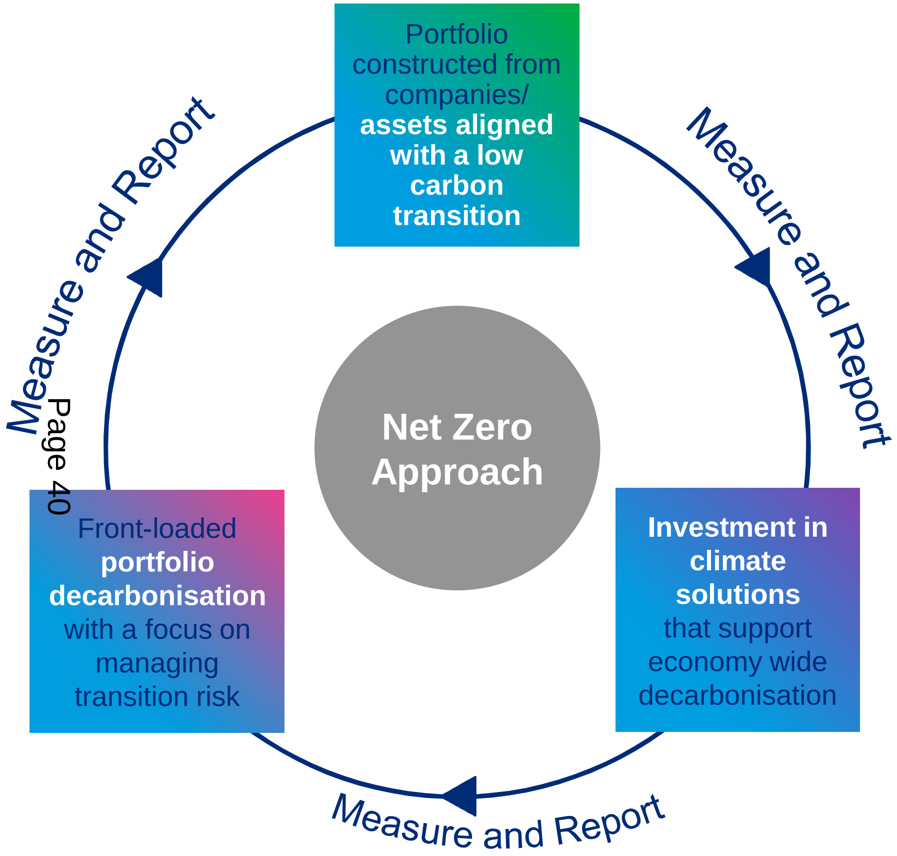
- The Fund has made allocations to the **Brunel Sustainable Equity Fund and Paris Aligned Equities**. The fund has also made commitments to **renewable infrastructure**.
- Total investments/commitments to sustainable investments = £2.3bn (c.44% of total Fund assets)

*Grey assets are not well aligned from a climate transition perspective, with high carbon emissions intensity. **These targets are ambitious and should be kept under review. In light of the wider set of targets proposed this year, there's a need to take a holistic approach to a whole economy transition.

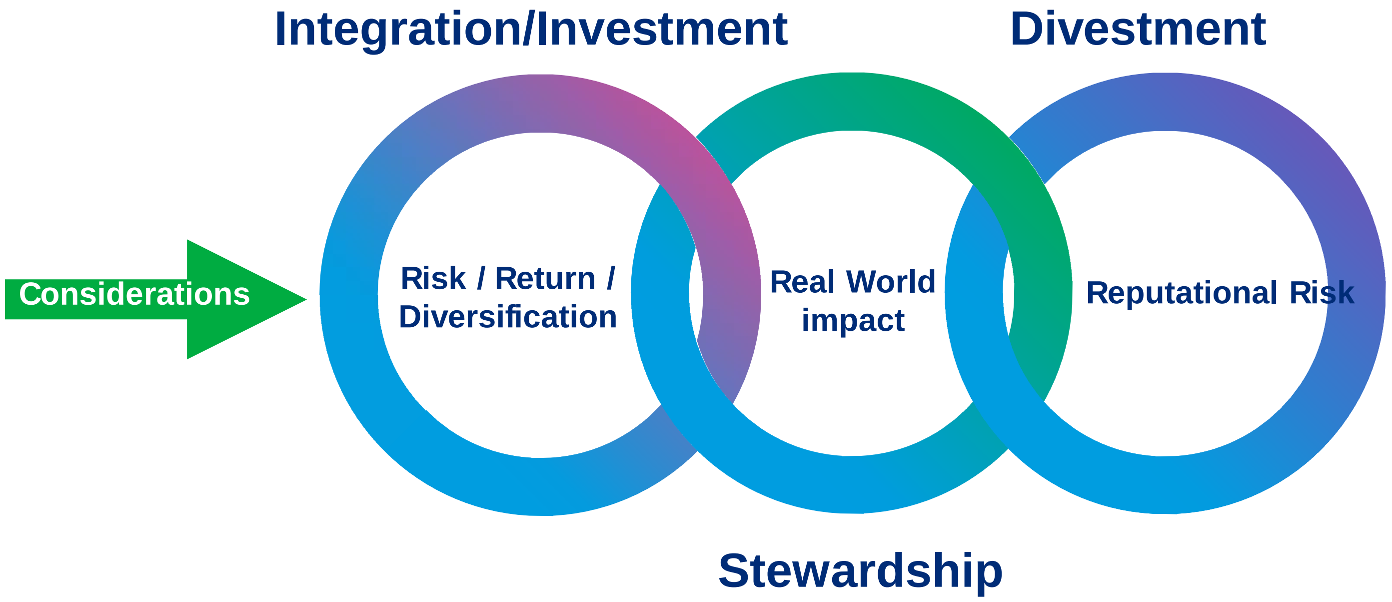
Levers and considerations: implementation of net zero

Net Zero Approach

Key considerations & levers



Page 40



- It is challenging to maximise every net zero approach as there are **trade-offs** associated. When applied in isolation, they may lead to unintended outcomes from a financial and sustainability perspective.
- Based upon the Fund's objectives and commitments to stakeholders, it is important to **establish priorities and strive for balance** which minimises financial implication (risk, return, diversification) and supports real world impact.

Key considerations & levers for implementation

Stewardship (Real World impact) and Divestment (Reputation): Options to consider

Portfolio

- ❑ Strategic asset allocation
- ❑ Asset class considerations
- ❑ Emerging themes

Solutions

- ❑ Climate solution / low-carbon / sustainability-themed exposures
- ❑ YoY tracking of green allocations
- ❑ Emerging solutions (e.g. Nature Based Solutions)

Integration

- ❑ Decisions informed by holistic analysis such as transition capacity, and multiple metrics, not only emissions
- ❑ Decarbonisation and wider climate targets
- ❑ Scenario analysis

Stewardship

- ❑ Engagement principles and priorities framework
- ❑ Focus on the highest emitting, lowest transition capacity companies
- ❑ Sector-based engagement
- ❑ Participation in collaborative initiatives and engagement with policy/regulators

Divestment

- ❑ See next section

Effective monitoring and reporting should underpin these areas

Avoiding greenwashing with Net Zero investing

Underpin targets with rigorous analysis and monitoring

Understand the limitations (scenario modelling, data)

Push for better data, including scope 3

Take a whole of portfolio approach

Page 42

Have credible implementation plans

Commit to transparent and accessible reporting

Take a holistic approach to net zero that considers real world change

All covered within ACT

More education and engagement with stakeholders likely to be required

Divestment & Exclusions

Fossil fuel divestment – to divest or not to divest?

Potential benefits and trade-offs

Potential benefits of divestment	Trade-offs
Risk & decarbonisation: reduce portfolio exposure to ‘stranded’ assets and carbon intensity.	**Not sufficient for net zero** as other sectors / companies are also carbon intensive.
Escalation tool when engagement fails and companies are too slow to transition.	**Engagement more effective** when tackling systemic and non-diversifiable issues like climate change?
Limited return impact if divesting only impacts a small part of the portfolio?	**Limits real world impact** if no longer supporting high emitters to transition through engagement.*
Signal to market about Fund's ambition and views.	**What about demand?** Investors still hold companies with strong demand for fossil fuels (e.g. energy utilities).
Increase cost of doing business if enough investors deny fossil fuel companies access to capital.	**Inconsistent with fiduciary duty** if reduced opportunity set impacts returns?
	How to implement in a pooling context?

Divestment may be an effective tool when seeking **value-alignment, where there is the risk of stranded assets and a lack of opportunities for companies to transition to a sustainable business model, or where investor has exhausted all other escalation options.**

*with few engaged investors left companies may even increase their fossil fuel activities / renege on existing targets / undermine a Just Transition

Different approaches to divestment

Three potential approaches

Engagement resulting in divestment if milestones aren't achieved

Divestment ambition with a 2030 target date

Immediate divestment

Potential milestones for underlying companies

- **Net zero ambition and targets**
- **Carbon performance**
- **Green capital allocation**
- **TCFD reporting**

Fossil fuel exclusions

Next steps

Decision for today

Agree whether or not to take forward divestment considerations

If yes - hold workshop to agree sensitive topics and definitions

Assess divestment suitability using governance framework

Consider recommendations and way forward at future meeting

Engagement with Brunel (and Partner Funds?) on implementation considerations

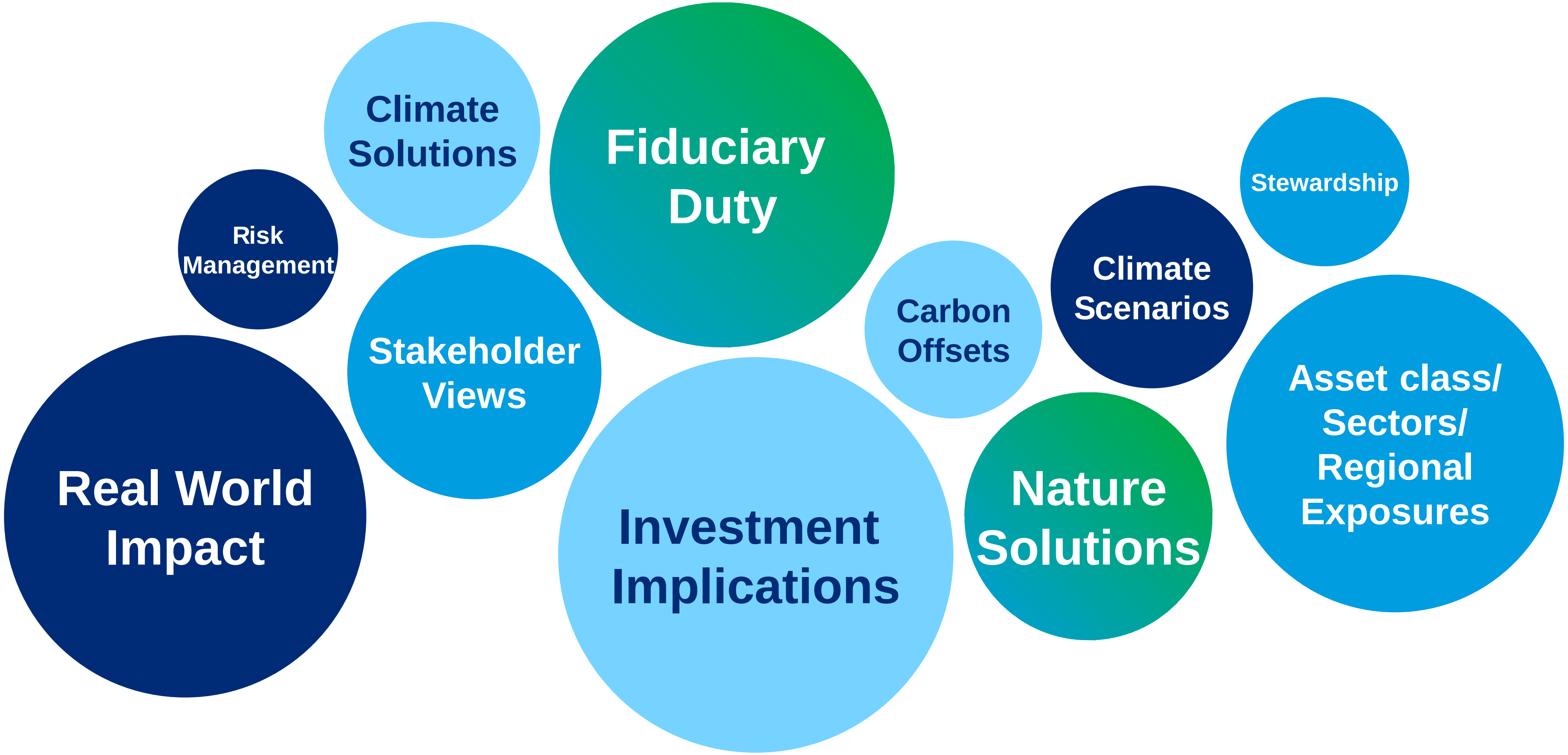
Divestment / exclusions approach should be reflected in Avon policy. Potential to engage other Partner Funds to form a collective approach for Brunel to implement.

Targeting net zero before 2050

Page 47

Targeting Net Zero before 2050

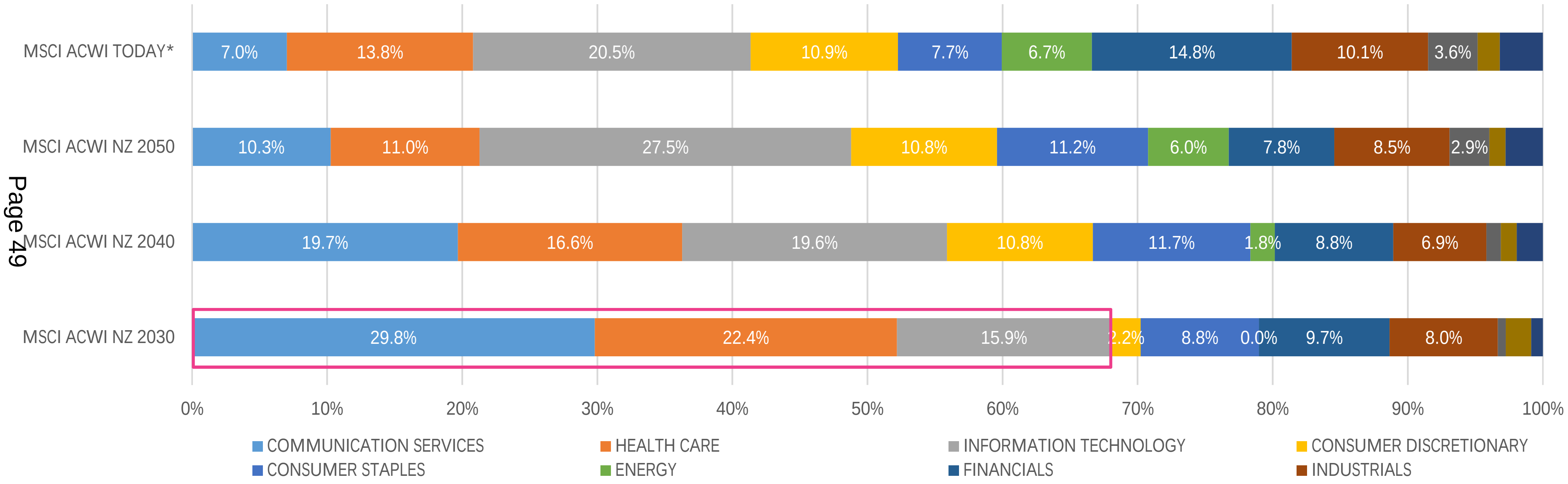
There are various considerations when seeking to accelerate the pace of decarbonisation



Targeting Net Zero before 2050

Quantifying the investment opportunity set

This chart compares the total number of companies in the MSCI ACWI investment universe to the number of companies with projected emissions consistent with net zero target dates of 2030, 2040, and 2050. **Accelerating the Net Zero target is likely lead to less diversification**.



2,765 companies in global equity universe

767 companies aligned with NZ 2050

216 companies aligned with NZ 2040

126 companies aligned with NZ 2030

Page 49

68% of the NZ 2030 MSCI ACWI index is concentrated in Communication Services, Health Care and IT

As at 31 Dec 2022, only 126 companies (from a universe of 2765) had verified targets of being Net Zero by 2030, representing only 4.5% of the investable universe by number of companies or c.12% by market cap.
Diversified equity portfolios need to be constructed considering a wide range of issues, not just Net Zero.

*Analysis as at 31 Dec 2022. Based on MSCI data. Uses Scope 1 and 2 data.
Note: The 767 companies that have zero projected gross GHG emissions by 2050 (plus companies with an SBTi-verified target) account for 53% of MSCI ACWI by market capitalisation. The 126 companies that have zero projected gross GHG emissions by 2030 account for 12% of MSCI ACWI by market capitalisation.

Top 10 global companies with verified 2030 Net Zero targets

MSCI ACWI – who are they?

Top 10 companies by market capitalisation within the portfolio

COMPANY	SECTOR	PORTFOLIO WEIGHT
ALPHABET INC.	Communication Services	14.1%
JOHNSON & JOHNSON	Health Care	6.7%
SAMSUNG ELECTRONICS CO., LTD.	Information Technology	6.0%
META PLATFORMS, INC.	Communication Services	3.9%
TENCENT HOLDINGS LIMITED	Communication Services	3.8%
NOVO NORDISK A/S	Health Care	3.2%
ASML HOLDING N.V.	Information Technology	3.1%
ASTRAZENECA PLC	Health Care	3.0%
NOVARTIS AG	Health Care	2.8%
THE WALT DISNEY COMPANY	Communication Services	2.3%
Total	**-**	**48.9%**

Note: Analysis as at 31 Dec 2022.

The top 10 companies represent nearly 50% of the 'net-zero 2030' equity portfolio by market capitalisation. The construction process followed only includes scope 1 + 2 emissions; if scope 3 emissions were included, there would be 35 companies in the 'net zero 2030' portfolio.

Building net zero portfolios

Summary of Analysis

- We consider that the net zero 2045 or net zero 2050 portfolios achieve a sweet spot between balancing portfolio decarbonisation and meeting fiduciary duty of the Fund. This may change in the future should more companies adopt earlier net zero targets. Comparing 2050 to 2045 depends on the decarbonisation pathway, e.g. a 2045 target with a more gradual pathway may be preferable.

Page 51

Consideration	Net zero by 2030	Net zero by 2035	Net zero by 2040	Net zero by 2045	Net zero by 2050	Headline comment
Traditional financial metrics						Under traditional portfolio analysis, the modelled outcomes are relatively similar
Portfolio diversification						The earlier the net zero date, the smaller the investment universe, with implications for sectoral/regional/company diversification
Rapid transition* in wider economy						The earlier the net zero date, the better the portfolio performs under a Rapid Transition scenario over the short- to medium-term
Failed transition (short term)* in wider economy						The earlier the net zero date, the worse the portfolio performs under a Failed Transition scenario over the short-term
Real-world impact						Opportunity for real-world impact through engagement and financing the transition increases as the net zero target date is extended
Implementation implications						Feasibility to implement the portfolio increases as the net zero target date is extended

* In terms of what is priced in today Mercer gives a 10% weight to a Failed Transition, 40% weight to an Orderly Transition,10% to a Rapid Transition and 40% weight to a range of low impact scenarios.

Legend for table above

Relatively disadvantageous from an investment perspective	Relatively neutral from an investment perspective	Relatively advantageous from an investment perspective

Targeting Net Zero before 2050

Key takeaways

Top down analysis: Climate Scenario Analysis

Key takeaways from top down analysis of strawman portfolios with net zero target dates of 2030, 2035, 2040, 2045 and 2050

1. Taking into account a broader set of metrics, we consider that **the net zero 2045 or net zero 2050 portfolios achieve the sweet spot between balancing portfolio decarbonisation and meeting fiduciary duty** for the Committee at this time.
2. The adoption of a 2045 target (or retention of a 2050 target) would support the Fund's target to invest at least 30% of total assets in sustainable and transition aligned investments by 2025. It would also support the Fund's efforts to **explore further private market climate solution opportunities, including Nature-based Climate solutions**.

Bottom up analysis: Climate-related metrics

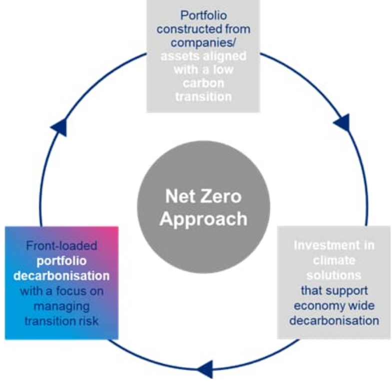
Key takeaways from bottom up analysis based on illustrative equity portfolios

1. The **number of companies/assets declines** as the net zero date is brought forward. Only 126 companies in MSCI ACWI have zero projected gross GHG emissions (scope 1 + 2) by 2030, accounting for 12.4% of the total MSCI ACWI by market capitalisation.*
2. Net zero equity portfolios are expected to result in a **loss in diversification** relative to the parent index.**
3. Increasing diversification through the addition of other companies introduces residual emissions that would need to be offset in some form. The purchase of offsets or forgoing return associated with the Fund not selling offsets generated through its assets will act to **reduce return**.***

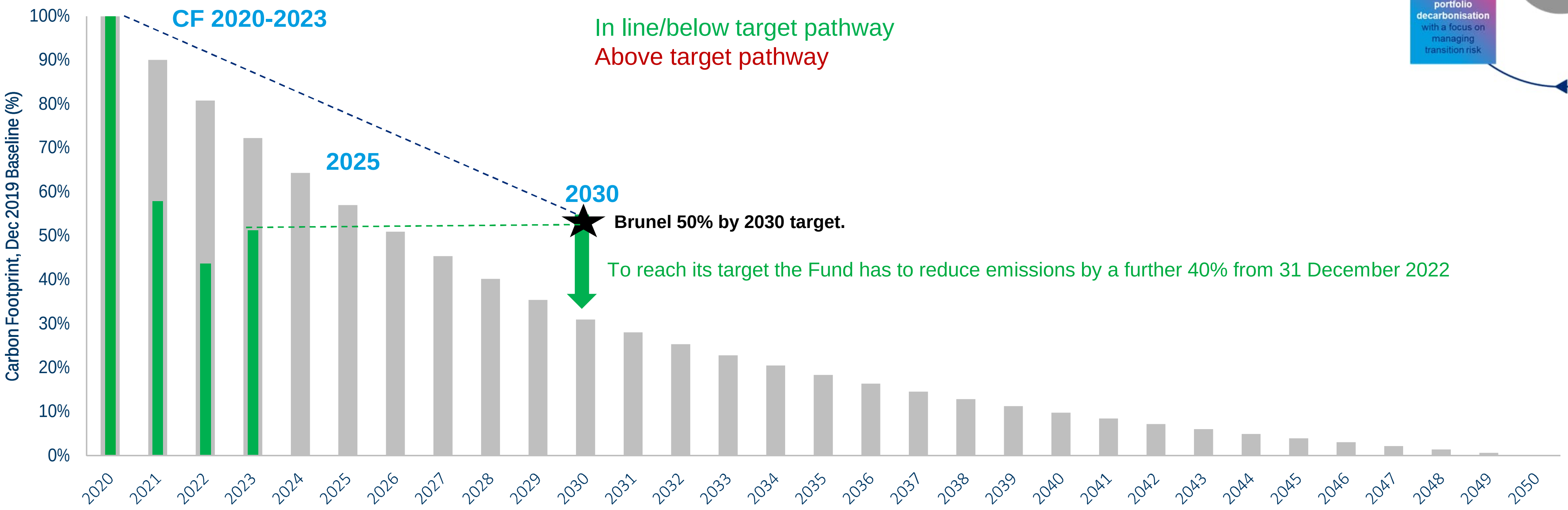
This number of companies falls to 35 if scope 3 emissions are included. ** from a sectoral, regional and company perspective* The offsetting market is a nascent market with a number of challenges for institutional investors to use within their portfolios.*

Net Zero Approach

Portfolio Decarbonisation: Listed Equities



Transition Curve – Carbon Footprint



- The current target of 40% reduction between 2023-2030 broadly equates to Brunel's 7% year-on-year target but has not been adjusted for decarbonisation within Brunel funds from 31 December 2019 to date.
- Strategic changes implemented after the latest analysis date, including an increased allocation to the Brunel Paris Aligned Benchmark fund, are expected to further drive decarbonisation.
- On balance we would recommend maintaining the current target, while recognising what has driven progress and the fact the target remains ambitious. Focus on achieving the target through underlying company decarbonisation, supported by stewardship. Going forward, decarbonisation attribution will be an important element of monitoring to understand what has driven results.

Need to ensure that transition risks are managed holistically rather than on a narrow emissions-only basis

Notes: In line with the terminology used by the IIGCC, we refer to 31 December 2019 as 2020, and 31 December 2022 as 2023 etc.

Proposed Portfolio Decarbonisation Path: Corporate Bonds

BlackRock– Carbon Footprint

Page 55

- Above is the proposed decarbonisation pathway for the BlackRock Corporate Bonds portfolio, shown on a Carbon Footprint basis, with a 2020 baseline.

- The proposed target is to reach **60% decarbonisation by 2030.** BlackRock Corporate bonds portfolio is ahead of this target as its Carbon Footprint has already considerably decreased from the 2020 baseline. BlackRock Corporate Bonds portfolio' Carbon Footprint was **153.7 tCO2e/$m as at 2020**, compared to **86.6 tCO2e/$m as at 2023** (**43.6%** decrease).

- To reach the 2030 target, the portfolio's carbon footprint has to decrease an additional 29%.

Mercer

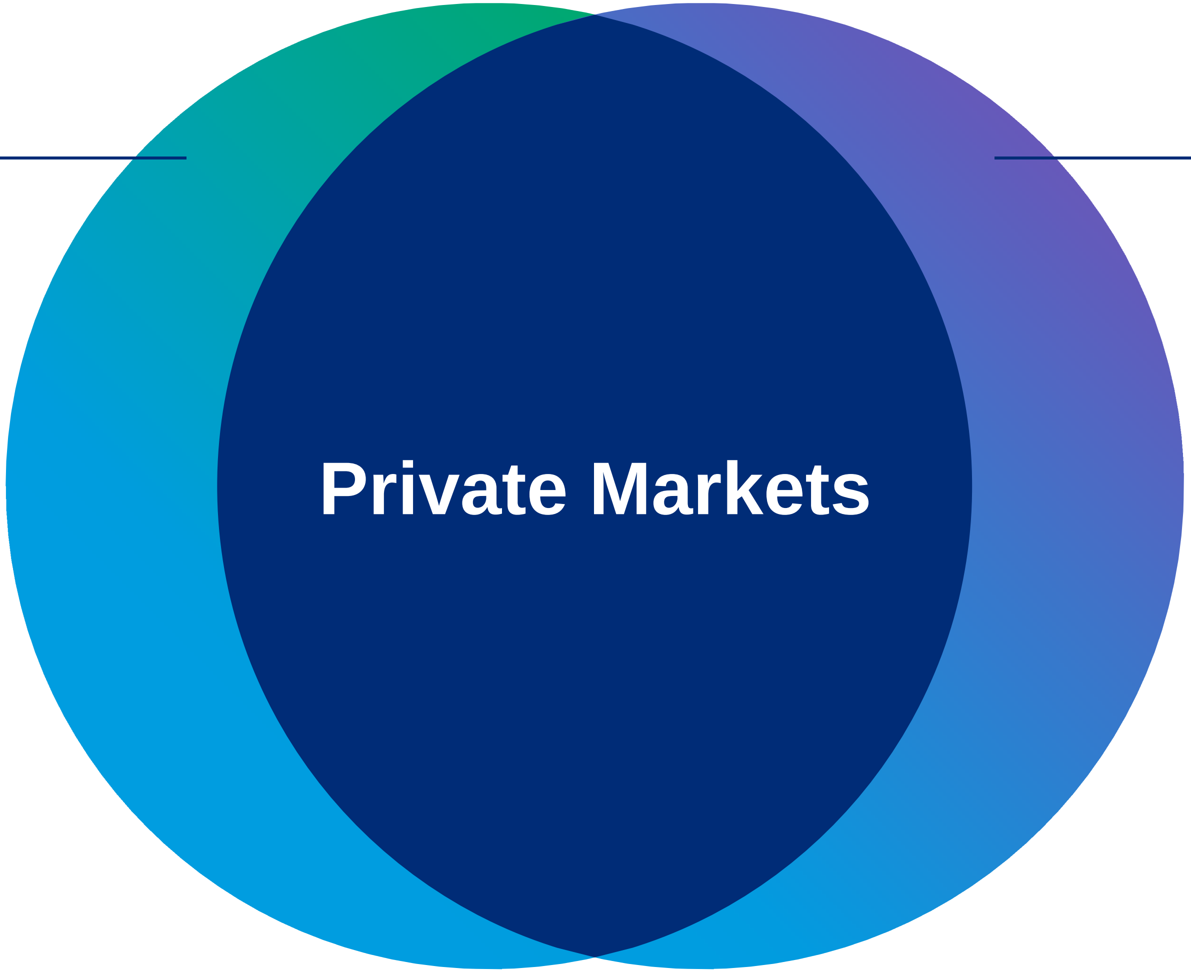
Notes: In line with the terminology used by the IIGCC, we refer to 31 December 2019 as 2020, and 31 December 2022 as 2023 etc.

Portfolio Decarbonisation

Private Markets

Transparency and data remains a key challenge

But are seeing improvements in data availability across various private asset classes.



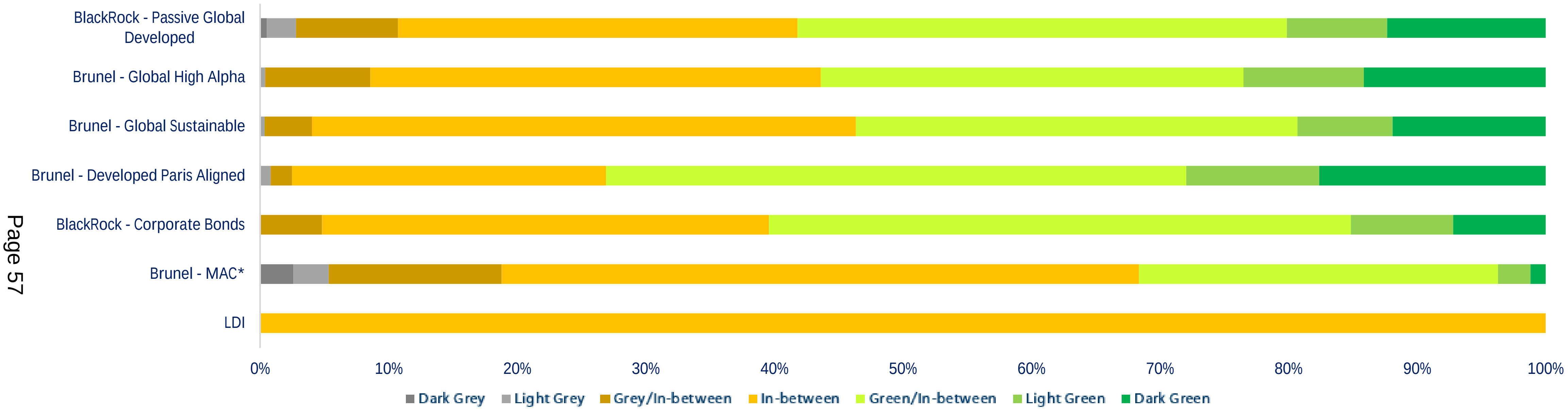
Net Zero guidance

IIGCC has produced much needed guidance for asset owners looking to set net zero targets for Real Estate, Infrastructure and Private Equity

While methodologies for private markets data have recently been developed, the timing of when data will be widely available remains unclear

Transition Alignment

- **We present the transition alignment of the portfolio**, to understand exposure to assets that are well aligned ("green"), a mix of intensities and transition capacity ("in between") or not well aligned ("grey") with the low carbon transition as well as the evolution since the first analysis.



Highlights & Questions

✓ Low allocations to Grey assets, concentrated primarily in the BlackRock – Passive Global Dev. and Brunel - MAC mandates.

✓ The funds display a range of transition capacities with the majority of each fund invested in In-Between assets.

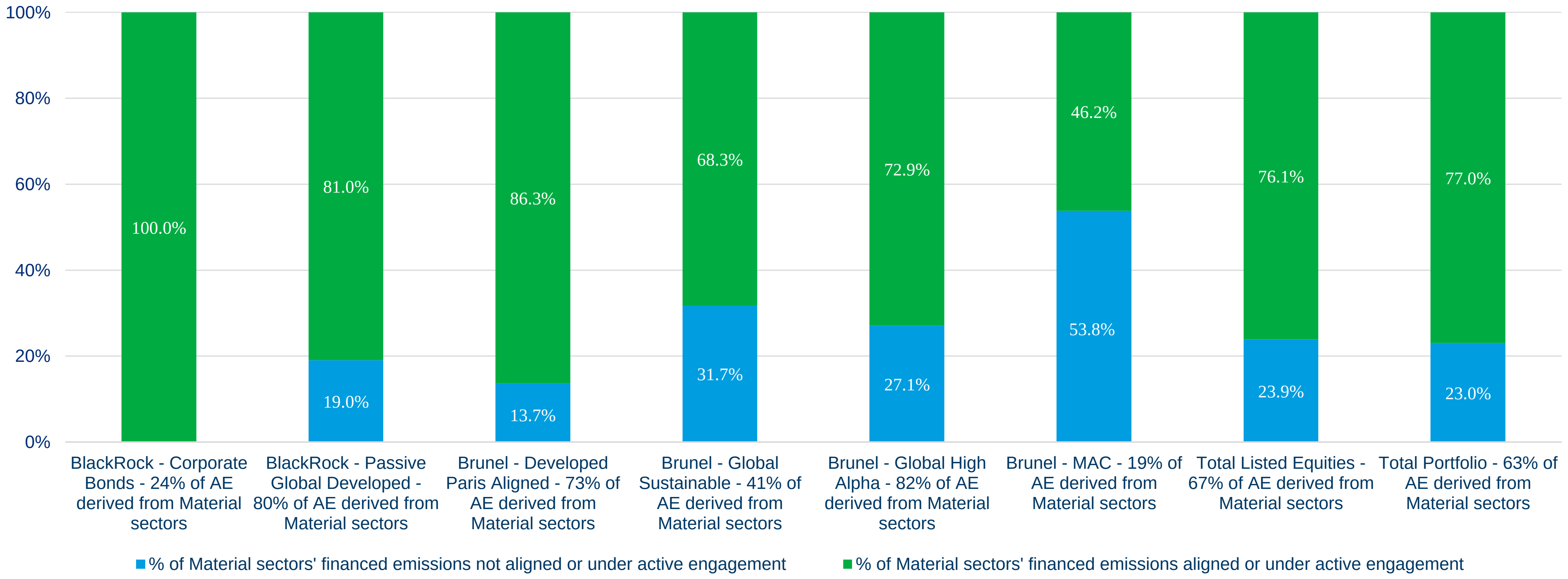
How are Brunel engaging with the most carbon intensive and Grey companies?

*Only the Corporate Bonds portion is considered in the analysis (c.55% of the MAC fund).
Notes: Figures may not sum due to rounding. Analysis captures carbon dioxide equivalent metrics. Where there is partial coverage of a portfolio we scale up to estimate coverage for 100% of the mandate. (see Appendix on limitations).

Mercer

Transition Alignment: engagement priorities

Material Sectors' Financed Emissions not aligned or not subject to active engagement



- Companies have been assessed as **under active engagement** if they are within the list of companies captured within the Climate Action 100+ engagement list or are currently being engaged by Brunel. In respect of **alignment,** companies have been deemed to demonstrate evidence of alignment if they have approved SBTi targets or categorized as aligned by the Transition Pathway Initiative ("TPI").

Most funds, with the exception of the Brunel MAC and Brunel Global Sustainable Funds, have over 70% of emissions from material sectors aligned or under active engagement (over 2022).

Mercer

Please note that owing to the different coverage levels across investment funds, it is difficult to compare the investment funds side by side, however comparing an investment fund's progress on these metrics year on year will provide useful progress indicators to engage with investment managers. This will be done going forwards.

Note: Sectors are defined as material in line with IIGCC's classification, that sets out the most material sectors from an owned-carbon emissions standpoint.

Key Recommendations

Transition alignment

Stewardship / Engagement

- Ensure 70% of financed emissions in material sectors are either aligned or subject to direct or collective engagement and stewardship actions for all listed equity by June 2024, increasing to 90% by June 2027.

Alignment

- 100% assets under management (AUM) in material (high impact) sectors in developed listed equities that are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning by 2030, extending to developed and emerging markets by 2040.*
- Corporate bonds: all listed assets are i) achieving Net Zero or ii) meeting a criterion considered to be aligned or iii) aligning** by 2040.

Engagement plan

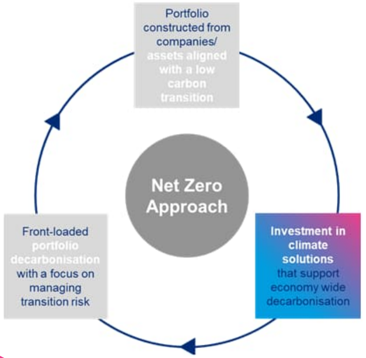
- Officers to work with Brunel / Mercer to develop formal engagement plan

Targets are consistent with IIGCC Net Zero Investment Framework.
Definition, implementation and monitoring of targets need to be explored further.

*Brunel's ambition is that by 2040 all listed assets are i) achieving Net Zero or ii) aligned to net zero pathway meeting a criterion or iii) aligning towards a net zero pathway meeting a criterion.

Investment in Climate Solutions

Portfolio implications for accelerated net zero date



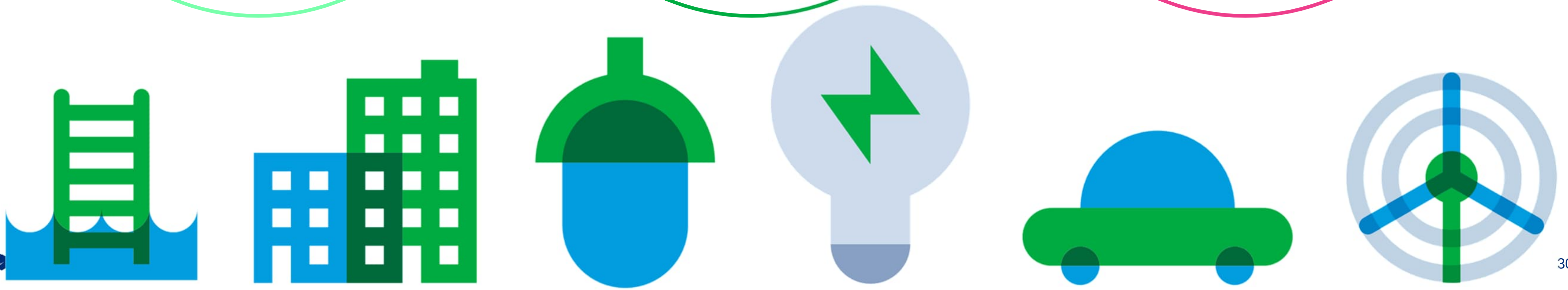
Page 60

Higher allocation to net zero and net zero-aligned companies and those focused on climate solutions within listed equity portfolio

✓ Increased allocations to renewable infrastructure

(current commitments = 9-10% of total Fund assets)

Dedicated allocations to climate solutions including **nature-based** climate solutions within private market allocation



Investment in Climate Solutions

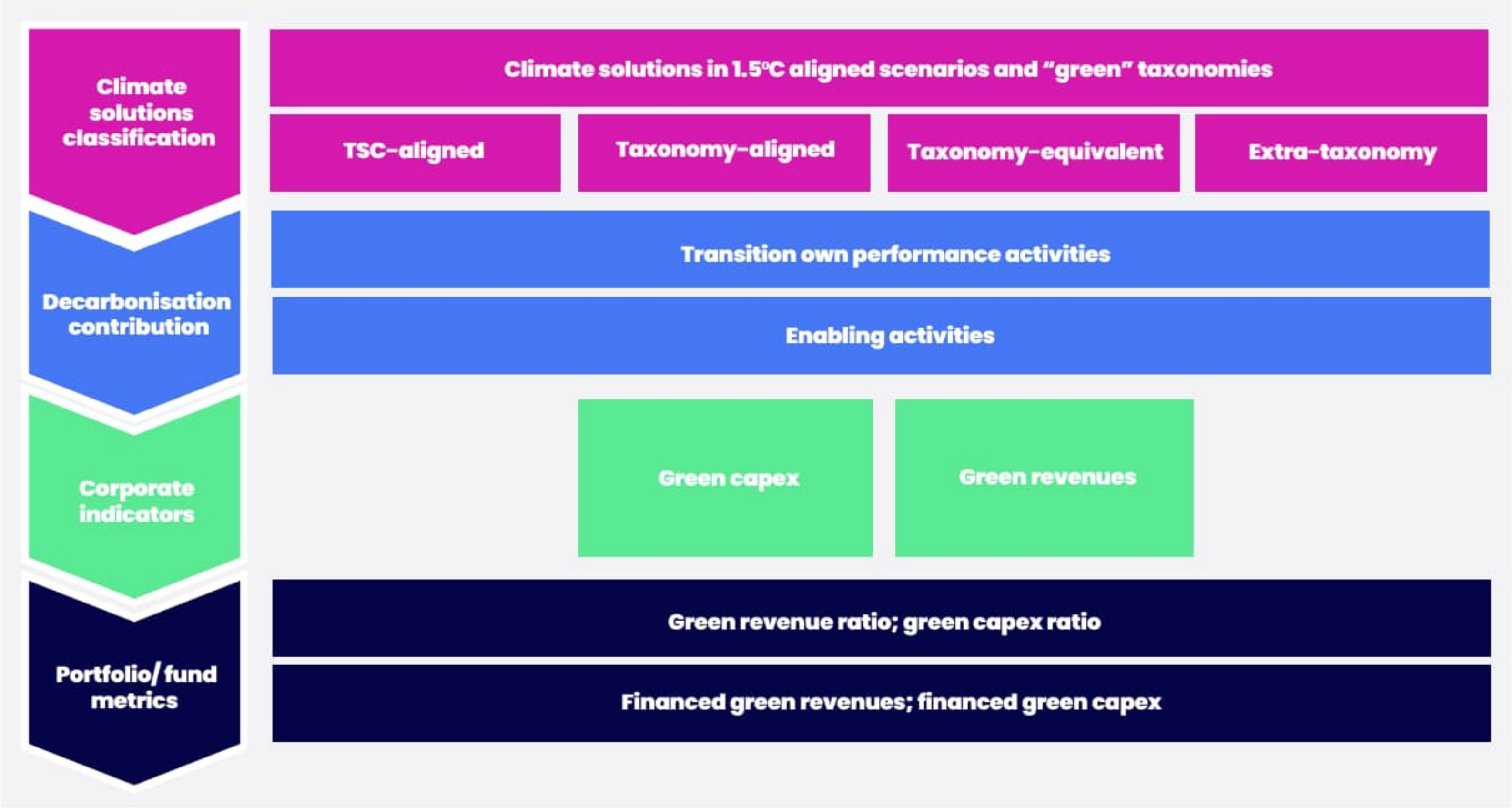
Evolving guidance - approach to classifying and calculating green revenues and green capex

1. Solutions classification: Identify and classify activities, products and services that contribute to emissions reductions using net zero screening criteria and/or local taxonomies.

2. Contribution type: Assess the type of contribution those activities make to decarbonisation.

3. Corporate indicators: Assess contribution of a corporate using revenue and capex data.

4. Portfolio/fund metrics: Aggregate corporate green activity up to portfolio or fund level.



Source: IIGCC Investing in climate solutions: listed equity and corporate fixed income, Sept 2023

Summary & Next Steps

Summary

Four strategic pillars

Key areas of progress to date:

- **Listed Equity decarbonisation is ahead of target.**
- **Good progress on total fund climate solutions** versus target (to have 30% invested in sustainable/transition aligned investments by 2025).

Extending portfolio coverage of carbon analysis

Total Fund

- **Total Fund decarbonisation**: **Progress required** to bring additional asset classes into target setting and take a "**whole of portfolio**" approach.
- **Private markets**: Use findings from the climate data exercise to explore whether target setting is possible given data availability within private debt, property and infrastructure.
- **MAC***: Start the conversation with Brunel around underlying managers' progress versus pledges.

Accelerating targets

- Current total Fund **net zero target is 2050**.
  - Consider if an **accelerated target** is feasible while balancing portfolio decarbonisation and meeting fiduciary duty of the Fund.
- The Fund is in a position to set **new targets**:
  - **Alignment and stewardship** for listed equity portfolio.
  - **Decarbonisation target** for **corporate bond** portfolio.

Engagement

- How to achieve targets is important, with **stewardship needed** to play a key role. Develop a more **formal engagement plan** for key emitters in the portfolio.

Selective divestment

- **Selective divestment of fossil fuel companies is a theoretical option** for the Fund but implementation is a challenge due to pooling. Should be explored as part of a suitable governance framework.

*Multi-asset credit

Mercer

Next Steps

Key decisions and recommendations

Accelerating targets

- Net zero by 2045/2050 balances portfolio decarbonisation and meets fiduciary duty of the Fund
- Proposed corporate bond target is 60% emissions reduction by 2030

Engagement Plan

- Develop a more formal engagement plan for key emitters in the portfolio

Selective Divestment/Exclusions

- Selective divestment/exclusions of fossil fuel companies is an option to be used in combination with stewardship

Other areas to take forward in the short to medium term:

Continue to evolve TCFD reporting for stakeholders, including climate impact

Explore nature based solutions and evolve green solutions measurement

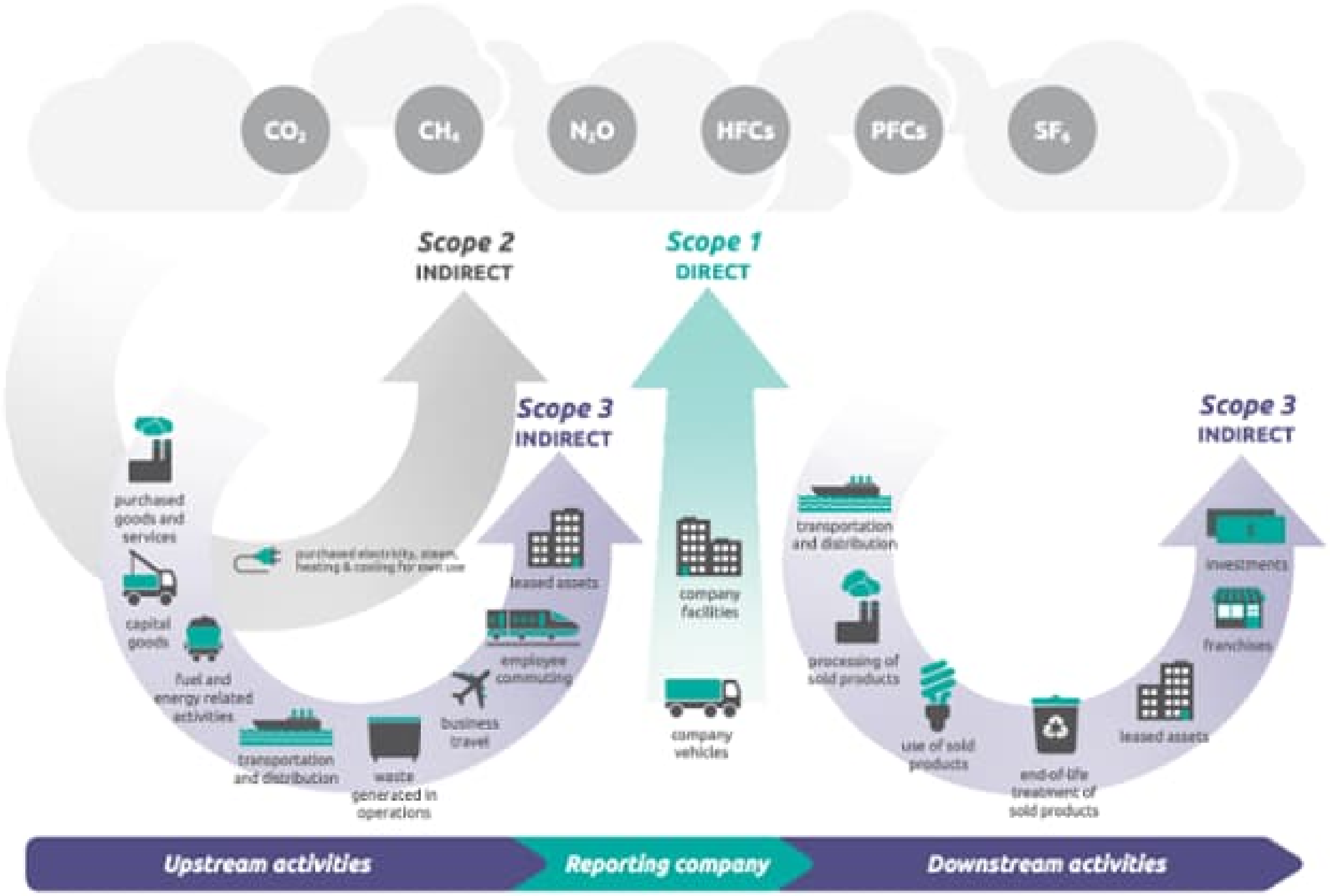
Develop approach to alignment and stewardship targets

Extend approach beyond listed equity and corporate bonds

APPENDIX

Emissions Data
Understanding the Scopes

Page 66



Low Carbon Transition

Portfolio Metrics Summary

Weighted Average Carbon Intensity (WACI)	Carbon Footprint
• Operational carbon emissions • **Carbon emissions (Metric tons) / $ Million revenue * portfolio weights** • Measures the portfolio's exposure to emissions-intensive companies	• Operational carbon emissions • **Carbon emissions (Metric tons) / $ Million investment * portfolio weights** • Allows for portfolio decomposition and attribution analysis

Measures of 'current' emissions intensity

Page 67

Absolute Emissions	Implied Temperature Rise
• Operational carbon emissions • **[Carbon emissions (Metric tons) * value of investment/company enterprise value] * portfolio weights** • Measures the portfolio's exposure to companies with high absolute emissions	• The implied temperature trajectory of a company's operations • **Expressed as ^{0}C** • Allows for tilting of the portfolio towards companies with a <2^{0}C implied temperature rise, to show alignment with the Paris Agreement ambition

Measure of absolute emissions

Measure of transition alignment

Decarbonisation – Emissions Metrics
Notes on the Analysis

- The analysis focuses on the Listed Equity portfolio and corporate bond and LDI holdings, showing contributions to Fund emission metrics. We assess carbon dioxide “equivalent” metrics.
- Caution should be exercised in interpreting individual data points, as in reality, emissions may differ, given the data coverage in the analysis is less than 100%. Where companies do not have data points, companies are assumed to have the same carbon metrics as the average of companies that we do have data points for, therefore we do not assume that companies have zero emissions because we do not have data for them.
- Emissions are likely underestimated as Scope 3 emissions are not included in the metrics presented within. Although we do present an overview of the attribution of Scope 3 emissions by fund and sector as part of our detailed analysis.

Scenario model limitations

Climate scenario modelling is a complex process, with associated modelling limitations. In particular:

- The further into the future you go, the less reliable any quantitative modelling will be.
- There is a reasonable likelihood that physical impacts are grossly underestimated. Feedback loops or ‘tipping points’, like permafrost melting, are challenging to model particularly around the timing of such an event and the speed at which it could accelerate.
- Financial stability and insurance ‘breakdown’ is not modelled. A systemic failure may be caused by either an ‘uninsurable’ 4oC physical environment, or due to the scale of mitigation and adaption required to avoid material warming of the planet.
- Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.

Important Notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

In addition, some of the underlying data has been provided by MSCI which is ©2023 MSCI ESG Research LLC. Reproduced by permission. Although information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterestMercer

Mercer

A business of Marsh McLennan

This page is intentionally left blank

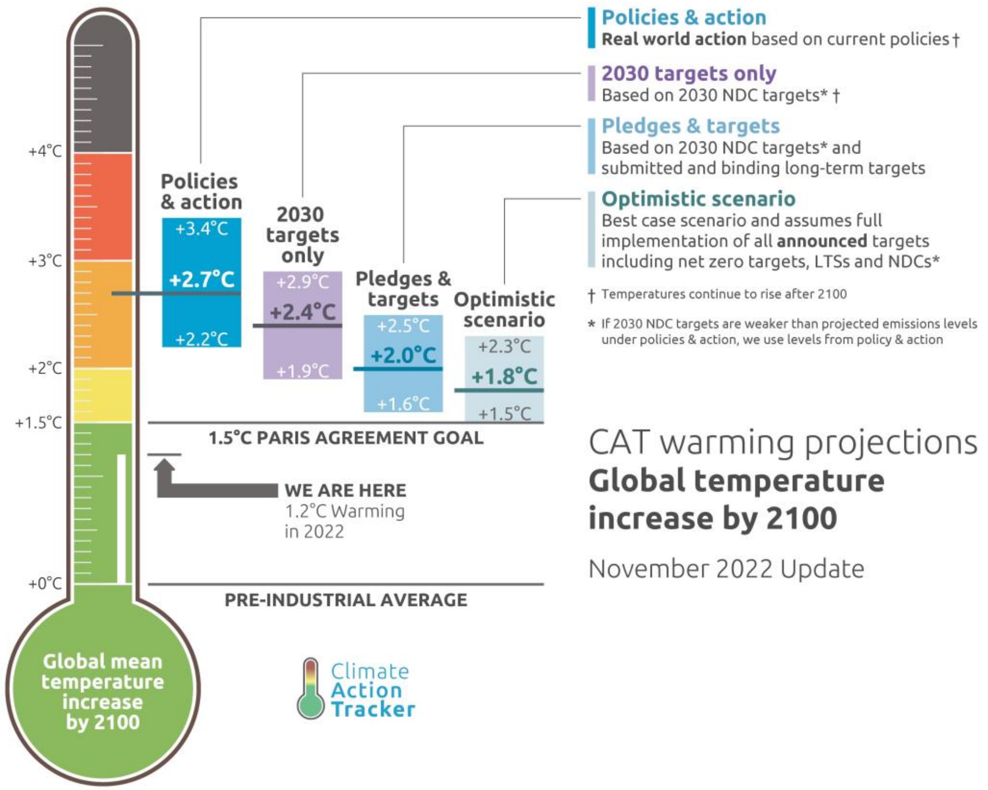
Brunel
Pension Partnership

Climate action and progress

Faith Ward, Chief Responsible Investment Officer, Brunel
Vaishnavi Ravishankar, Head of Stewardship, Brunel

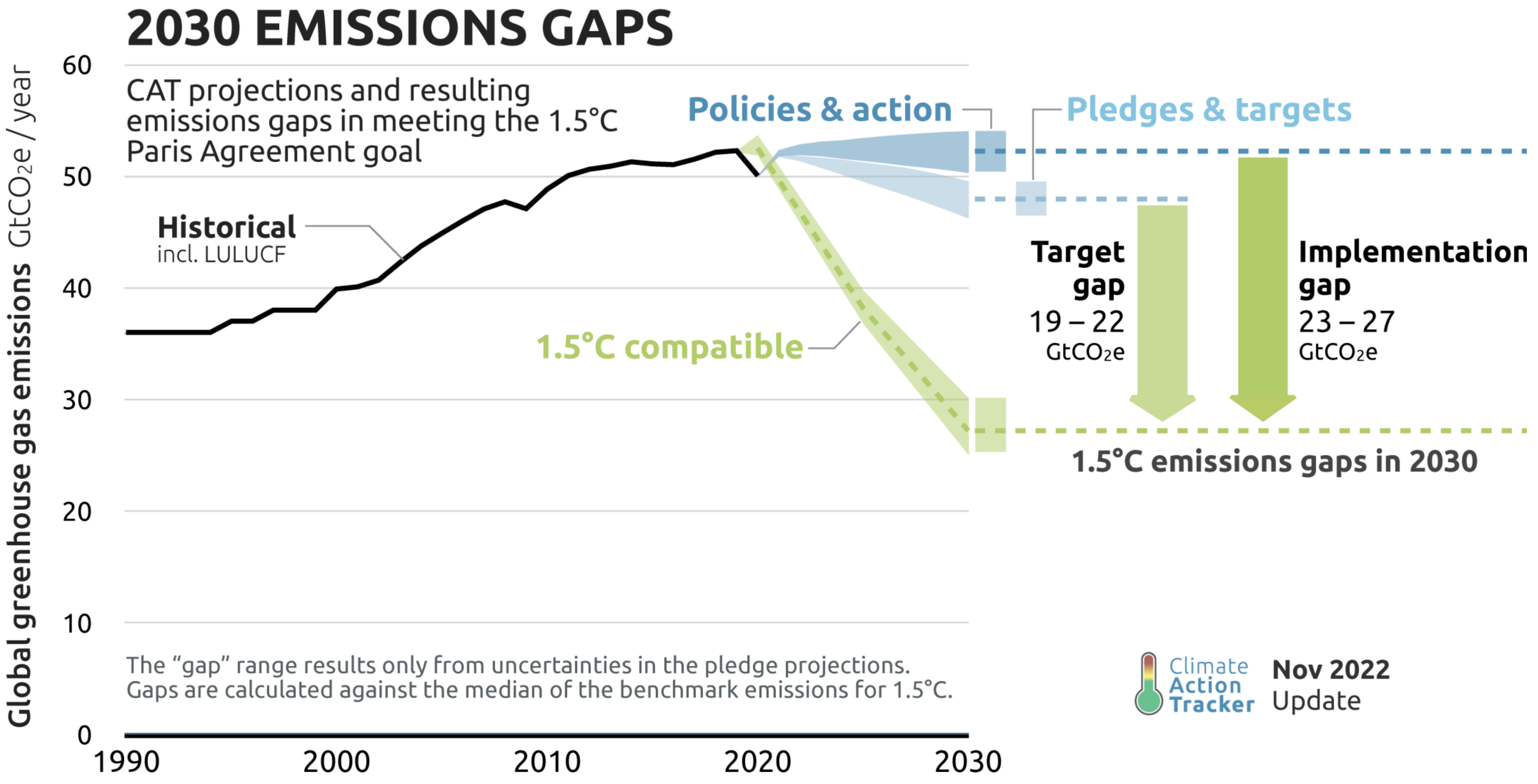
19 October 2023

Setting the scene



Climate Action Tracker (2022). The CAT Thermometer. November 2022. Available at: https://climateactiontracker.org/global/cat-thermometer/

Brunel Pension Partnership



Climate Action Tracker (2022). 2030 Emissions Gap: CAT projections and resulting emissions gap in meeting the 1.5°C Paris Agreement goal. November 2022. Available at: https://climateactiontracker.org/global/cat-emissions-gaps/.

Brunel Pension Partnership

Where does this leave the finance sector?

Good news

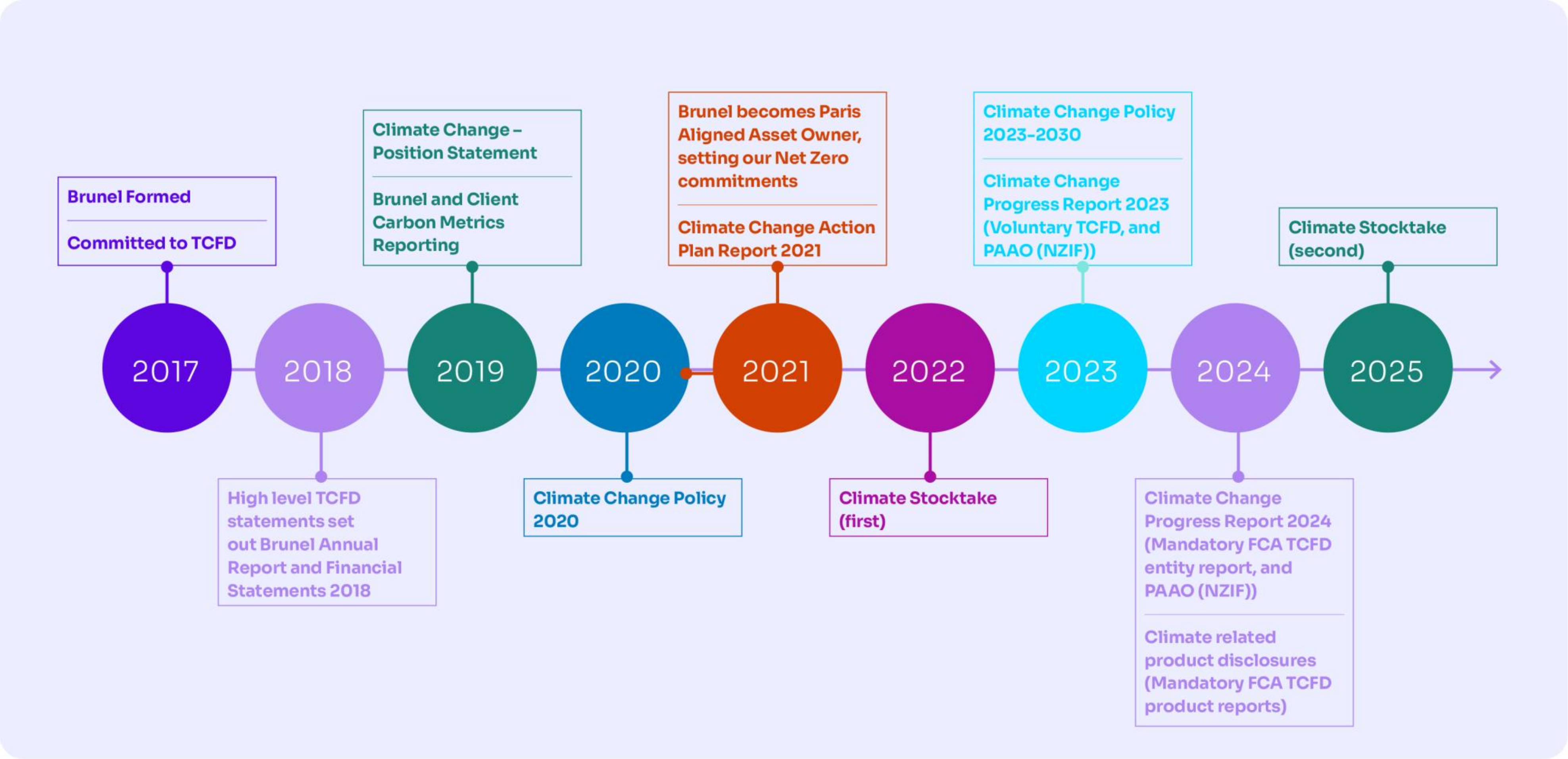
- Inflation Reduction Act
- Fit for 55
- Green Finance Strategy
- International Sustainability Standards Board
- Corporate and finance sector reporting requirements
- 60% of UK pension funds have net zero alignment in place

Bad news

- Politicisation on climate and ESG, USA and spreading
- Fracturing in response
- Policy instability – rollback on commitments
- Corporate green washing and or green hushing
- Unintended consequences

Brunel Pension Partnership

Key milestones



Brunel
Pension Partnership

Brunel's climate change commitment

We commit to be **Net Zero on financed emissions by 2050**, with the goal of limiting global temperature rise to 1.5°C, and **Net Zero on our own operations (scope 1 and 2) by 2030**.

This commitment is made through the Paris Aligned Asset Owners, part of the Paris Aligned Investment Initiative (PAII).

Brunel
Pension Partnership

Climate beliefs

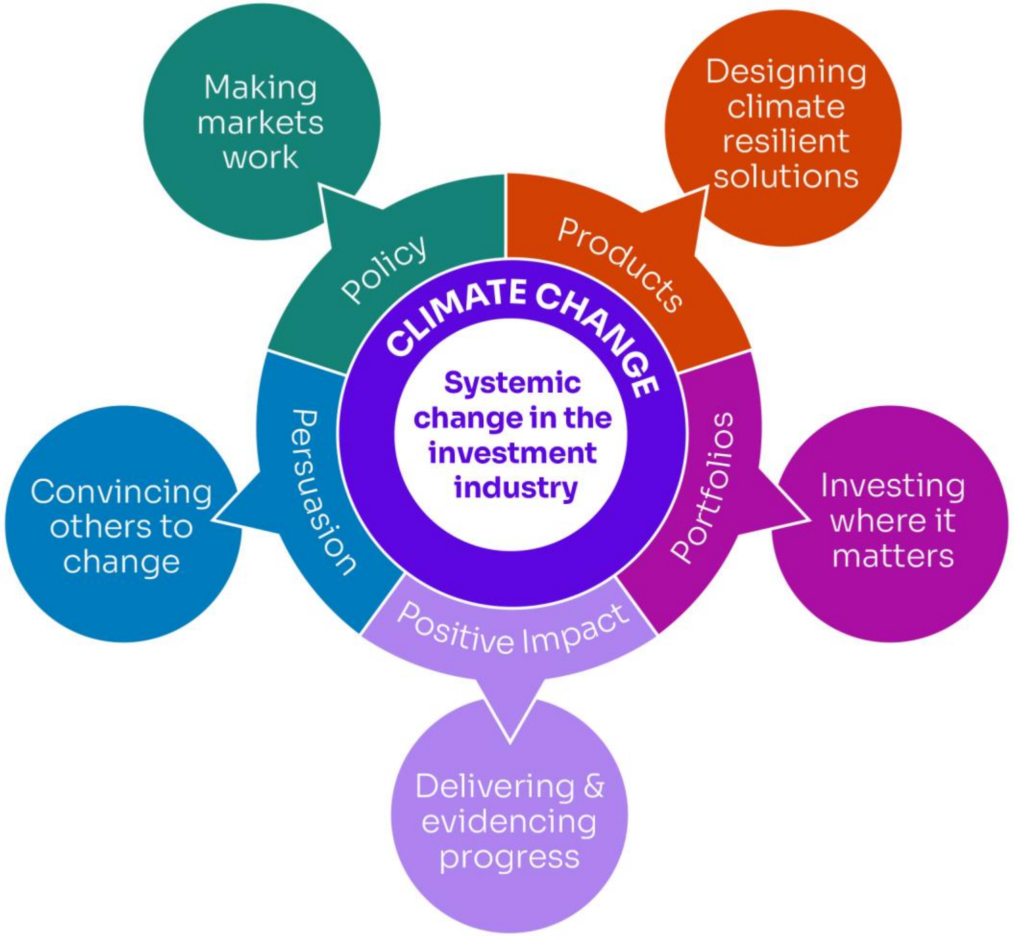
We believe that:

- Climate change presents a **systemic and material risk** to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our clients, their beneficiaries and **all portfolio holdings.**
- Investing to support the **Paris goals that deliver a below 2C°** and pursuing efforts to limit the temperature increase to 1.5° is entirely consistent with **securing long-term financial returns** and is aligned with the best long-term interests of our clients.
- For society to achieve a net-zero carbon future by 2050 (or before) requires **systemic change in the investment industry** and **equipping and empowering our clients** (and other investors) is central to this change.

Brunel Pension Partnership

Theory of change

Our priority to **catalyse change** in the financial system at scale looks not only to our own efforts, but to **partnership with others**, and to enabling our clients to be agents of change too.



Brunel
Pension Partnership

One size does not fit all

- UK's carbon emissions peaked in 1973 and the US in the 2000s; emissions in many EMs yet to peak
- Investments in different asset classes are at different stages of maturity in relation to assessment of ESG risk; data availability varies
- Differentiated strategy and targets to deliver a real-world real-economy transition

Brunel
Pension Partnership

Responsible Investment Priorities


Climate change

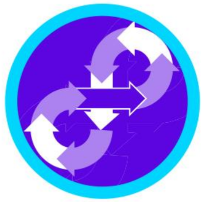

Biodiversity


Diversity, equity and inclusion


Human rights and social issues

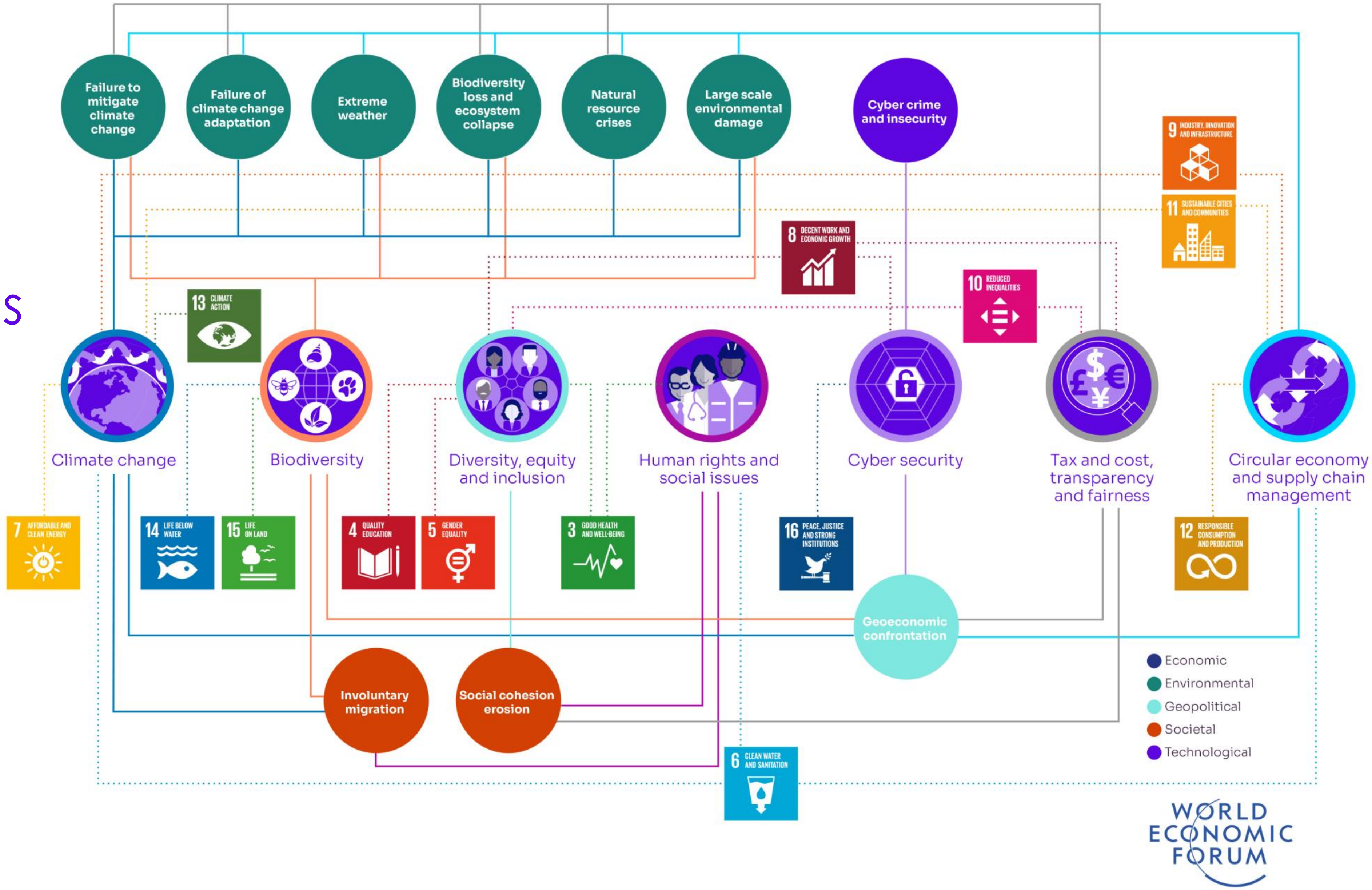

Cyber security

Tax and cost, transparency and fairness


Circular economy and supply chain management

Brunel Pension Partnership

Priorities linked to risk and opportunities



Brunel
Pension Partnership

Limitations

Roles and responsibilities defined by regulations

Multifaceted problems and solutions

Hard to demonstrate individual impact

Brunel
Pension Partnership

Brunel Pension Partnership

Public policy

FINANCIAL TIMES

THURSDAY 21 SEPTEMBER 2023 — NATIONAL NEWSPAPER OF THE YEAR — UK £3.50; Republic of Ireland €3.90

Why EU relies on China's rare earth minerals — BIG READ, PAGE 19

AI in schools could foster a love of learning — ANDY HALDANE, PAGE 21

Sunak sparks business backlash after U-turn on net zero pledges

● PM hails 'pragmatic' approach ● Labour vows to reverse key change ● Carmakers oppose delays

GEORGE PARKER, LUCY FISHER AND JIM PICKARD

Briefing

- Consultants and junior doctors launch joint strike
- Military drone cost soars
- Rents rise at record pace
- US interest rates held
- Italy to probe Ryanair
- Chelsea raises $500mn
- Uber warns on gig law
- Repression is good for you

Brunel joins others to urge the UK Prime Minister not to delay key net zero targets - Brunel Pension Partnership

Brunel
Pension Partnership

Policy makers and regulators

ISSB

Global baseline in corporate reporting

IIGCC
Institutional Investors Group on Climate Change

EU and UK Policy commitments, with robust implementation plans

TPT Transition Plan Taskforce

Defining the gold standard of private sector climate transition plans

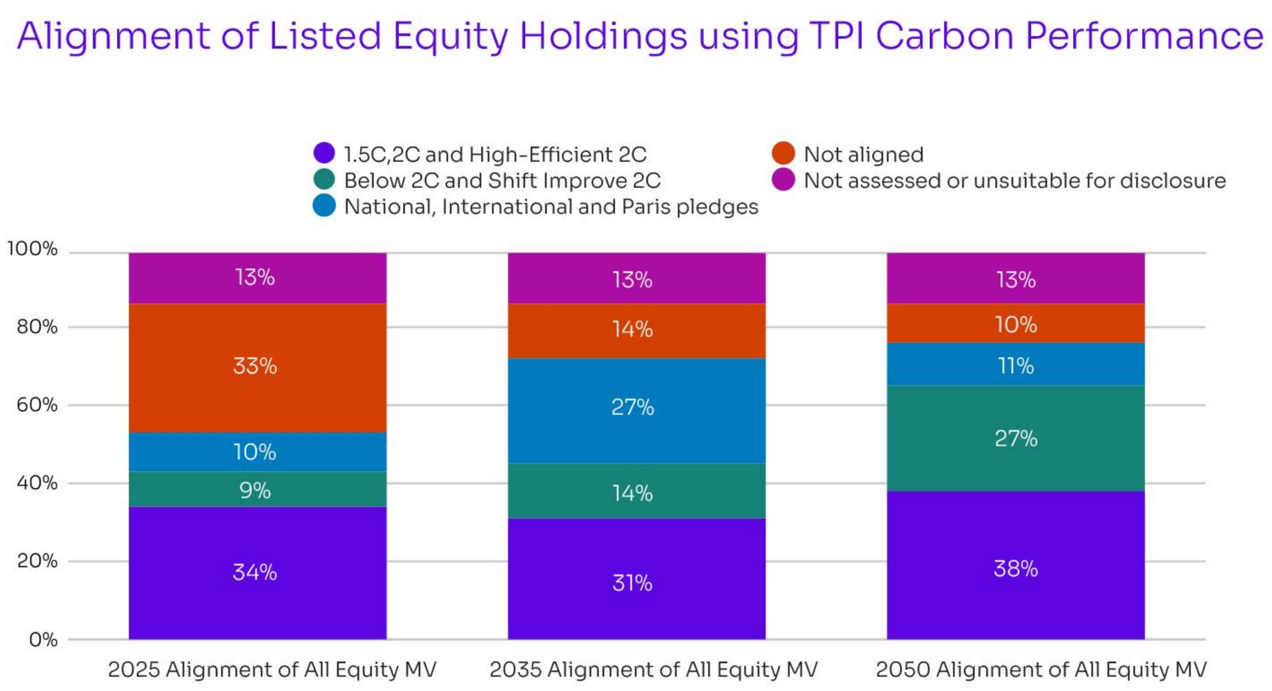
GTAG
Green Technical Advisory Group

Defining economic activities as "environmentally sustainable"

Brunel
Pension Partnership

Products

- Reduction in holdings that are 'not aligned'
- Increase in 'Below 2C and Shift Improve 2C' aligned holdings
- Increase in '1.5C,2C and High-Efficient 2C alignment' from 2025 compared to 2050.



Products

Achieving net zero	Aligned to a net zero pathway	Aligning towards a net zero pathway	Committed to aligning	Not aligned
Current emissions at/ close to 2050 net zero level + investment plan/business model in line with net zero	Higher impact companies: criteria 1-6 Lower impact companies: criteria 2, 3 ,4	Criteria 2, 4, + partial fulfilment of criteria 5	Criteria 1	All other companies

Brunel Pension Partnership

Assessing the alignment of an asset

NZIF Alignment Criteria		Description
Core	1. Ambition	A long term 2050 goal consistent with achieving global net zero
	2. Targets	Short- and medium-term emissions reduction targets (scope 1, 2 and material scope 3)
	3. Emissions performance	Current emissions intensity performance (scope 1, 2 and material scope 3) relative to targets
	4. Disclosure	Disclosure of scope 1, 2 and material scope 3 emissions
	5. Decarbonisation Strategy	A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green and, where relevant, increases in green revenues
	6. Capital Allocation	A clear demonstration that the capital expenditure of the company is consistent with achieving Net Zero emissions by 2050
Additional Criteria	7. Climate policy engagement	The company has a Paris-Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities
	8. Climate governance	Clear oversight of net zero transition planning and executive remuneration linked to delivering targets and transition
	9. Just transition	The company considers the impacts from transitioning to a lower carbon business model on its workers and communities
	10. Climate risk and accounts	The company provides disclosures on risks associated with the transition through TCFD Reporting and incorporates such risks into its financial accounts

Brunel
Pension Partnership

Brunel portfolio decarbonisation

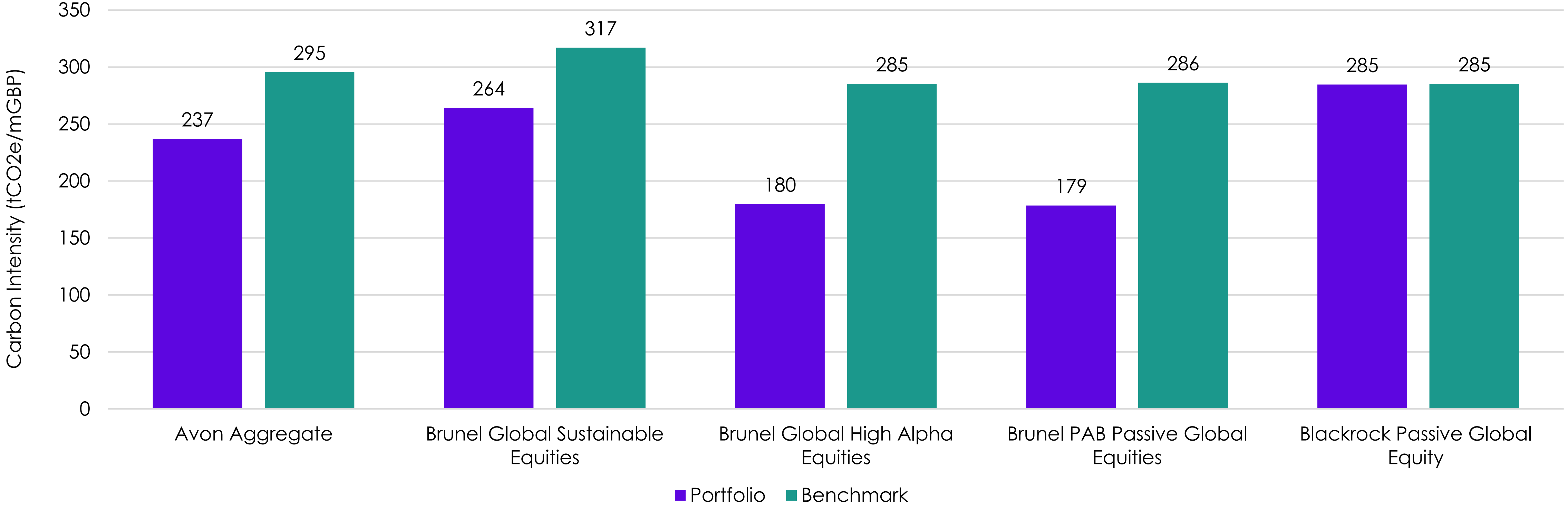
Portfolio	Reduction %	2022 Portfolio	2019 Baseline
Brunel Aggregate	34.68%	224	343
Active Portfolios			
Brunel UK Active Equities	21.91%	220	282
Brunel Global High Alpha Equities	40.22%	180	301
Brunel Emerging Markets Equities	44.70%	315	570
Brunel Low Volatility Global Equities	40.16%	200	334
Brunel Global Sustainable Equities	20.89%	264	334
Brunel Global Small Cap Equities *	32.25%	209	309
Brunel Sterling Corporate Bonds**	17.52%	152	184
Passive Portfolios			
Brunel Passive Smart Beta	12.81%	483	554
Brunel Passive UK Equities	-5.80%	298	281
Brunel CTB Passive UK Equities	10.96%	250	281
Brunel Passive Developed Equities	5.65%	286	303
Brunel PAB Passive Global Equities	41.08%	179	303
Brunel CTB Passive Global Equities	26.13%	224	303

* Trucost updated methodology in 2020 means we have taken December 2020 as a baseline for the Brunel Global Small Cap Equities

** This Portfolio has a baseline of 31 December 2021

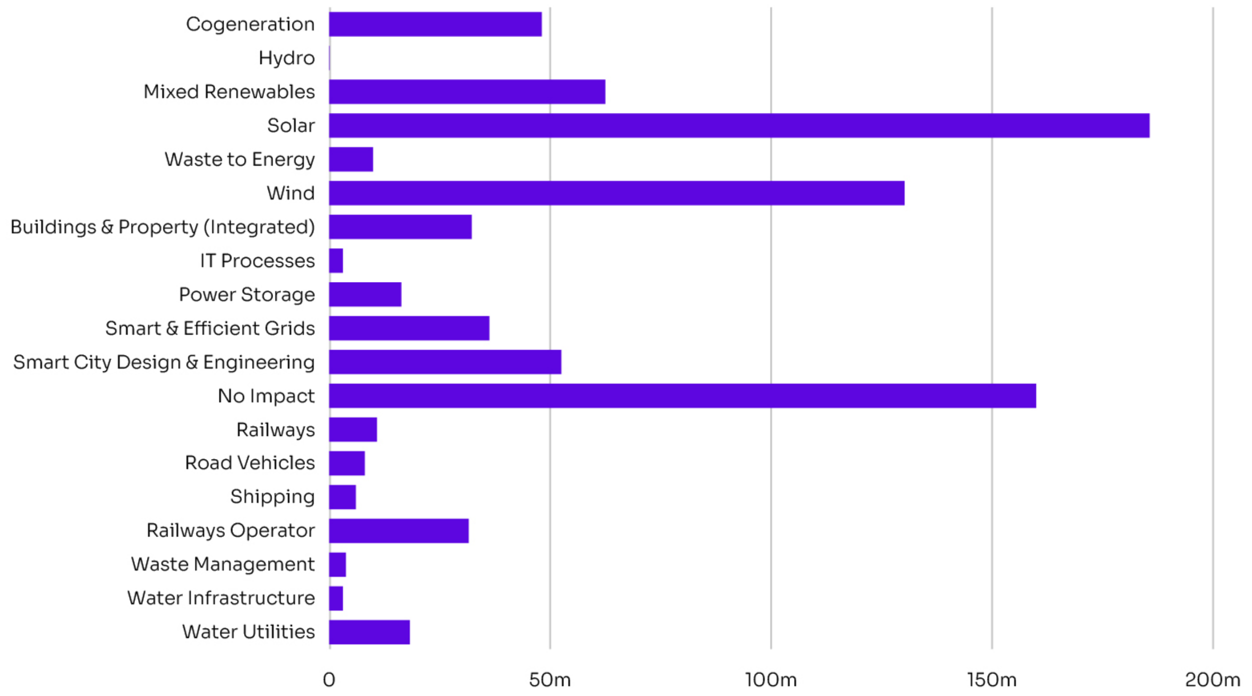
Avon portfolio decarbonisation

Carbon Intensity



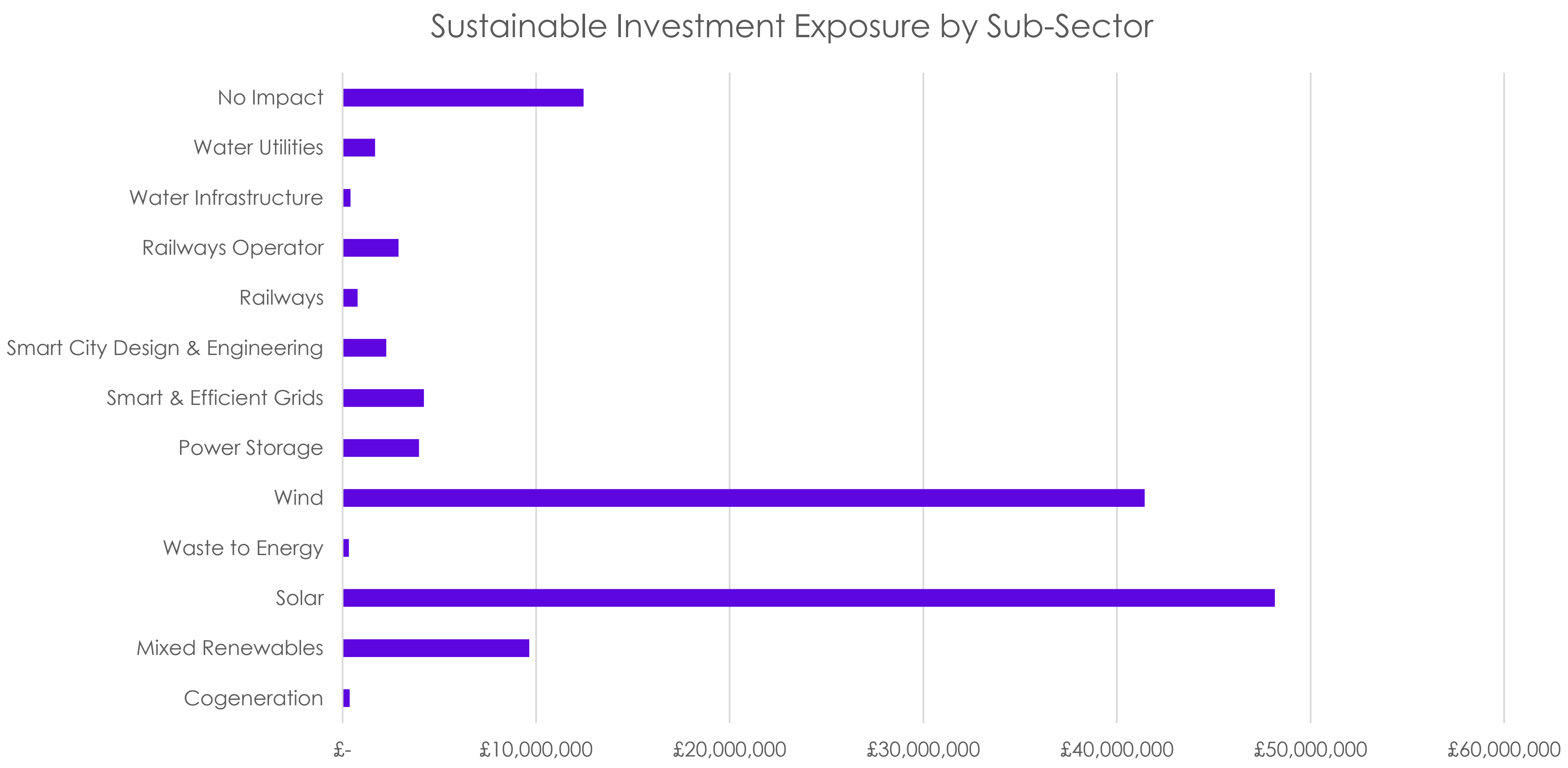
Positive impact

Sustainable Investment Exposure Breakdown by Sub-Sector



Brunel
Pension Partnership

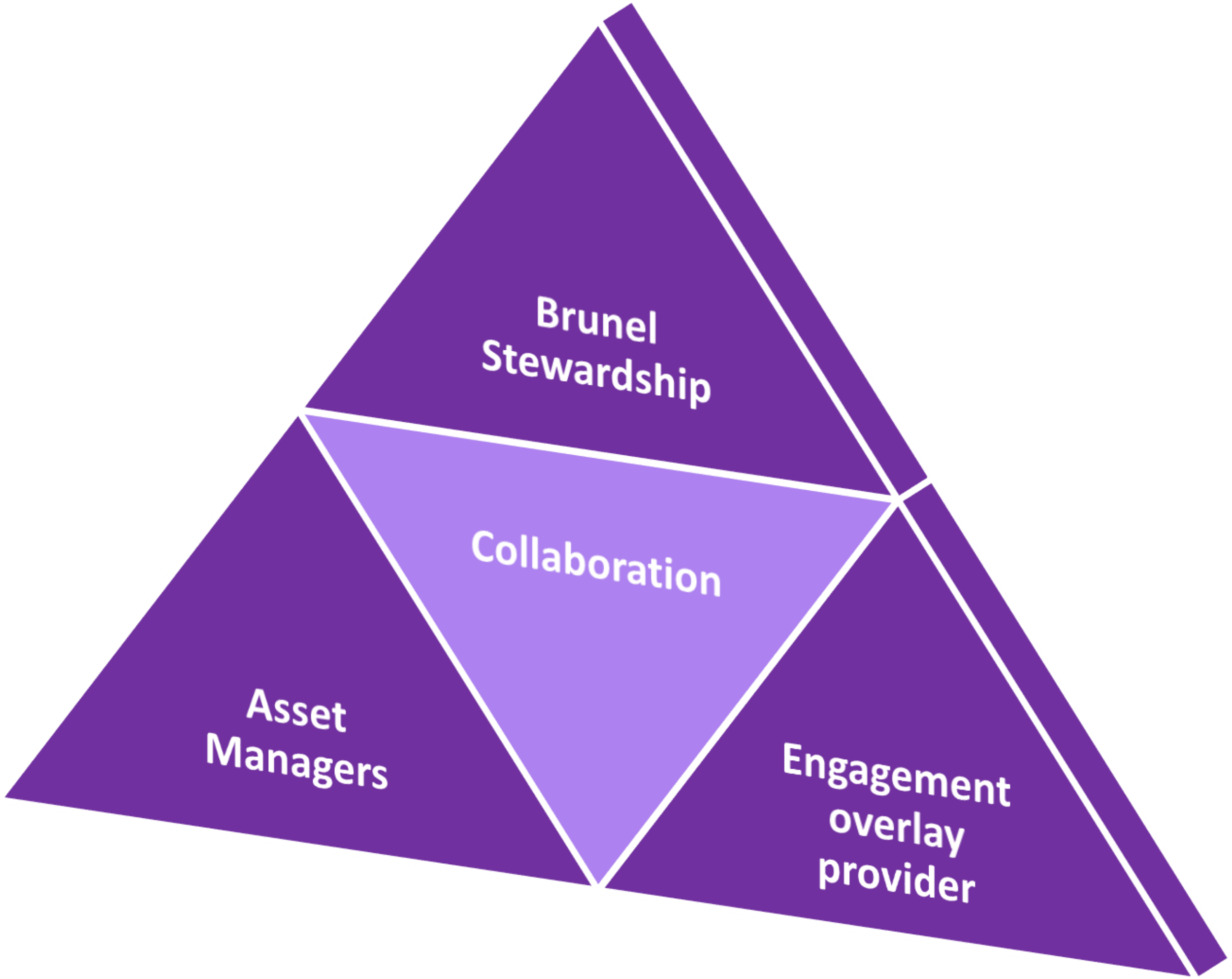
Positive impact - Avon



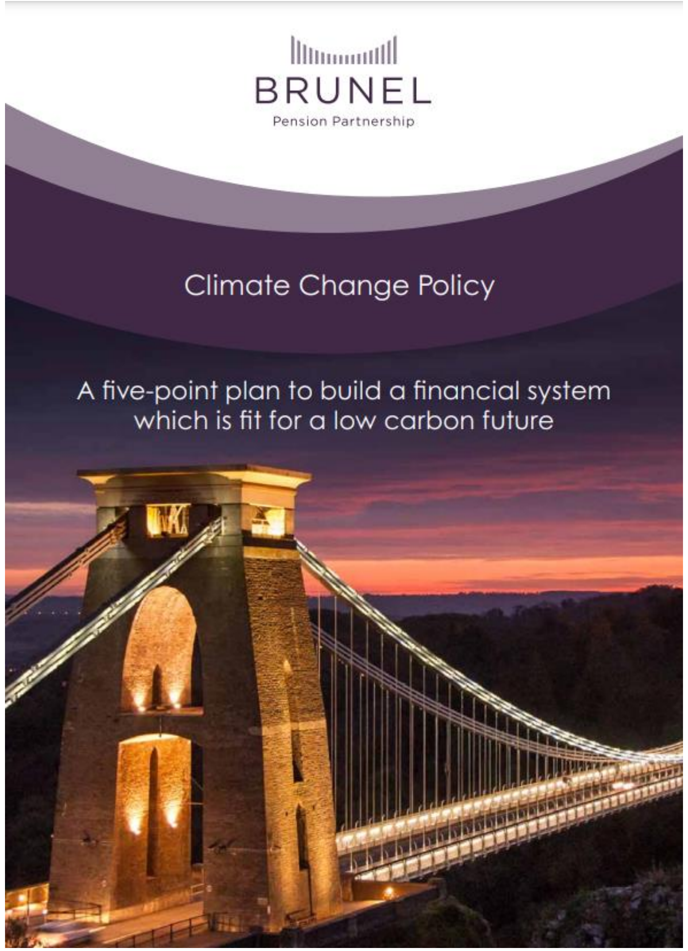
Brunel
Pension Partnership

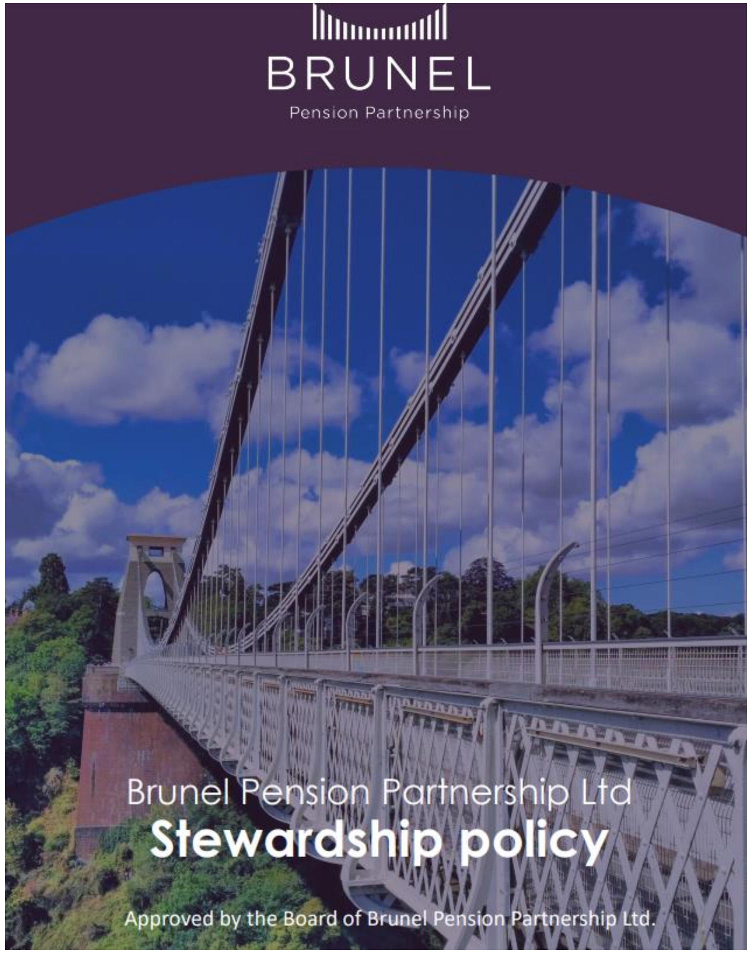
Brunel
Pension Partnership

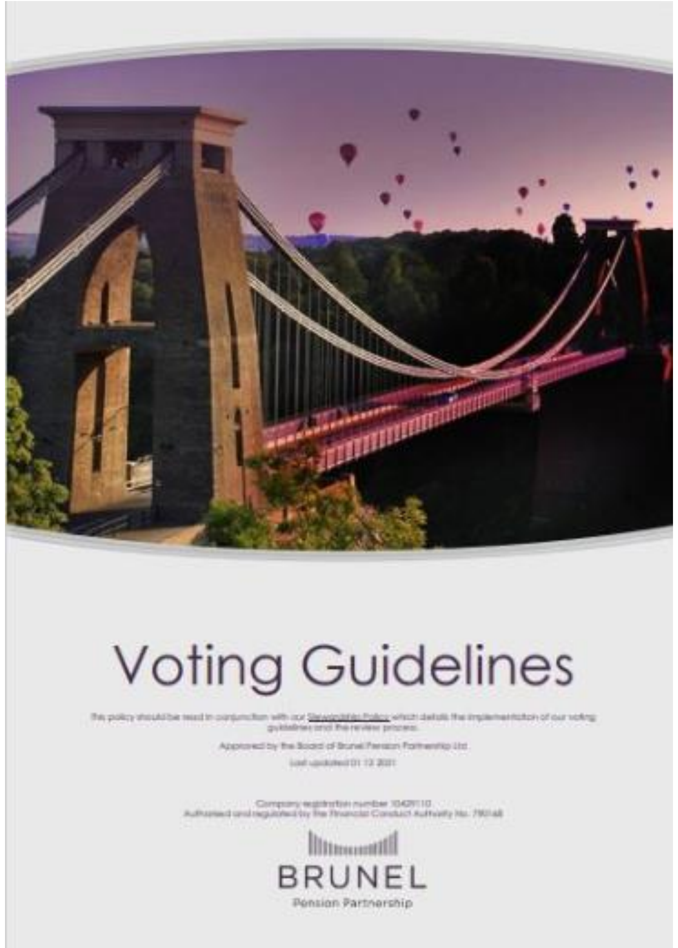
Persuasion



Brunel
Pension Partnership







Brunel
Pension Partnership

Engagement


EOS Engagement Plan
2023-2025
Public version
Federated Hermes
EOS
www.hermes-investment.com
For professional investors only

Global

We engaged with 463 companies

Environmental 28.5%
Governance 36.4%
Social 23.8%
Strategy, Risk & Comm 11.3%

Environmental topics featured in 28.5% of our engagements

Circular Economy & Zero Pollution 15.2%
Climate Change 69.1%
Natural Resource Stewardship 15.7%

Source: Hermes EOS (Q2 2023 data)

Brunel Pension Partnership

Engagement and voting - Avon

We engaged with 352 companies

- Environmental 26.4%
- Governance 37.0%
- Social 24.7%
- Strategy, Risk & Comm 11.9%

Environmental topics featured in 26.4% of our engagements

- Circular Economy & Zero Pollution 15.2%
- Climate Change 68.1%
- Natural Resource Stewardship 16.7%

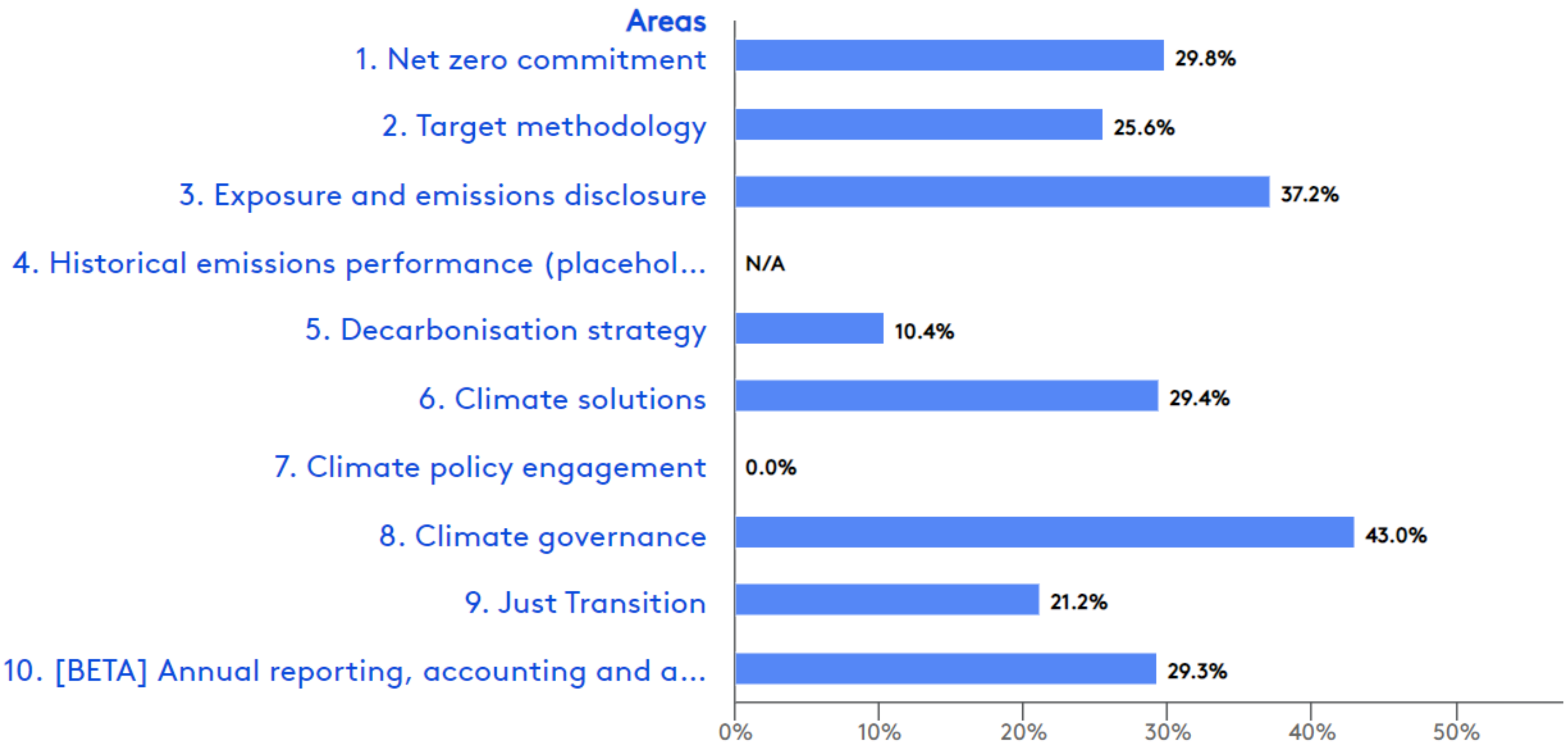
We made voting recommendations at 454 meetings (6,430 resolutions) over the last quarter.

- Total meetings in favour 27.5%
- Meetings against (or against AND abstain) 66.5%
- Meetings abstained 0.2%
- Meetings with management by exception 5.7%

Source: Hermes EOS (Q2 2023 data)

Brunel Pension Partnership

Banks – preparedness for low-carbon transition



Average scores on alignment across ten key areas
Source: The Transition Pathway Initiative Global Climate Transition Centre

Engagement on banks

IIGCC
Institutional Investors Group on Climate Change

ShareAction

BARCLAYS

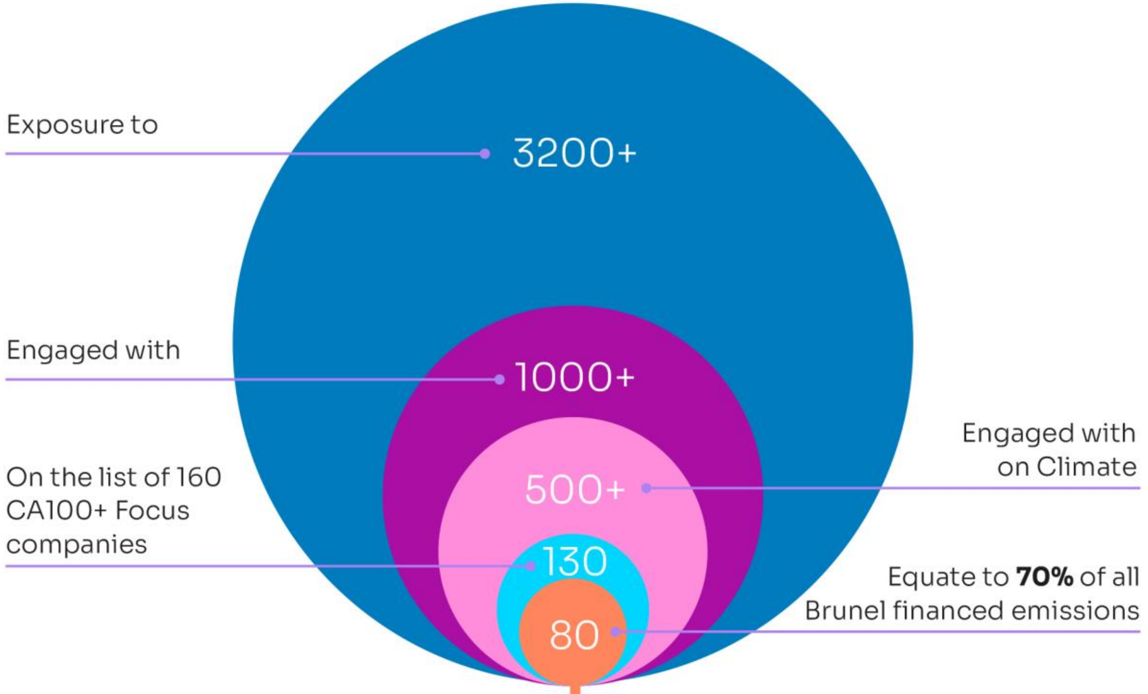
HSBC to stop new oil and gas project funding after backlash

Bank reacts to criticism of climate change policies with symbolic step to cut ties to fossil fuel development

Brunel Pension Partnership

Companies and assets

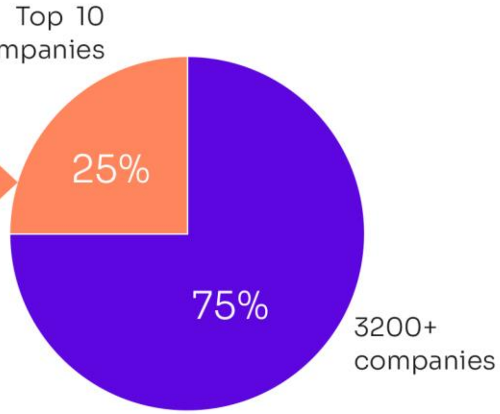
Climate Change



Rank	Company Name	% of Brunel financed emmissions
1	Shell plc	3.90%
2	Holcim Ltd	3.65%
3	Anglo American Plc	3.01%
4	Breedon Group plc	2.54%
5	BP p.l.c.	2.44%
6	Suncor Energy Inc.	2.07%
7	Anhui Conch Cement Company Limited	1.98%
8	CRH Plc	1.93%
9	Glencore Plc	1.92%
10	Steel Dynamics, Inc.	1.80%

Figures correct at December 2022

The top 10 companies are responsible for 25% of all of the Brunel financed emissions



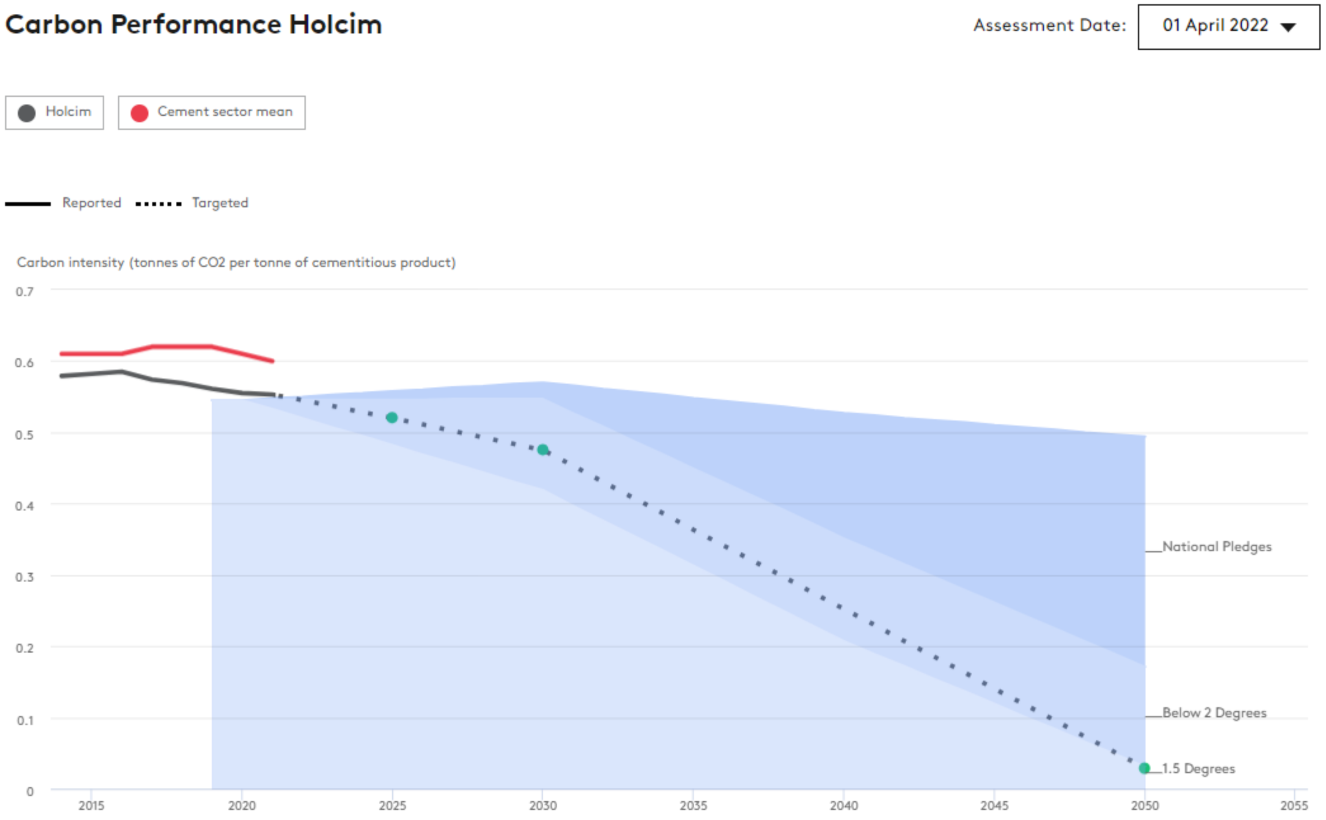
Brunel financed emissions

Brunel
Pension Partnership

Holcim Plc

HOLCIM

- 8 percent of all the world's CO_2 emissions from Cement manufacturing
- Holcim has made commitments which will align to 1.5C
- 20% Group Capex on carbon reduction projects in Europe



Page 103

Brunel
Pension Partnership

Shell Plc

- Concerns relating to climate change strategy
- Vote against CEO and Chair
- Voted against Shell's Energy Transition Progress
- Voted for shareholder resolution on climate change targets

Brunel Pension Partnership

Glencore

Voted against the approval of their 2022 climate report due to inadequate management of climate-related risks from exposure to coal

Voted for shareholder resolution: disclosure on the alignment of its thermal coal production and related capital expenditure to the Paris Agreement's 1.5°C goal

Source: https://www.responsible-investor.com/esg-resolution-round-up-iss-and-glass-lewis-reject-glencores-climate-report/

Brunel
Pension Partnership

Berkshire Hathaway

- Hermes co lead CA100+
- Shareholder resolution co-filed with Brunel by Hermes in 2021 and 2022
- In 2023, votes against the entire audit committee due to an ongoing failure to recognise climate-related financial risks in the financial statements and auditor's report.
- Supported 3 shareholder proposals on climate disclosure including 2 from CA100+ leads

Brunel
Pension Partnership

Engagement with Asset managers

Net Zero Investor
2,257 followers
3d •

Breaking : The UK Asset Owner Roundtable has outlined details of its investigation into stewardship alignment on climate between asset owners and managers.
...see more

UK asset owners reveal details of stewardship alignment study - Net Zero Investor - Net Zero Investor
netzeroinvestor.net • 3 min read

PROFESSIONAL PENSIONS SUSTAINABLE INVESTMENT HUB In partnership with ROBECO The Investment Engineers

UK Asset Owner Roundtable convenes asset managers over proxy voting concerns

Asset owners concerned that short-termism is
ng the long-term interests of schemes

n Stapleton
y 2023 • 1 min read

estor concern about how investment managers are exercising proxy voting at annual meetings

wner Roundtable is convening a meeting of major fund managers following
a perceived misalignment between investors' long-term interests and how
nagers are exercising proxy voting at the annual meetings of oil and gas

United Kingdom

UK pension funds 'concerned' over asset manager climate vote record

Reuters
May 17, 2023 1:14 PM GMT+1 · Updated 9 days ago

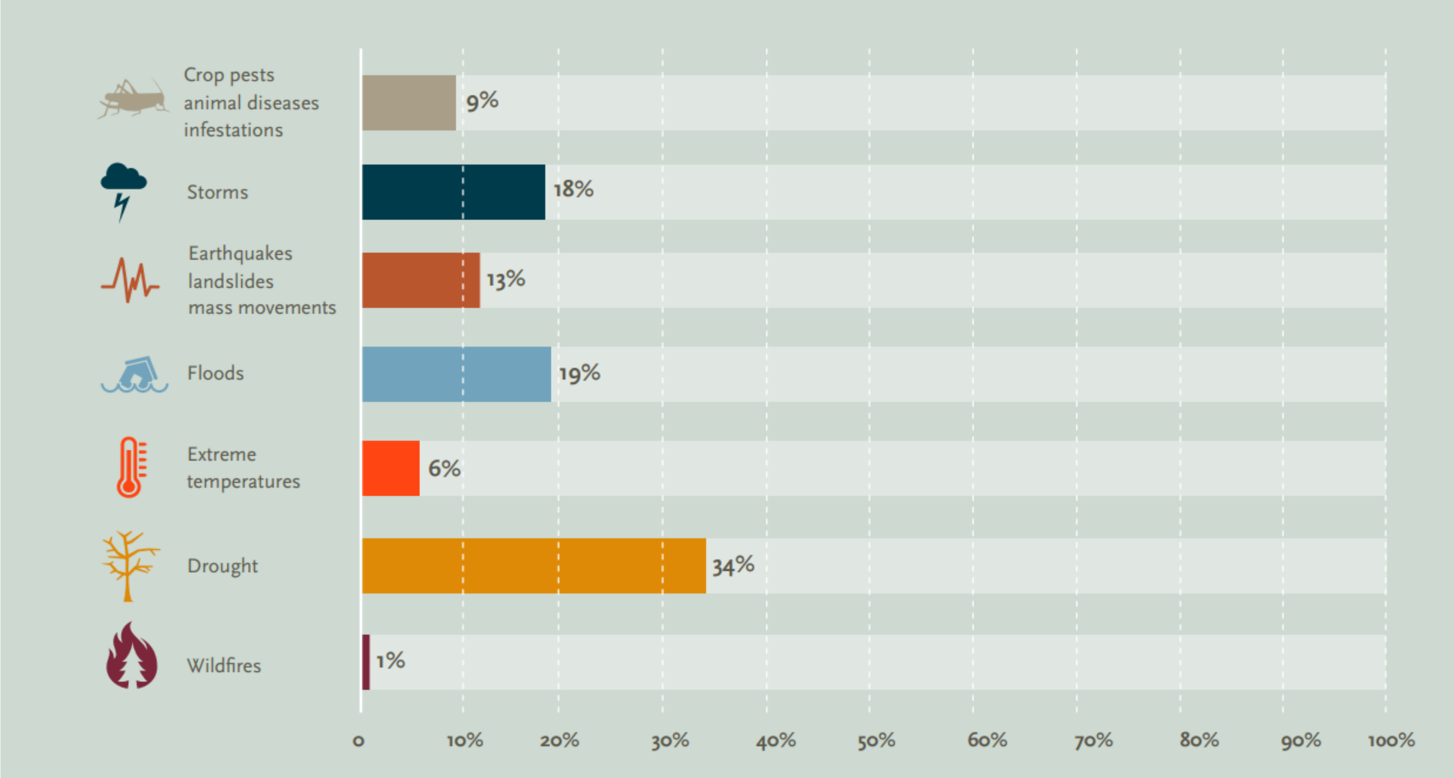
A view shows buildings in the City of London financial district in London, Britain, October 27, 2022. REUTERS/Maja Smiejkowska/File Photo

LONDON, May 17 (Reuters) - A group of UK-based pension schemes and other asset owners is concerned about how the asset managers they employ to run their money are voting on climate-related issues at European oil and gas companies.

Faith Ward, chair of the UK Asset Owner Roundtable, said in a LinkedIn post it planned to meet with major fund managers after the current proxy voting season to go over the votes amid concern their long-term interests were not being served.

Climate physical risk engagement

- Brunel-led (facilitated by Chronos) over 2 years
- Focus on 20 consumer staples (food and agriculture)
- Selected based on portfolio exposure, vulnerability, high impacts and dependencies on biodiversity



Total crop and livestock production loss per disaster type, Least Developed Countries (LDCs) and Lower-middle Income Countries (LMICs), 2008–2018
Source: [The impact of disasters and crises on agriculture and food security: 2021 (fao.org)]

Water utilities engagement

- Phase 2 of the engagement led by Royal London Asset Management
- Targeting 11 UK water companies
- Engagement covering 4 key areas in the investor expectations

Adaptation to climate physical risk (pollution, climate adaptation and resilience)	Biodiversity (Natural Capital Preservation restoration and reporting)
Affordability (Just transition and vulnerable customers)	AMR

Brunel
Pension Partnership

Other areas of focus

Nature Action 100

Mining 2030

Brunel
Pension Partnership

Disclaimer

This content is produced by Brunel Pension Partnership Limited (Brunel). It is for the exclusive use of the intended recipient and is neither directed to, nor intended for distribution or use by others, including any person who is a citizen of or resident in any jurisdiction where distribution, publication or use of this document would be contrary to applicable law or regulation.

This content is provided for information purposes only. It does not constitute advice or an offer or a recommendation to buy, or sell, securities or financial instruments. It is not intended to be relied upon by any person without the express written permission of Brunel.

Brunel is authorised and regulated by the Financial Conduct Authority, reference no. 790168.

Brunel
Pension Partnership

Q&A

Engagement session feedback summary

- Number of attendees: 172

- Audiences:
  - 4 sets of councillors: Bristol, B&NES, North Somerset, S Gloucestershire
  - Unions, APF staff
  - Employers
  - Pension Committee & Pension Board
  - Section 151 Officers

During October-November 2023 we gathered views on investments and net zero. We spoke with c.172 stakeholders in discussions led by APF officers covering climate challenges and trade-off choices. We also received c.5,000 responses from members to an APF survey.

Members expressed well-informed and passionate views, with a wide range of opinions, e.g. some members think climate change is the biggest issue we face, whereas others think pension Funds should solely prioritise financial returns.

Generally among key stakeholders and members, there is broad support for driving real-world impact and seeking greater ambition on climate change while not putting the Fund at risk. This tended to converge on a fresh net zero target of 2040-2045.

Measuring carbon emissions and fossil fuel investments

Stakeholders were very interested in carbon emissions and the Fund's pathway to net zero. They were especially keen to understand how carbon emissions are measured, the proportion of our investments are covered by carbon measurements, and which emissions are covered by our analysis (scope 1 & 2).

We confirmed that reported carbon emissions currently cover c.50% of the Fund's assets, which we are seeking to raise to 100% over the next few years as data quality improves. We also confirmed that we are on track (indeed exceeding) to achieving the Fund's current target of net zero by 2050.

Transition alignment

Stakeholders wanted to better understand how we assess companies' transition alignment. We confirmed that APF invests in companies which commit to net zero targets, evidenced by credible transition plans and milestones, with linkage to executive incentives, and underpinned by independent measurement.

In the context of real-world impact, we discussed trade-offs between investing in companies and sectors critical to net zero transition which may exhibit high carbon intensity today.

Stakeholders in general support investing in companies aligning towards net zero, even where they exhibit high carbon intensity today.

Local impact investments

There was keen interest, particularly among councillors, in our new £160 million allocation to local impact investments such as green energy and affordable housing.

Particular interest was shown in whether we could speak to local organisations such as Bristol City Leap, with whom we have subsequently had a meeting to discuss opportunities for investment in Bristol.

In addition to our upcoming investment in Wessex Gardens, we now have c.12 ideas for local investment which we will filter into a short list to be discussed with the Investment Panel in March 2024.

All stakeholders support the idea of making some local investments. And they generally agree that affordable housing and green infrastructure (e.g. solar / wind) across the South West could make attractive investments and achieve positive goals for wider society.

Greenwashing

Attendees expressed deep concern on greenwashing, i.e. bogus climate claims by commercial organisations. They wanted to understand how we avoid falling victim to greenwashing claims to ensure we drive honest and achievable real-world impact.

We explained the process our asset manager, Brunel, takes to mitigate greenwashing risk through due diligence of investment managers and explained the consistent application of best-in-class frameworks such as those adopted by the Institutional Investors Group on Climate Change. Disclosures and collaborative engagement were also discussed as factors used to mitigate the risk of greenwashing.

Stakeholders appear to seek more climate disclosure and simple examples which bring climate action to life.

Stewardship, engagement and divestment

The Fund has limited exposure to fossil fuels. Some attendees favoured divesting from high carbon emitters like Shell and preferred investing in companies which are already on their way to achieving net zero.

There was keen interest in how we engage companies on environmental issues. We explained that we invest through Brunel which selects 3rd party fund managers. Our voting & engagement activity is pooled with other asset owners and typically routed through the responsible investment consultant Hermes. And we work collectively with other responsible coalitions to influence companies to change their behaviour.

Stakeholders want to better understand whether we can influence big companies like Shell, or whether we would have more impact by divesting. We explained that divestment means no influence and that we can exert influence working with others such as the Local Authority Pension Fund Forum. We acknowledge disappointing recent decisions from energy companies on interim climate targets, partly driven by a shift of ownership away from responsible European pension funds towards North American investors. We discussed how we have responded using our voting rights as shareholders and worked with others to register shareholder resolutions at company AGMs.

Stakeholders wanted to know if our influencing strategy was succeeding. We explained that linking the Fund's engagement work with decisions made by individual companies is not feasible. Our voting and engagement provider, Hermes, has set sector specific engagement milestones designed to assess progress over time.

Stakeholders acknowledged that the 'Engagement vs Divestment' issue is complex and nuanced. They generally agreed that APF needs to do both as joint tools to constructively exert influence and encourage companies to accelerate their net zero path.

Risk vs return and employer contributions

Stakeholders wanted to understand whether we could compare current investment returns vs returns if we invest in companies already aligned to net zero. We explained that expected returns would be similar but that risk (dispersion of potential outcomes) would increase as we would invest in a narrower range of companies.

We also emphasised that, by investing in companies already projected to achieve net zero by 2030 would limit the Fund's ability to effect real world change.

Generally attendees, particularly in the local authority, gave strong consideration to the importance of maintaining stable employer contributions.

Responsible investments and good financial returns

Stakeholders wanted to understand how responsible investments perform. We explained that it is still early days and that we expect such investments to perform well in the long-term.

More specifically people wanted to know if investors sacrifice financial gains for an ethical approach and whether fees for ethical investing may be higher. We explained that we have a fiduciary duty to deliver financial returns and will not make decisions which compromise the Fund's aggregate risk/return profile. Furthermore we increasingly see alignment between climate investments and attractive financial returns.

Communication

The challenge was posed re. how APF and councillors can better communicate with local people, members, and others about our approach to responsible investment, especially when we invest in today's high emitters who will transition towards net zero. This subtlety is difficult to explain.

Having agreed the technical climate decisions in 2023, we agreed that in 2024 we need to focus on communication and explaining climate at a simpler level. Councillors especially want to hear more about the Fund's local investments and to communicate these clear in the press, especially when APF makes new renewable investments.

Target 1
Divest by 2030 from high impact companies not aligning or achieving net zero 2050

There is support for divesting from non-aligning companies by 2030.

- At the lunch and learn for B&NES staff, 76% agreed to this target.
- The Local Pension Board is in support.
- Unions broadly supported investing in companies aligning towards net zero, but felt the companies may need to be looked at on a case by case basis to see how well they're aligning. Some people thought we should divest from such companies before 2030.
- Others felt they needed to better understand the financial implications of divesting by particular dates before forming a view.

Target 2: Net zero – target years 2030, 2040, 2045, 2050

Stakeholders proposed a range of target dates, though there appeared to be little appetite for net zero 2030, given the material increase in risk, and by extension, the impact on employer contributions this could create.

There is support for bringing forward the Fund's net zero target, with more ambitious intermediate milestones, albeit within an acceptable level of risk, with a keen appetite to better understand the risks.

- Councillors generally understand that focusing on net zero 2030 companies would add significant risk to the investment portfolio. Some councillors thought we should aim for sooner, e.g. net zero 2030, whereas others thought they need to fully understand the risk of setting more ambitious targets before voicing an opinion.
- Among APF staff, the support was approximately: 2050 target-8%; 2045 target-67%; 2040 target-25%; 2030 target-0%.
- At the Local Pension Board, the general consensus was that they would welcome bringing forward the date, but they were keen to prudently manage investment risk - so 2045 seemed a good option. There was some thought to the potential for a 2040 target, but an acknowledgement this would bring risks which we may struggle to manage. General opinion net zero 2030 is too risky and net zero 2050 is insufficiently ambitious.
- Among unions, they felt there was a balance between protecting the Fund and reaching net zero, advising we should 'proceed boldly with caution'. There appeared to be broad support for bringing forward the Fund's net zero target.

NET ZERO

Summary

Engagement sessions & survey

Round 2

Autumn 2023

AVON PENSION FUND

Gathering stakeholder views

In autumn 2023 we gathered key stakeholders' views on our investments and net zero goals as part of a far-reaching climate review.

Engagement sessions - we spoke with 100s of stakeholders

Member survey – we surveyed 1,000s of our members

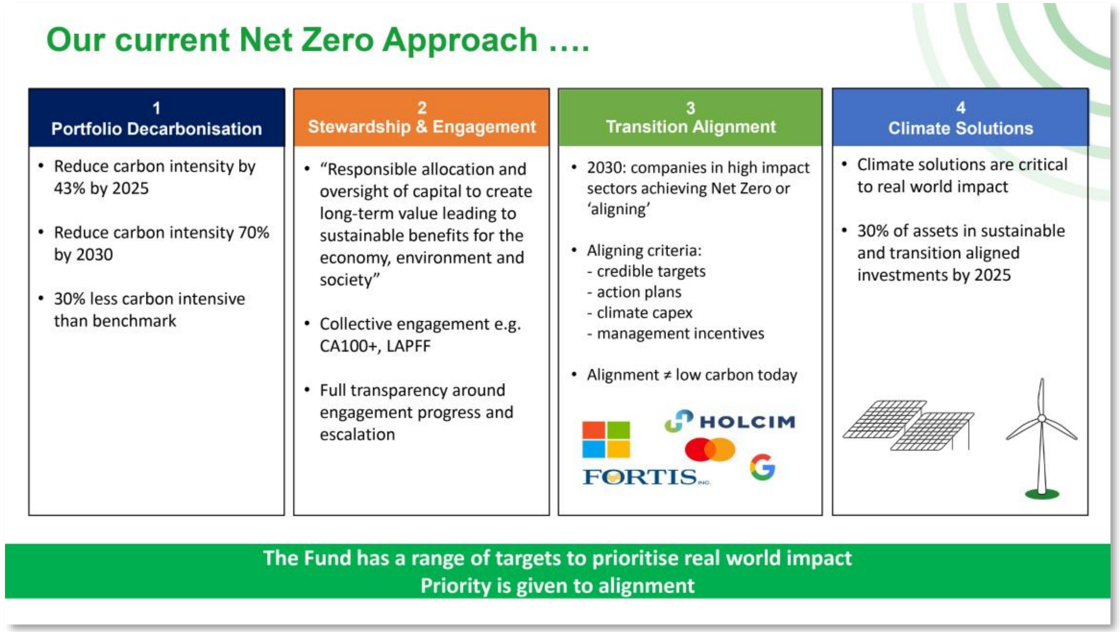
Stakeholder engagement sessions

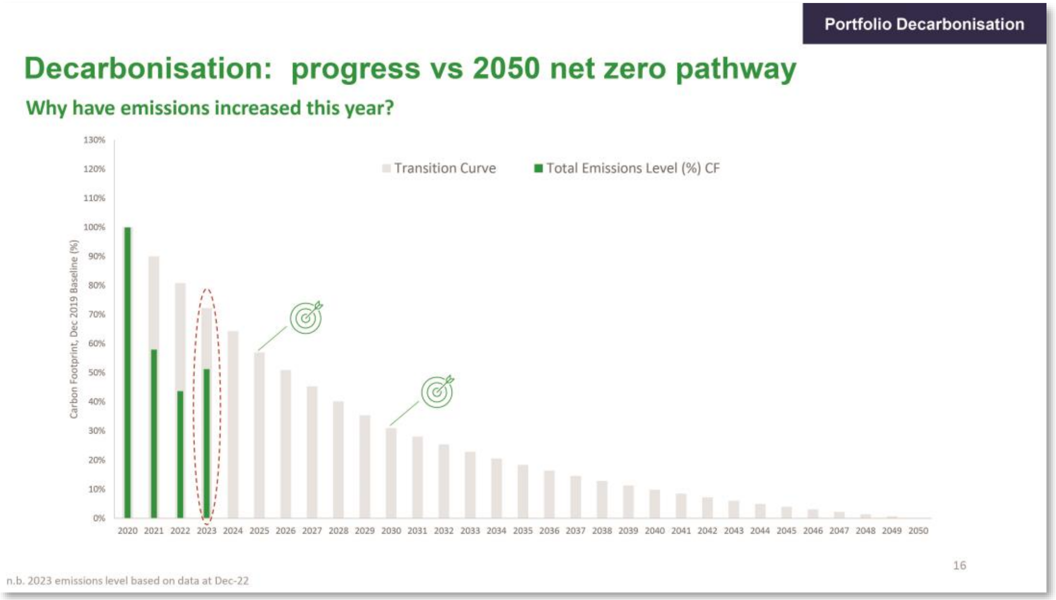
In the engagement sessions led by pension fund staff the conversation covered the climate challenge and the trade-off choices we face regarding our net zero targets.

- 11 sessions
- 172 attendees
- 8 different stakeholder groups
  - ✓ councillors
  - ✓ APF staff
  - ✓ employers
  - ✓ B&NES Council staff
  - ✓ Committee
  - ✓ Local Pension Board
  - ✓ unions
  - ✓ Section 151 Officers

The engagement sessions covered:

- our approach to responsible investment
- our climate policy
- carbon reduction progress to date
- how our Paris-aligned investments work
- our fossil fuel exposure
- our approach to engagement and divestment



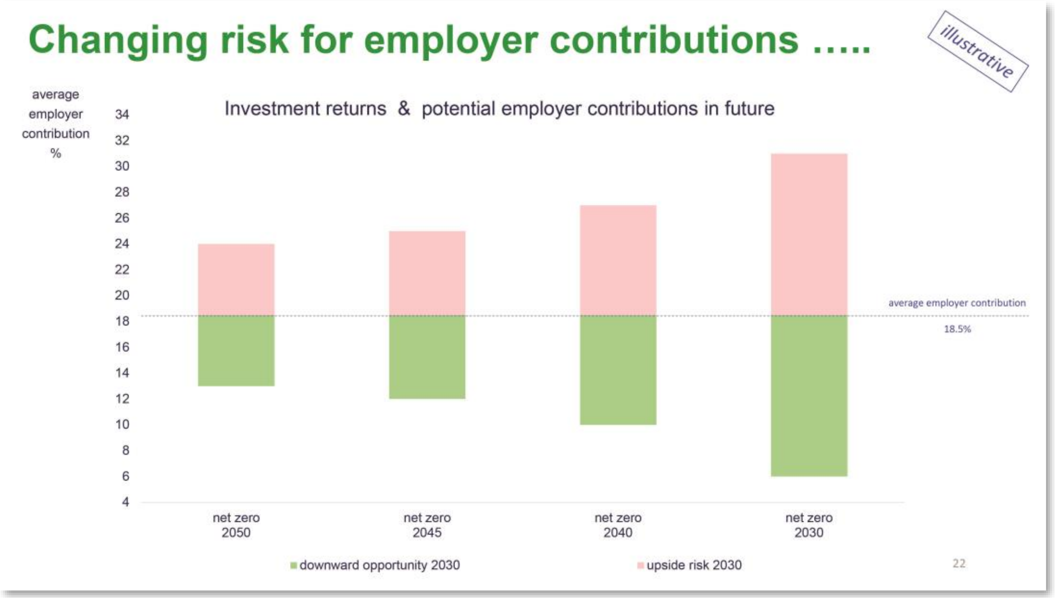


We shared the results of the climate investment review

We set out four strategic choices regarding net zero

	Current	Bring Forward	Accelerate	Step Change
Net zero target	2050	2045	2040	2030
Carbon Pathway (emissions % of 2020 levels)	2020 100%, 2023 72%, 2025 57%, 2030 31%, 2035 18%, 2040 10%, 2045 4%, 2050 0%	2020 100%, 2023 72%, 2025 49%, 2030 29%, 2035 15%, 2040 5%, 2045 0%, 2050 0%	2020 100%, 2023 72%, 2025 45%, 2030 24%, 2035 9%, 2040 0%, 2045 0%, 2050 0%	2020 100%, 2023 72%, 2025 35%, 2030 0%, 2035 0%, 2040 0%, 2045 0%, 2050 0%
Transition	✓	✓	✓	X
Engagement	✓	✓	✓	X
Divestment & portfolio reconstruction	x limited	x selective	✓ increasing	✓ rapid

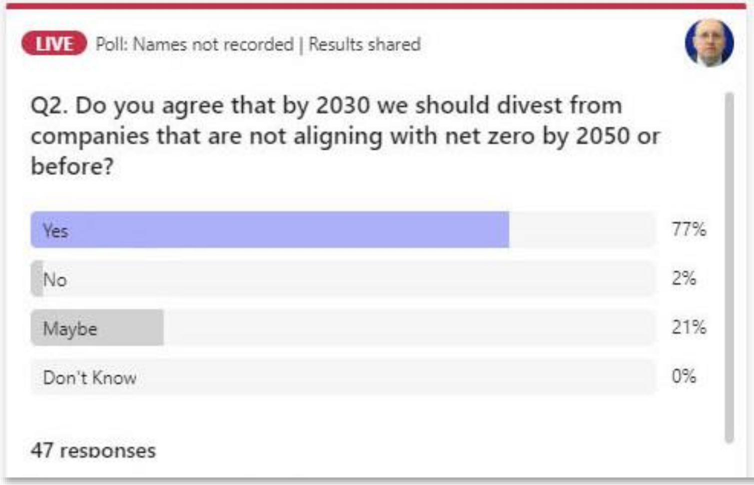
And how changing risk could affect employer contributions



We posed two key questions

- Should we set more ambitious net zero targets?
- What level of risk is acceptable to employers, members and other stakeholders when setting these new goals?

We **live polled views** at one event, the **Lunch & Learn** event for B&NES staff



The general consensus

1. There is broad support for us to divest by 2030 from companies not aligning with net zero 2050.

2. Many stakeholders favoured driving real-world impact and seek greater ambition on climate change.

3. Concern about protecting the fund and avoiding risk.

Broadly consensus in the engagement sessions converges on net zero 2040-2045.

Member survey

Inviting member views – two stages of communication

Spring/summer 2023

- Sent all members a newsletter by their preferred communication method including an invite to register for the survey

Help shape our carbon targets

You're invited to take part in a new survey about our net zero goals and climate investments.

The survey includes information about how we've reduced our carbon emissions to date, and asks your views on important investment choices.

Your feedback will help us set our net zero targets. Register now, or by 15 September at the latest, to receive your survey link: **www.avonpensionfund.org.uk/climate-emergency**

Autumn 2023

- 48,000 members contacted
- 3 x emails – launch & 2 x reminders

Dear Scheme Member,

We'd love to hear your views on our net zero goals and responsible investments.

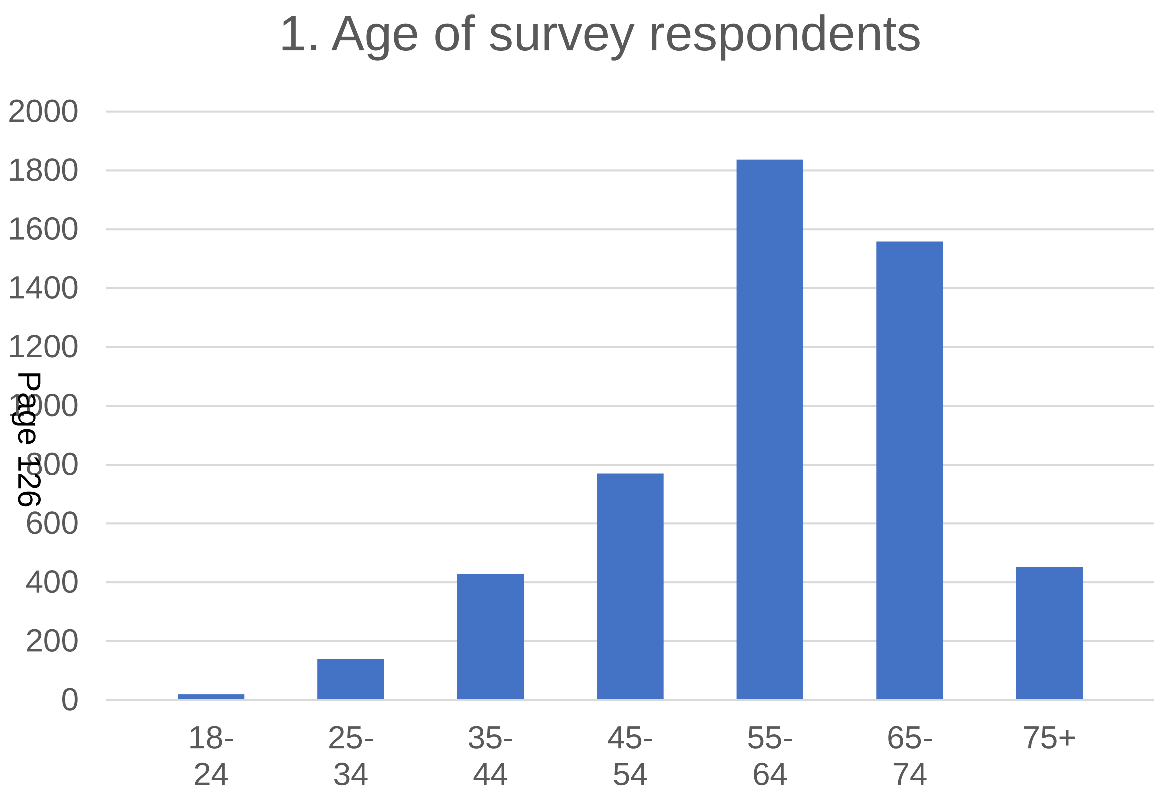
Your feedback will help us decide how we invest, and will help us set our new net zero and climate targets. As a valued member of Avon Pension Fund, your opinion counts.

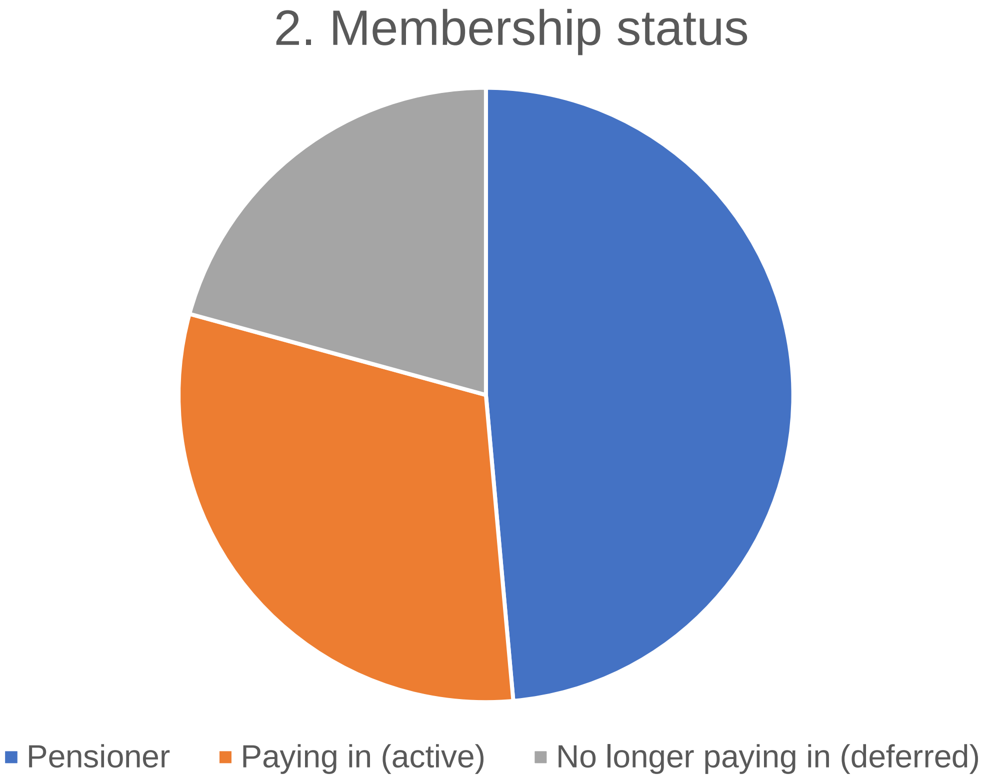
Take the survey

5,210

members complete the survey

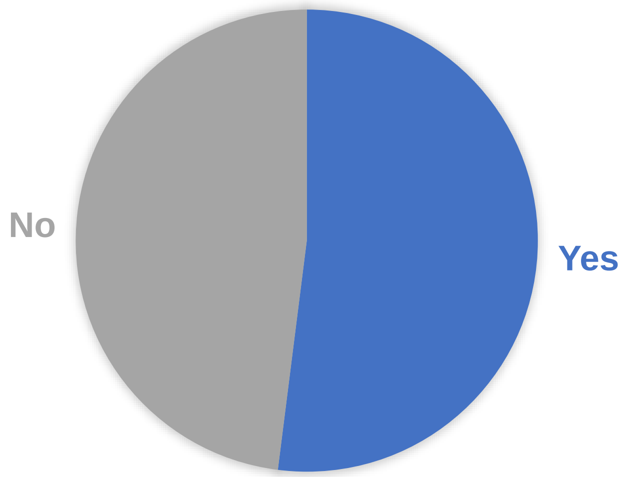
Survey results - demographics



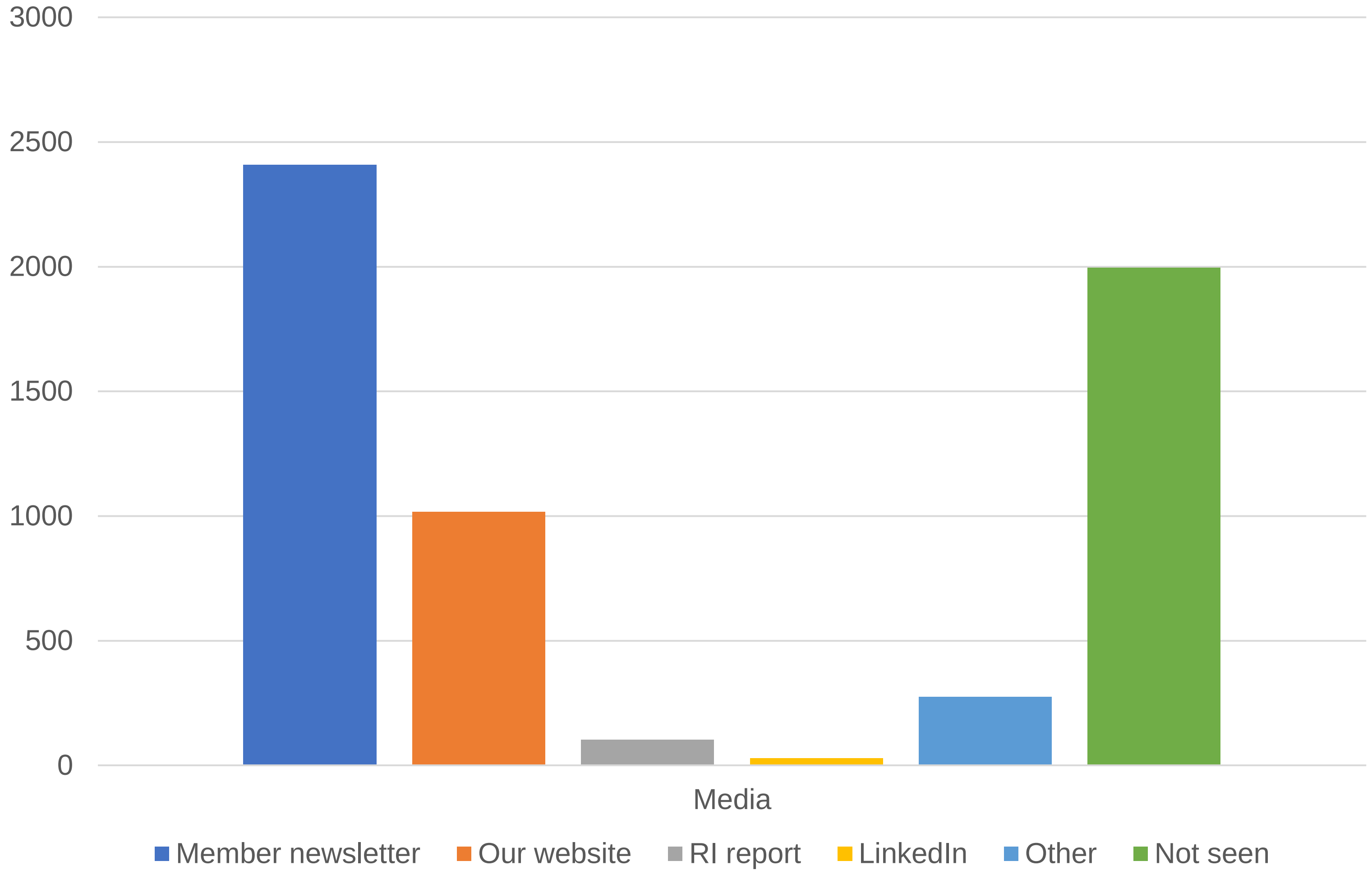


Survey results

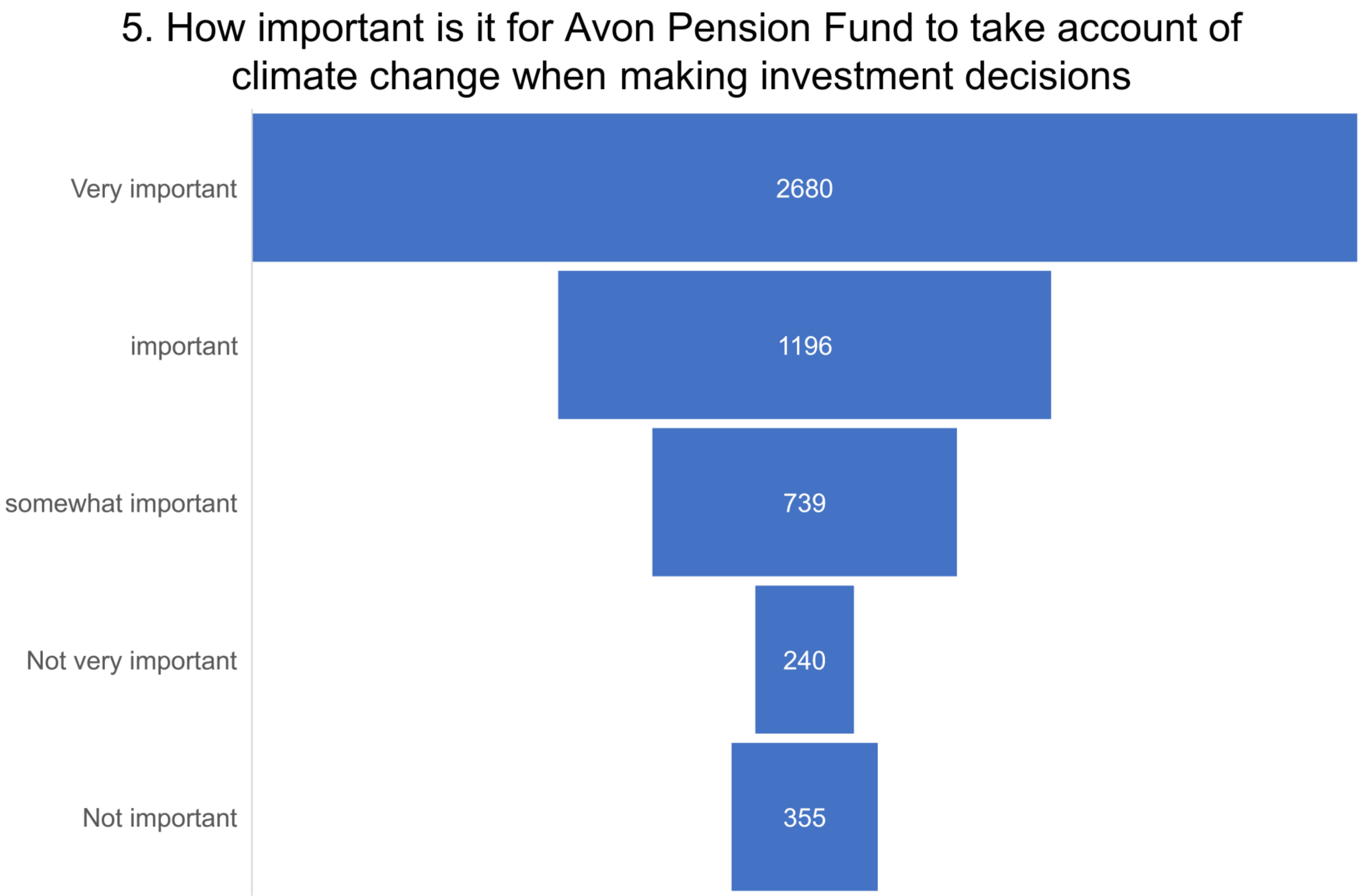
3. Aware of our work tackling climate change and lowering carbon emissions of investments



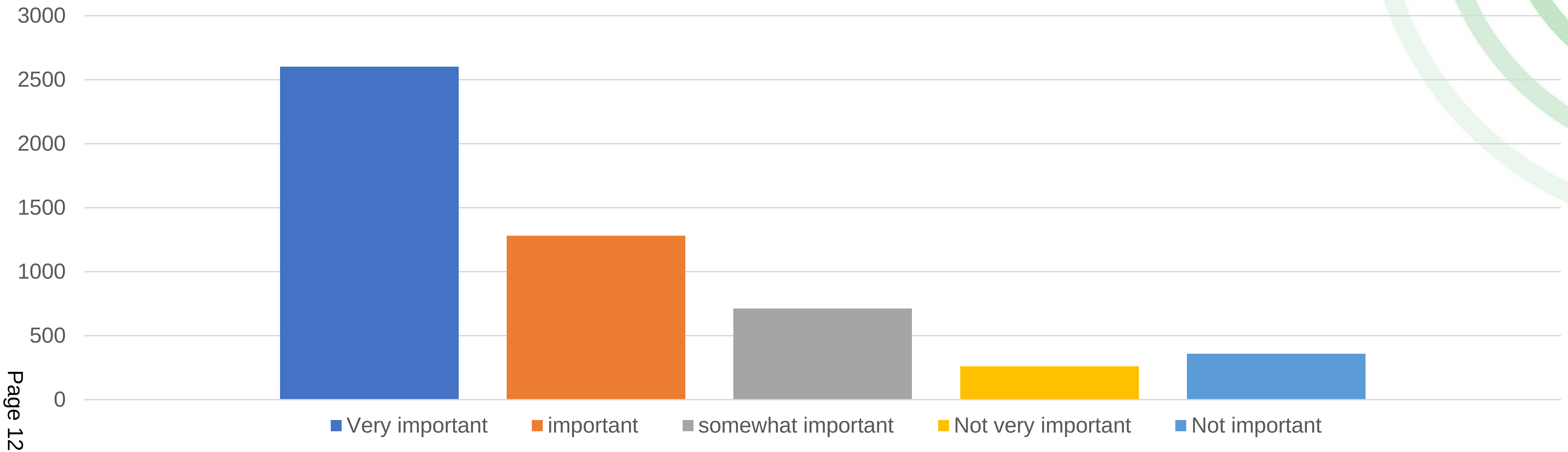
4. Where members see information about our work on climate and net zero investments



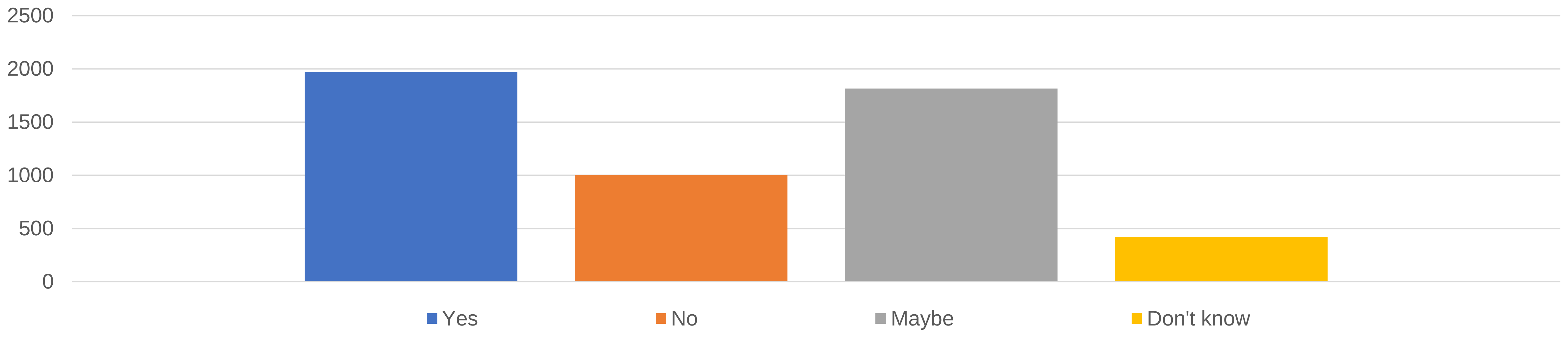
Survey results



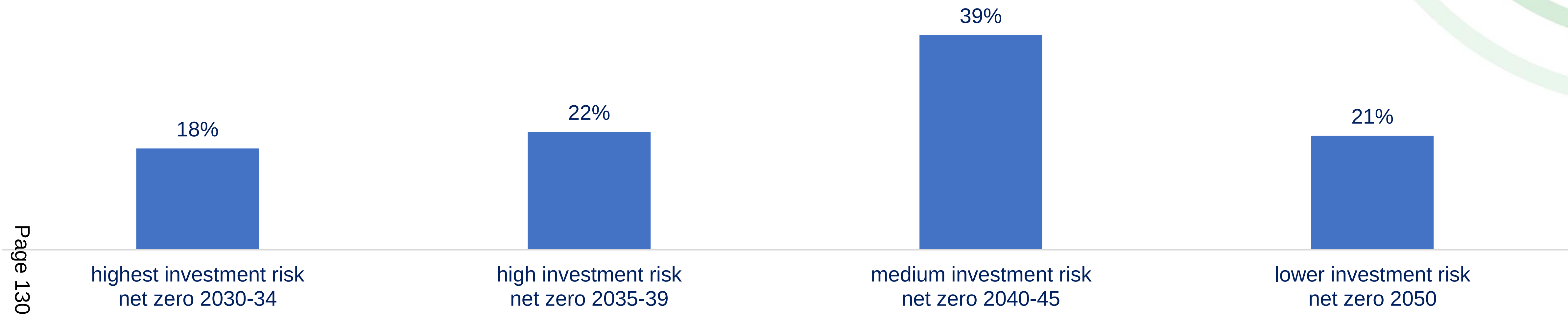
6a. How important is it that APF invests in low carbon assets such as wind farms & solar power



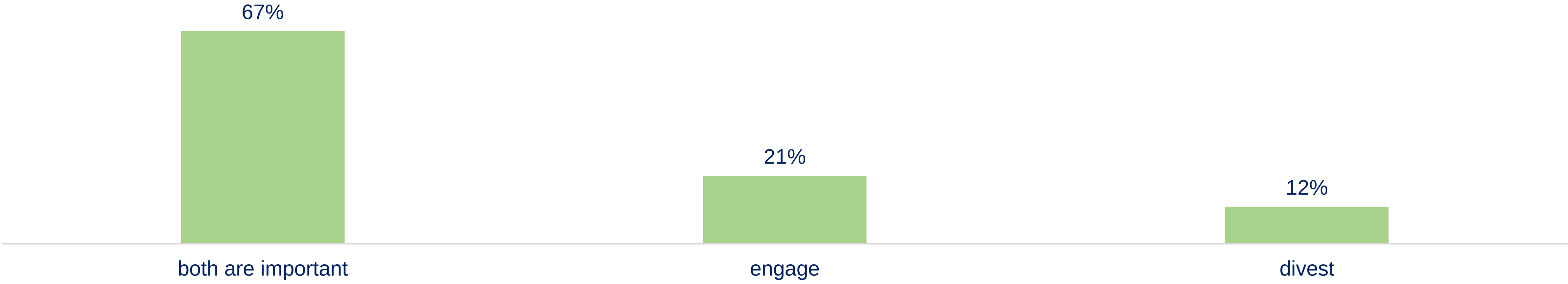
6b. Should we invest in low carbon assets, if this risks a wider range of investment returns



7. Level of investment risk we should take when considering net zero targets



8. Should we divest or engage ?



9. In our members' own words – free-text responses

A sample of over 1,100 comments found eight broad categories

A. Support focus on net zero/climate

"If action on climate change is not made then life won't be worth living by the time I reach retirement age."

B. Consider we should go faster/ could do more/ more local

"It is absolutely crucial. Get on with it. Nothing is more important."

C. Applauds our current responsible investment approach/ engaging members

"I appreciate this survey and the work to tackle climate change. Please keep it up."

D. Favours divesting

"I want you to take every action you can to divest from fossil fuels and invest in a cleaner future. There is no time to waste."

E. Doesn't support climate focus in investments

"Please will you focus on ensuring the best returns for our money and do not get involved in political & social movements."

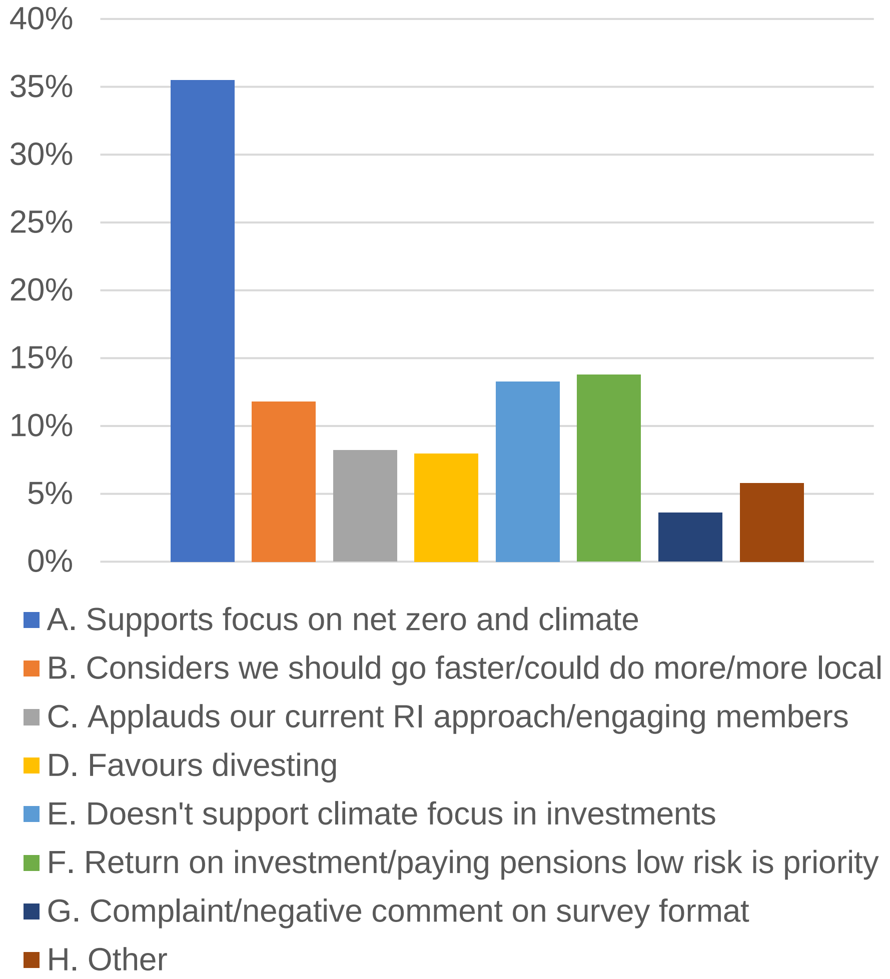
F. Return on investment/ paying pensions low risk is priority

"The scheme should be focused solely on gaining the highest return for the members any other distraction is failing to provide in your primary function."

G. Complaint/negative comment on survey format (next slide)

H. Other (next slide)

Categorising member views in the free text



9. More of our members' own words

G. Complaint/negative comment on survey format

Respondents wanted a 'none of the above' option for questions 7 & 8 which led to comments such as:

"Current and future fashionable investment should be avoided including net zero. Question 8 does not have a "invest in high carbon companies" (option)".

H. Other

Included concerns about greenwashing, over-focus on net zero targets, impact of electric cars & batteries, fear net zero will cost government and households, suggestions of where we should invest, and more

Free-text analysis

Lots of members support our focus on climate *AND* prioritising returns:

"Combatting climate change is important and should be done, but not at the expense of financial returns."

"Maximum return on pension for members should be the primary focus. Work towards net zero as soon as possible as long as risk to members is minimal."

Thank you

Avon Pension Fund

November 2023

This page is intentionally left blank

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**15 DECEMBER 2023**
TITLE:	**2023 ANNUAL RESPONSIBLE INVESTMENT REPORT**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft Responsible Investment Annual Report 2023 ***TO FOLLOW***	

1. THE ISSUE

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

1.2. Given that transparency and disclosure of the RI policy and activities is an important element of being a responsible investor, the Fund publishes an annual report demonstrating how the policy has been implemented during the year. This year the report covers periods to December 2023. Significant RI work has been undertaken over the year including stakeholder engagement and modelling work on climate to arrive at a revised set of net zero climate targets.

1.3. Brunel are our strategic partner for developing, implementing and monitoring our RI polices and priorities. For the year ending December 2022 Brunel have published their third Responsible Investing and Stewardship Outcomes Report – elements of this report have been incorporated into the Fund's Annual RI report which contains links to the full Brunel document.

1.4. The RI Annual Report is designed for public consumption and will be published on the Fund's website once approved by the Committee.

2. RECOMMENDATION

2.1. **Approves the Draft 2023 Annual Responsible Investment Report for publication.**

2.2. **Agrees the 2024 RI priorities as set out in 4.4.**

3. FINANCIAL IMPLICATIONS

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

4. RESPONSIBLE INVESTMENT REPORT

4.1. This is the eleventh annual report on responsible investment prepared by the Fund. The aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The draft Report to be approved can be found at Appendix 1.

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

a) Formal of adoption of revised net zero climate targets as specified in Item 09 – ‘Climate Policy Review’.

b) Successfully decarbonising the listed equity portfolios across absolute and carbon intensity measures versus the Fund’s 2019 baseline year.

c) Increased pace of deployment of the Fund’s strategic allocation to renewable infrastructure in light of a widening opportunity set beyond established forms of renewables such as wind and solar.

d) Integration of climate risk in less well-developed areas and asset classes such as the use of ‘synthetic’ Paris-aligned equity strategies.

e) Agreement to allocate £160m to local impact investment opportunities.

f) Significant stakeholder engagement work targeting a broad audience of Councillors, Unions, Employers, Members and Staff.

g) Continued collaborative work with strategic partners including LAPFF, ClimateAction100+ and IIGCC, which saw the Fund participate in high profile engagements, shareholder resolutions and policy advocacy work.

4.3. The RI report explains how Brunel and its third-party providers have delivered against policy. 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.

4.4. The Fund’s RI priorities for 2024, contained in the final section of the report, have been updated to ensure consistency with Brunel’s seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. Last year ‘Biodiversity’ was added as a priority theme and over the next year the Fund will explore the feasibility of a dedicated allocation to climate and nature-based solutions as part of its existing strategic allocation to illiquid assets. The Committee are asked to agree these priorities:

a) Climate change
b) Biodiversity
c) Diversity, equity and inclusion
d) Cyber security
e) Cost and tax transparency
f) Circular economy and supply chain management
g) Human rights and social issues

5. RISK MANAGEMENT

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

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 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 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 Director of One West has had the opportunity to input to this report and has cleared it for publication.

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

This page is intentionally left blank

2023 Responsible Investment Annual Report

Foreword

With some of the most significant changes to the Fund's strategy on climate change having taken place at the end of 2023, this year's Responsible Investing Annual Report sets out the scale of work undertaken in this area and serves to update stakeholders on the progress we have made against our climate objectives, offers insight into the risks and opportunities faced by responsible investors and provides details of the Fund's focus over the coming year as we seek to deliver on our financial and environmental, social and governance (ESG) obligations.

We have made material progress against the interim climate targets we set in 2019/20, enabling the Fund to increase its level of ambition this year by **formally adopting a 2045 net zero target underpinned by credible medium-term targets, including a commitment to divest from high impact companies if they cannot evidence a credible alignment strategy before 2030.**

I would like to personally thank all of those who participated in a far-reaching engagement programme that saw Fund officers consult scheme employers, Councillors, Union representatives and others on the Fund's net zero strategy. I would like to extend my thanks to our members who completed our second ESG survey, the response rate of which was hugely encouraging and elicited a broad, and hugely valuable, set of views and opinions.

We were pleased to see our investment strategy, **which includes over £2bn in transition aligned and sustainable equites and £500m in commitments to renewables and energy transition assets**, yield tangible results with our listed equity portfolio delivering a **46% reduction in absolute emissions versus our 2019 baseline year,** putting us firmly ahead of the decarbonisation flightpath used to determine emissions reductions required to meet net zero by 2045.

We were encouraged by the reporting advances in private markets and the development of robust forward-looking climate metrics which will be critical to providing the insights required by investors to guide future policy decisions on climate. **This year we have agreed to reduce the carbon intensity of our £165m corporate bond portfolio by 60% by 2030 and will expand the scope of decarbonisation targets across asset classes as reporting capabilities evolve.**

Brunel continued to demonstrate leadership in the field of responsible investment and climate strategy by piloting infrastructure green revenues reporting and developing policy on biodiversity. Against a backdrop of anti-ESG sentiment, Brunel and its service providers were able to reinforce the Partnerships responsible investment principles through its robust stewardship work, both at investee company level and through supportive policy advocacy work. **Through our membership to the Institutional Investors Group on Climate Change (IIGCC) we were able to express the urgency required to bridge the gap between public and private funding and highlight the need to build climate adaptation and resilience at COP28.**

The Fund itself was recognised for climate innovation and was shortlisted for the industry award of 'Best Sustainable Investment Strategy' for its work on synthetic transition aligned equity strategies, an LGPS first.

Elsewhere, we have seen place-based impact investing come to the fore. **Agreement to allocate £160m to local impact investments spanning renewables, affordable housing and funding for small businesses** will see the Fund well placed to quantify the contribution it makes to pressing social and environmental issues.

Over the coming year the Fund will focus on its priority ESG themes and take the necessary action to accelerate progress towards our **net zero goal by looking at allocations to nature-based solutions such as forestry and sustainable agriculture** as well as continuing to advocate for a supportive policy environment that will facilitate change ultimately for the benefit of our members.

Councillor Paul Crossley, Chair, Avon Pension Fund Committee

Contents

Section 1 – Responsible Investment Policy and Strategic Developments

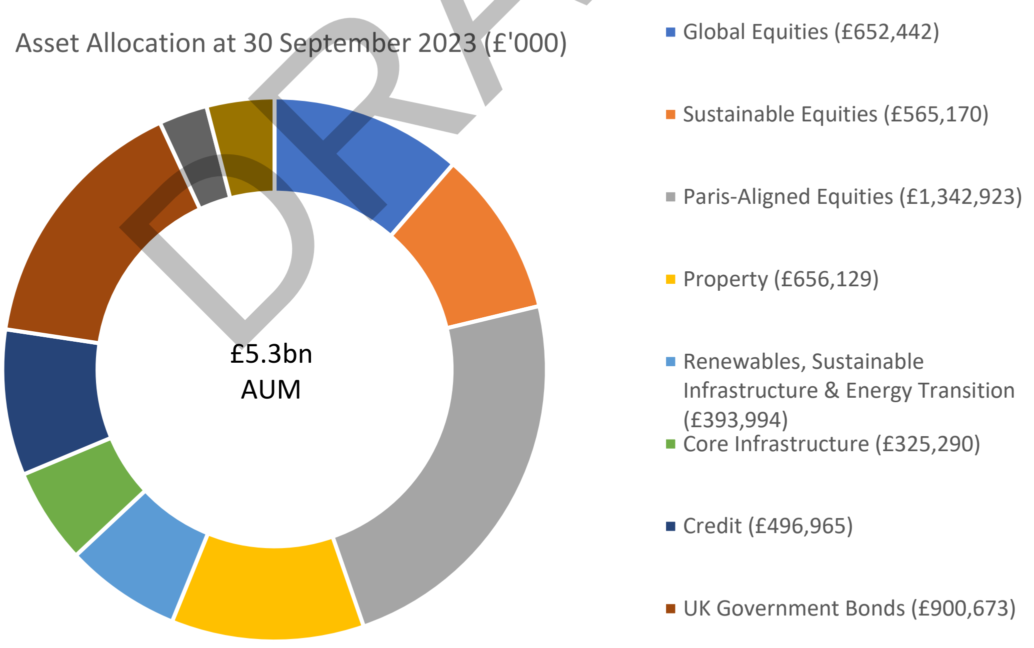
Responsible Investment Beliefs

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

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

- Climate change poses an existential threat to the wider world as well as long-term investments.
- We believe in investing responsibly to make a positive real-world impact.
- There is increasing convergence between financial returns and climate-aware investments.
- Working with like-minded investors we can collectively engage companies and policymakers to drive positive change.

Investing to Maximise Real-World Impact



Climate Change

Climate Change is a key strategic priority for the Fund. This year we undertook a full review of our investment strategy and net zero targets.

It is widely accepted the current rate of increase in global climate finance is not on track to deliver a 1.5°C global warming scenario. The Climate Policy Initiative estimates that at least $4.3 trillion in annual finance flows by 2030 is required to avoid the worst impacts of climate change[1]. Over half of the transition financing required will need to come from the private sector to meet globally agreed targets for 2050[2]. As such, the role for the Fund and its strategic partners remains as critical as ever. We believe that investing to support the objectives underpinning the Paris Agreement that deliver a 1.5°C temperature increase is entirely consistent with securing long-term financial returns and is in the best interests of our members.

Our Climate Objectives - Net Zero by 2045

- **We commit to be Net Zero on financed emissions by 2045 across the whole Fund.**

To help us achieve our overarching Net Zero goal, we have set a number of clear tangible targets for climate action in the years 2024-30:

- **By 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050.**
- **The Fund will reduce the carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).**
- **By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).**
- **We will ensure 70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027.**

[1] https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/
[2] https://www.mercer.com/insights/investments/investing-sustainably/evolving-transition-in-portfolios/

As part of our commitment to the IIGCC Net Zero Asset Owners framework , the Fund is committed to delivering real world emissions reductions as opposed to portfolio emissions reductions. This means our targets will be kept under review and updated in line with best practice. **This could, for instance, see the Fund adopting a dedicated 'climate solutions' target or making an express allocation to nature-based solutions that sits within the existing 32% strategic allocation to illiquid assets.**

To monitor progress against our climate commitments and to help inform future policy decisions on climate the Fund undertakes annual climate transition analysis across its listed equity portfolio. The latest iteration of this analysis helped advance the Fund's existing climate objectives by adding an additional target, namely, a **60% carbon intensity reduction by 2030 relative to a 2019 baseline, for our corporate bond portfolio**.

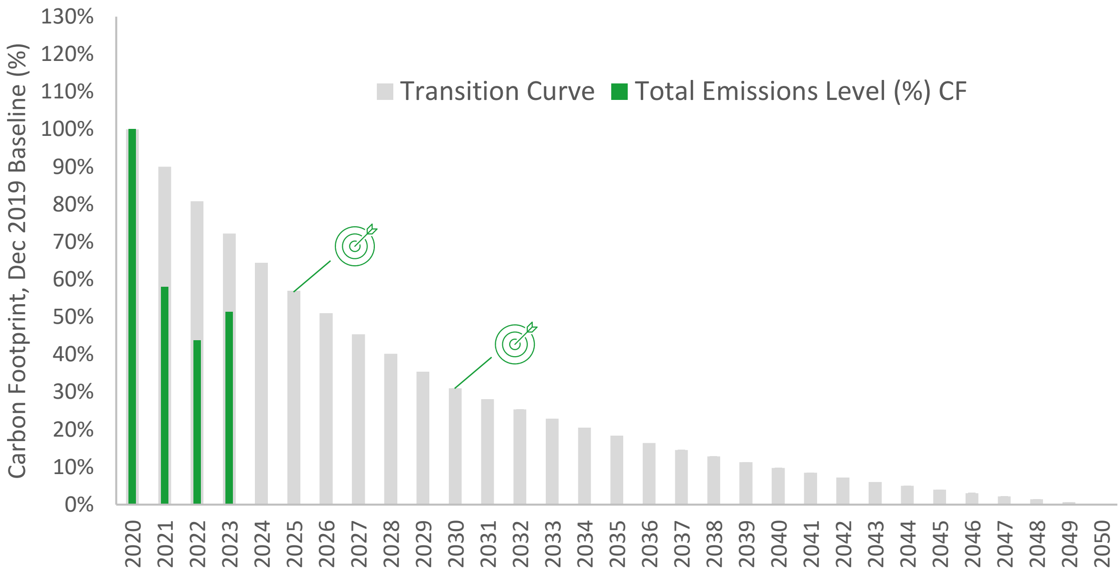
Decarbonisation progress versus the 2019 baseline

The equity portfolio has decarbonised across all three metrics measured as part of the analysis. On an absolute emissions basis the equity portfolio has decarbonised by 45.7% versus the baseline, despite having increased the strategic allocation to equities in the period covered by the analysis (from 37.5% to 41.5%). Progress versus the baseline was also observed across metrics that are normalised to account for the increased allocation to equities. On a carbon footprint basis the equity portfolio saw a 48.7% reduction in intensity, while Weighted Average Carbon Intensity (WACI) saw a 26.0% decrease.

The strategic decision to terminate the highly carbon intensive emerging market equity allocation and invest the proceeds in Brunel's Paris-aligned[3] and active sustainable equity funds was the biggest driver of these improvements. However, all of the mandates that were held over the period also decarbonised, which is a reflection of market-wide decarbonisation efforts as well as the active decisions made by the underlying investment managers to allocate capital to less carbon intensive sectors and/or companies.

Since its baseline year, the Fund's listed equity portfolio has decarbonised faster than the projection used to determine emissions reductions required to meet net zero by 2050. The chart below will reflect the Fund's 2045 net zero target from next year and the existing targets of -43% to 2025 and -69% to 2030 will remain in place given they are already ambitious and largely consistent with a 2045 net zero trajectory.

[3] The Brunel Paris-aligned equity index complies with the EU's official Paris Aligned Benchmark standards and better achieves the Fund's climate objectives. Further details of the systematic decarbonisation rules implemented by the new Paris-aligned index were detailed in last year's Report



Source: Mercer

While this is a positive result for the Fund, we do recognise that decarbonisation at this pace may not continue, and we will have to work with the industry and our strategic partners to develop innovative solutions as big efficiency gains become harder to replicate. Over the year the Fund noted an uptick in its carbon footprint, which was primarily brought about by the Fund's temporary switch from a Paris-aligned passive equity index to a global market-capitalisation based index. Although the Fund subsequently moved its entire passive equity exposure into a Paris-aligned solution, this statistic does highlight how market dynamics can result in non-linear pathways to net zero.

Transition Alignment and Engagement

Along with analysing emissions intensity data, the Fund assesses companies based on alignment criteria developed by best-in-class frameworks informed by tools such as the Transition Pathway Initiative and Climate Action 100+.

This information will help to ensure the engagement activity undertaken on behalf of the Fund is focussed on the companies that are most material to our climate objectives and move us toward our stated aim of ensuring **70% the highest emitting companies in the Fund's equity portfolios are under active engagement by the end of 2024 (extending to 90% by 2027).**

The Fund acknowledges that engagement should not go on indefinitely and agreed that **by 2030 we will divest from developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050.**

Engagement work should not just be limited to policymakers and the companies we invest in. We exist to serve our members and over the year we have sought to collect their views and opinions alongside input gathered from a broader set of stakeholders including Councillors, Unions and Employers in the scheme, to help shape the direction of our investment strategy. Details of the extensive engagement programme we embarked on over 2023 can be found in Section 5 of this report.

Innovation in Climate-based Investments

During the year the Fund switched £700 million equities from a market-cap index to a synthetic Paris-aligned strategy, which systematically increases exposure to companies credibly aligned to the transition. **Avon now holds over £1.3 billion in dedicated Paris-aligned index strategies and has moved away altogether from using standard market-cap indices, which are inconsistent with the Fund's wider climate objectives. This sits alongside Avon's existing £500 million in sustainable equities and £500 million capital commitments to renewable infrastructure and energy transition assets.**

Working in partnership with BlackRock we designed a solution to overcome the regulatory challenges faced by the use of nonstandard equity indices in Qualified Alternative Investor Funds. The derivative-based product is designed to release liquidity to support other areas of the investments portfolio while expressly supporting the low carbon transition. The innovative structure allows us to invest in an equity strategy consistent with our overarching climate objectives.

Aware of the implications of using a derivative based solution where there is no standardised way of accounting for emissions, we opted to use the same approach we currently employ for traditional equity holdings, and to report this annually. To magnify the positive climate impact we utilise an environmentally aware cash fund to hold collateral required to support the synthetic Paris-aligned equity product. The solution demonstrates how the Fund seeks to embed climate at all stages of the investment process, bringing together both climate and financial considerations in an approach that represents a first for the LGPS community.

> *"Avon have been at the forefront in developing innovative and fresh investment solutions to progress on their net zero agenda. Working together with BlackRock and the wider industry to develop unique structures, in areas that present challenges to investors, that improve their net zero positioning, is testament to their thought leadership and commitment. We are hopeful that other investors will take inspiration from this partnership approach as they seek to deliver on their own climate ambitions".*
>
> Justin Wheeler, BlackRock

Looking forward, the Fund will explore further ways of integrating climate change into its risk management framework by, for instance, considering the potential to build its exposure to green gilts and sustainability-linked bonds in a cost-effective way as issuance increases.

Details of industry-led initiatives that we have been a part of and information relating to how we have discharged our stewardship responsibilities across ESG themes is covered in the following sections of this report.

Section 2 – Carbon Metrics

We have been measuring and reporting the carbon intensity of our listed equity portfolios annually since 2017 to promote transparency and help the Fund understand its contribution to mitigating the risks of climate change and to determine opportunities for improvement.

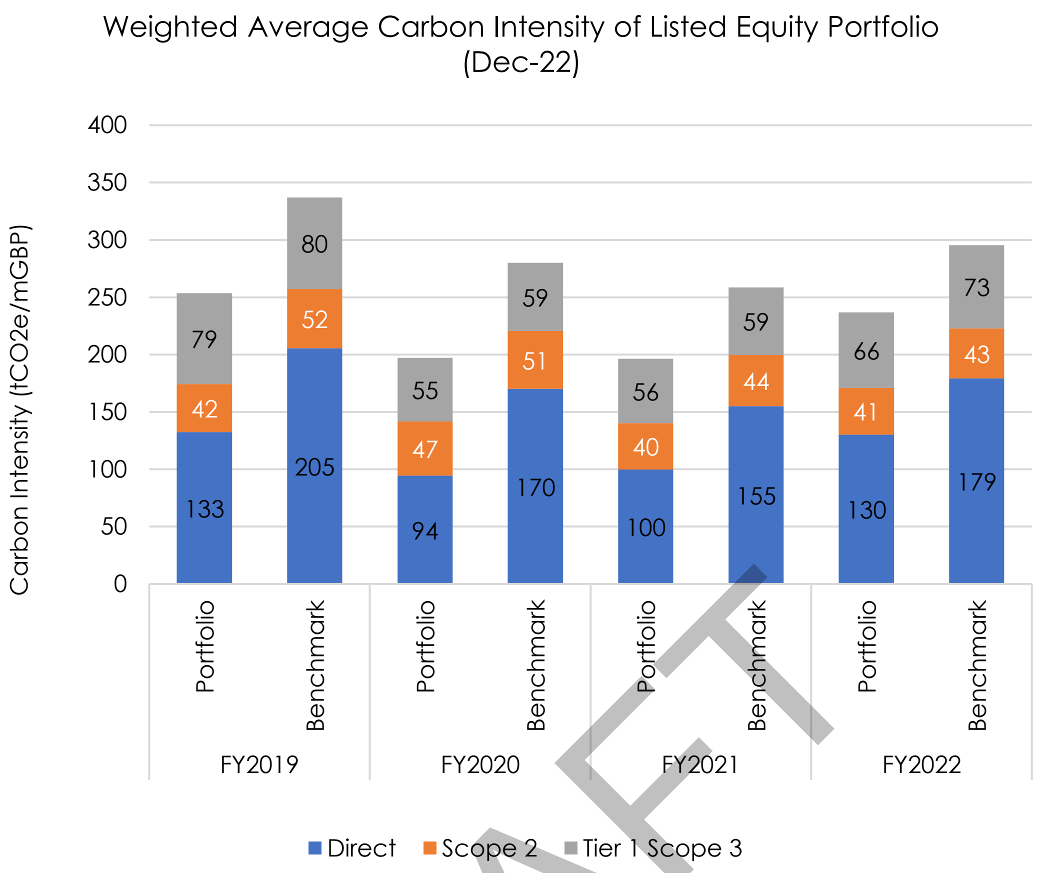
A summary of the key findings (for periods ending December 2022) can be found below.

(I) Weighted Average Carbon Intensity (WACI)

A portfolio WACI is determined by taking the carbon intensity of each company and weighting it based on its holdings size within the portfolio. The WACI is one of the measures recommended by the Taskforce on Climate-related Financial Disclosures (TCFD) framework because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy interventions and changing consumer behaviours. **Relative to the industry benchmark the aggregate portfolio is 20% more efficient (less carbon intensive) than the benchmark.**

In addition this year's report shows:

- All active listed equity portfolios that the Fund invests in exhibit a lower WACI than their respective benchmarks, with the exception of the BlackRock Passive Global Equity fund which tracks its benchmark.
- Improvements in WACI brought about by historical asset allocation changes have been partially offset as the Fund has continued to increase exposure to transition aligned mandates. This trend was most pronounced last year following the switch from a legacy passive low carbon equity fund (which focussed on portfolio decarbonisation) to the next generation Paris-aligned index which weights companies based on their transition capability and, for this reason, contributes to real-world emissions reductions.
- The global high alpha equity portfolio exhibited the lowest WACI of all active equity portfolios but had the highest future emissions number, whereas the sustainable equity portfolio showed a relatively high WACI driven by investments in companies who are at the forefront of the energy transition. These companies are leaders in challenging and difficult-to-abate sectors and often have a higher carbon intensity today than companies in other sectors. As expected the sustainable equity portfolio scored well on other metrics such as 'future emissions from reserves' (see below).
- A year-on-year increase in WACI was primarily brought about by the Fund's temporary switch from a Paris-aligned passive equity index to a global market-capitalisation based index. Although the Fund subsequently moved its entire passive equity exposure into a Paris-aligned solution, this statistic does highlight how market dynamics can result in non-linear pathways to net zero.



Case Study: Emissions and Transition Potential in the Utilities Sector

Fortis, Inc.

- Top 5 contributor to WACI & Fossil Fuel Revenues in the Global Sustainable Equity portfolio.
- Operates as a gas and electricity distribution company offering regulated utilities across the US and Canada
- 2050 net zero target for direct GHG emissions
- Achieved 20% GHG emissions reduction since 2019; seeks to reduce GHG emissions by 50% by 2030 and 75% by 2035
- Aims for a coal-free generation mix by 2032 with clear timeline for coal asset retirements
- $3.4bn clean energy capital deployed over the next 5 years

Source: Brunel Pension Partnership

(II) Fossil Fuel Exposure & Stranded Asset Risk

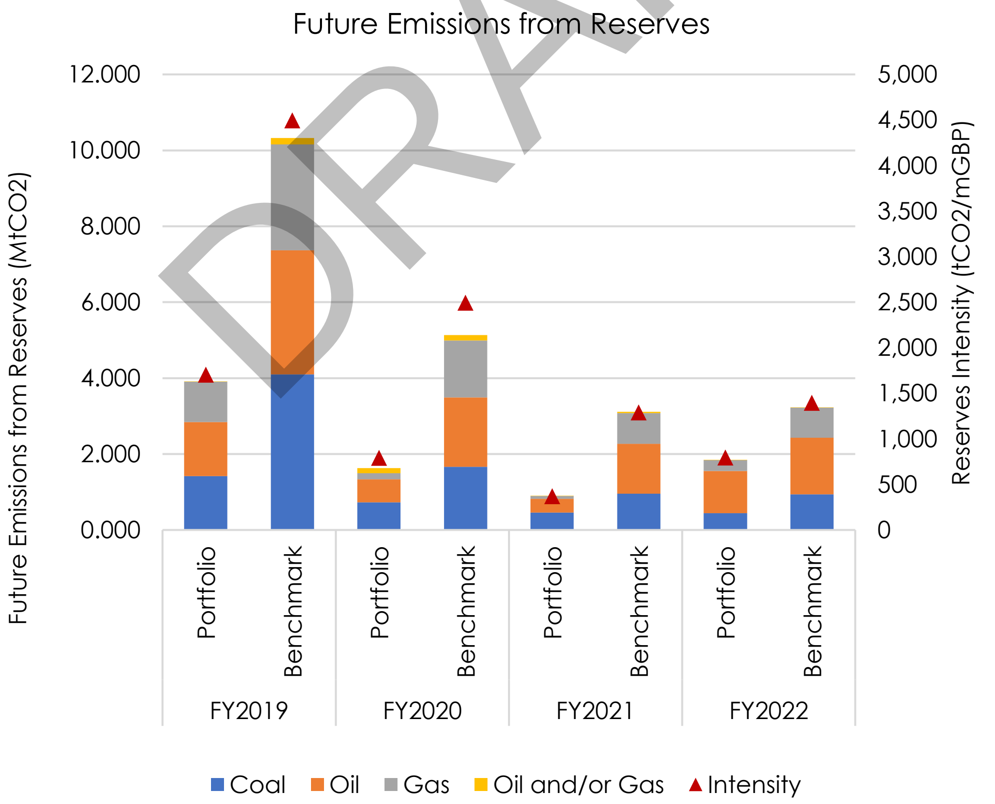
It is important to identify exposure to business activities in extractives industries in order to assess the potential risk of 'stranded assets' (premature write-down, loss and devaluation). We identify the exposure to stranded asset risk by assessing fossil fuel revenues exposure and future emissions from reserves.

To determine fossil fuel revenue exposure, we identify companies with exposure to fossil fuel related energy generation and fossil fuel related extraction activities[1]. We can then assess the revenue exposure that each company has to these activities and aggregate this data to get an overall portfolio assessment.

Weighted fossil fuel revenues exposure represents 1.42% of the aggregate portfolio relative to benchmark exposure of 2.82%.

We identify companies that have both proven and probable fossil fuel reserves and can look at the exposure per portfolio and at an aggregate level. Taking the reserves exposures, we can assess potential future emissions that may result from these reserves being realised. This is a valuable forward-looking metric that allows us to assess the potential contribution to emissions embedded in our portfolio.

Future emissions from reserves are 1.84 MtCO2 versus 3.22 MtCO2 for the benchmark.



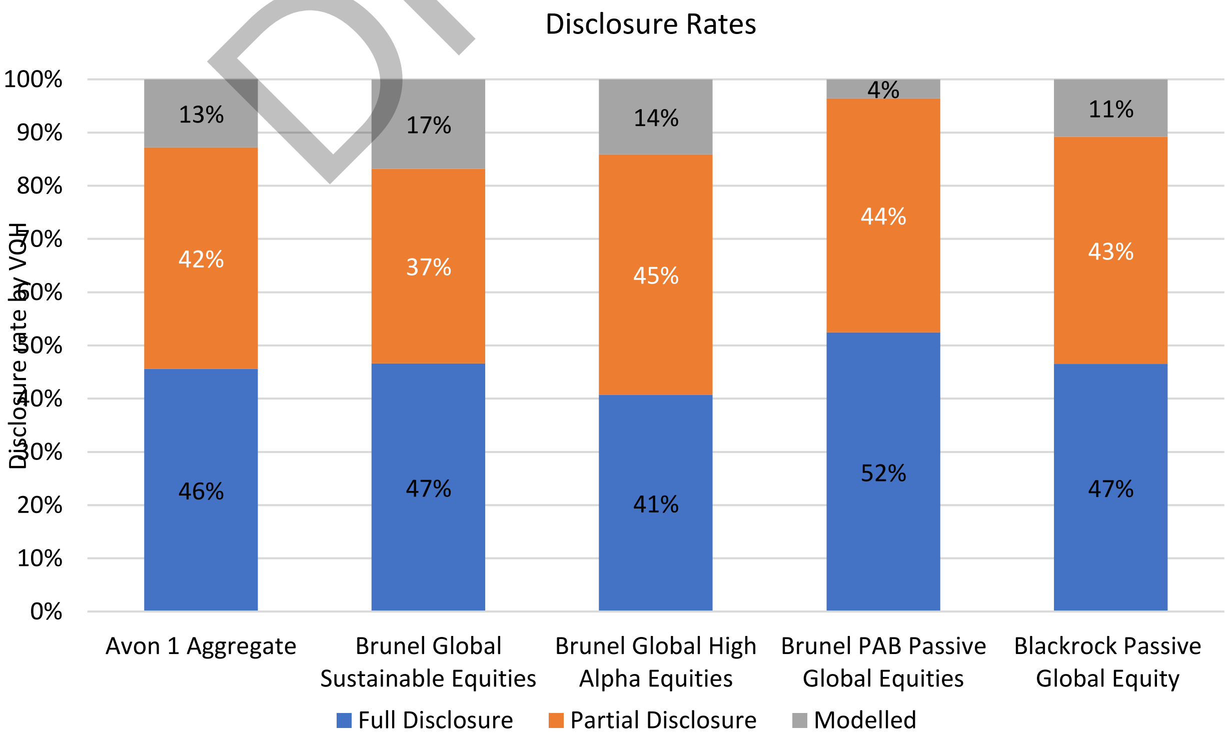
[1] Energy: Natural gas, petroleum, and coal power. Extractives: Oil & gas support activities, LNG extraction, drilling, crude petroleum and natural gas extraction, tar sands extraction, bituminous coal mining

The year-on-year absolute increase in future emissions from reserves is attributable to asset allocation and stock selection. Heightened commodity prices drove an increase in revenues for energy and utilities companies, which in turn drove higher company valuations to the extent companies in these sectors formed a larger portion of the investable universe than they did in the prior year.

(III) Disclosure Rates

The level of carbon disclosure is based on each company's direct Scope 1 emissions and can be classified as fully disclosed, partially disclosed or, where data is lacking, modelled.

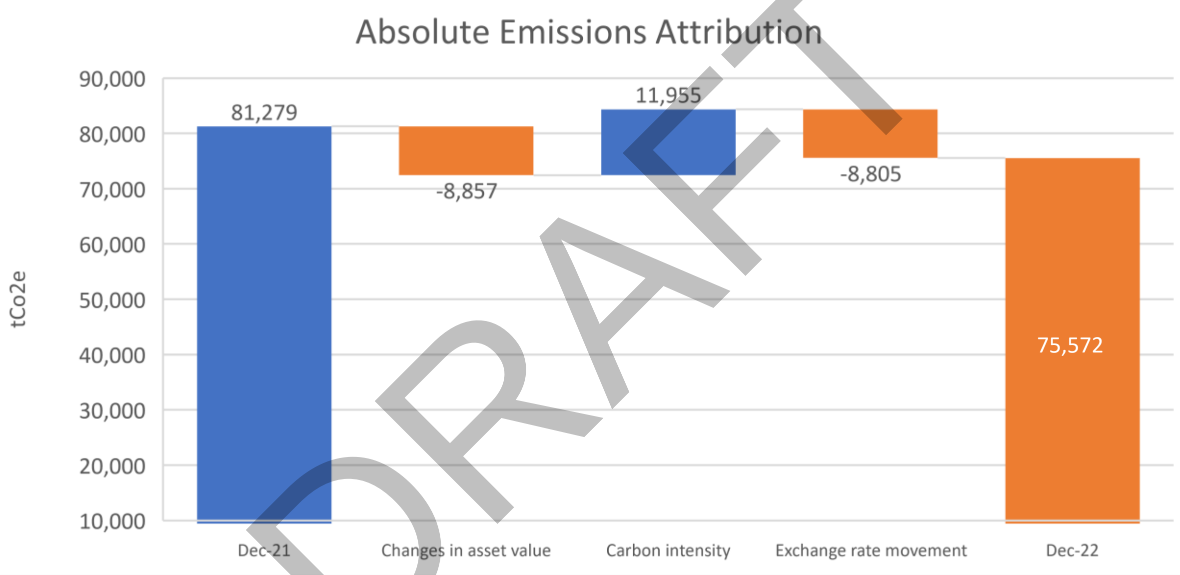
- On a carbon-weighted basis, the rates for full disclosure of carbon data were 55% compared to 60% in the prior year. This is likely to be the result of the temporary shift into a market-capitalisation index mid-year and does not necessarily mean disclosure rates among companies with high levels of emissions have decreased over the past 12 months. The Fund also notes the rise of anti-ESG sentiment, particularly in the US, where companies are being punished by certain investors for purportedly prioritising climate change over shareholder returns. This has led to a perverse trend in companies withholding data which supports progress on the climate agenda.
- On an investment-weighted basis, the rates for full disclosure of carbon data were 46%, broadly comparable to last years rate. This outcome is attributed to the exposure the Fund has to small-cap companies within the sustainable equities portfolio. Smaller companies do not tend to have the same resource to provide full and comprehensive disclosure relative to large-cap companies. However, these rates do indicate scope for improved reporting among investee companies, which is a core aim of the engagement work adopted by the Fund, Brunel and its strategic partners.



(IV) Absolute Emissions

Whilst intensity-based measures of emissions give very valuable carbon risk information, in order to create "real world" impact the Fund recognises the need to reduce absolute emissions. The higher the percentage holding in a company within a portfolio, the greater the Fund's 'owned' emissions. This can create challenges from a measurement perspective as it means different portfolios cannot be compared on a like-for-like basis and the size of the portfolio can skew the results.

Absolute emissions in the Fund's baseline year were 139,256 tCO_2e[2]. This year the figure stood at 75,572 tCO_2e, with the c.46% reduction largely attributed to asset allocation, namely the removal of emerging market equity exposure. **There has been a further reduction in absolute emissions over the past year (from 81,279 tCO_2e).** The attribution of absolute emissions reductions over the past year is set out below.

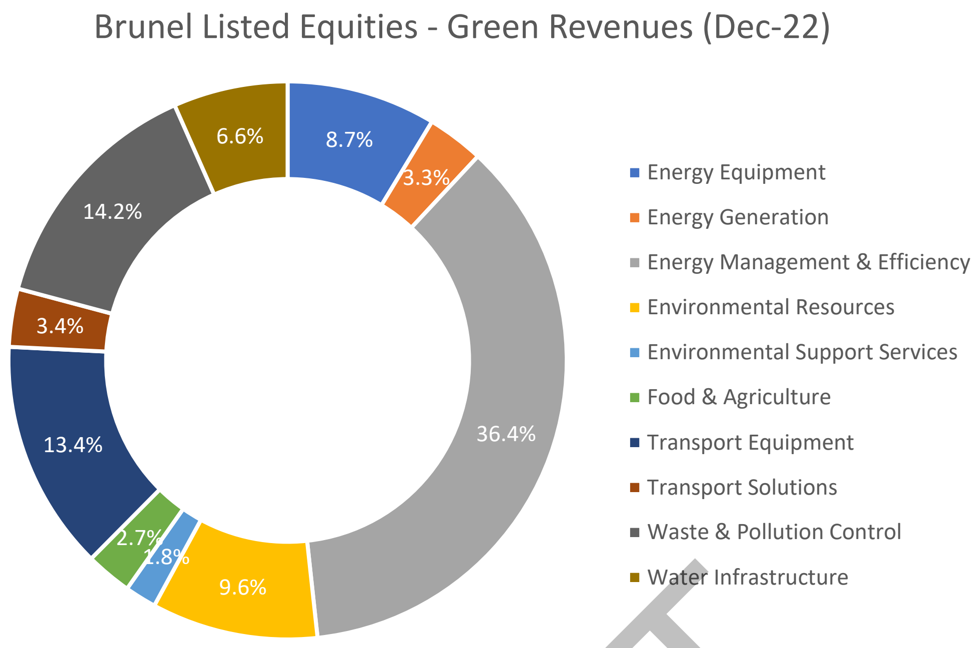


Source: Mercer

(V) Green Revenues

The Fund is supportive of the development of a wider set of metrics that can provide a more rounded perspective on companies vital to the transition and, in time, will utilise measures such as **green revenues** to help quantify the proportion of our investments in climate solutions. Brunel report green revenues data for listed equities based on the FTSE Russell methodology, which assesses revenues of companies across various sectors that have exposure to products and services that deliver environmental solutions.

[2] Tonnes of carbon dioxide equivalent



Source: Brunel

The aggregate Brunel listed equity portfolio has 10.8% exposure to green revenues compared to 7.1% in a standard global equity benchmark[3]. The majority of green revenues (36.4%) come from energy management and efficiency, followed by waste and pollution control technologies and solutions (14.2%) and transport equipment (13.4%). Critically, the top portfolio contributors to green revenues are the same companies that exhibit the highest carbon intensities today.

Case Study: Environmental Solutions in the Waste Management & Pollution Control Sector

Republic Services, Inc.

- Highest carbon intensity and highest contributor to green revenues in the Global Sustainable Equity portfolio
- US leader in environmental services industry operating nationwide recycling and waste services
- Committed to reducing Scope 1 & 2 emissions by 35% by 2030; an SBTi approved target
- To increase the use of landfill generated biogas as a low-carbon fuel 50% by 2030
- To increase the recovery and circularity of key materials 40% by 2030 thereby fulfilling demand for post-consumer recycled content and limiting the use of high-carbon virgin materials

Source: Brunel Pension Partnership

[3] FTSE All World Developed

Section 3 – Positive Impact in Private Markets

The Fund has a large portfolio of private markets investments spanning property, secured income assets, infrastructure and private debt with current commitments to these asset classes totalling over £1.5 billion. Real assets play a pivotal role in delivering a net zero emissions future as well as supporting a 'just transition'[1] and serve to ensure we are generating the return required as well as making both an environmental and social impact. Highlights of some of the projects we are invested in through our private markets portfolios can be found below.

(I) Infrastructure

Structural forces such as the increase in cost of capital, supply chain disruption and the viability of certain subsidy regimes have made it difficult for investors to source attractively priced assets in well-established sub-sectors such as wind and solar. Valuations softened over the year for construction assets and development platforms; anecdotal evidence showed new projects being paused or cancelled due to 30-40% cost inflation most notably in UK offshore wind. Despite these challenges the Fund's well diversified infrastructure investments are expected to be a net beneficiary of higher energy prices and the greater need for production capacity. Furthermore, Government targets will increase the size and pace of demand for capital into the energy transition space, including energy infrastructure and clean energy generation.

The Brunel Cycle 3 infrastructure portfolio has been constructed to tap into this potential by setting a 70% minimum target for 'sustainable infrastructure' (low carbon, energy-transition, renewable energy, and renewable-enabling technologies), of which at least 40% will be in dedicated climate solutions.

Case Study: Infrastructure – Organic Farming

Meadowlark Lans Fund (Brunel – Cycle 3) focuses on organic farmland which seeks to improve soil health and organic matter and reduce emissions from farming, with associated biodiversity, ecosystem and climate benefits.

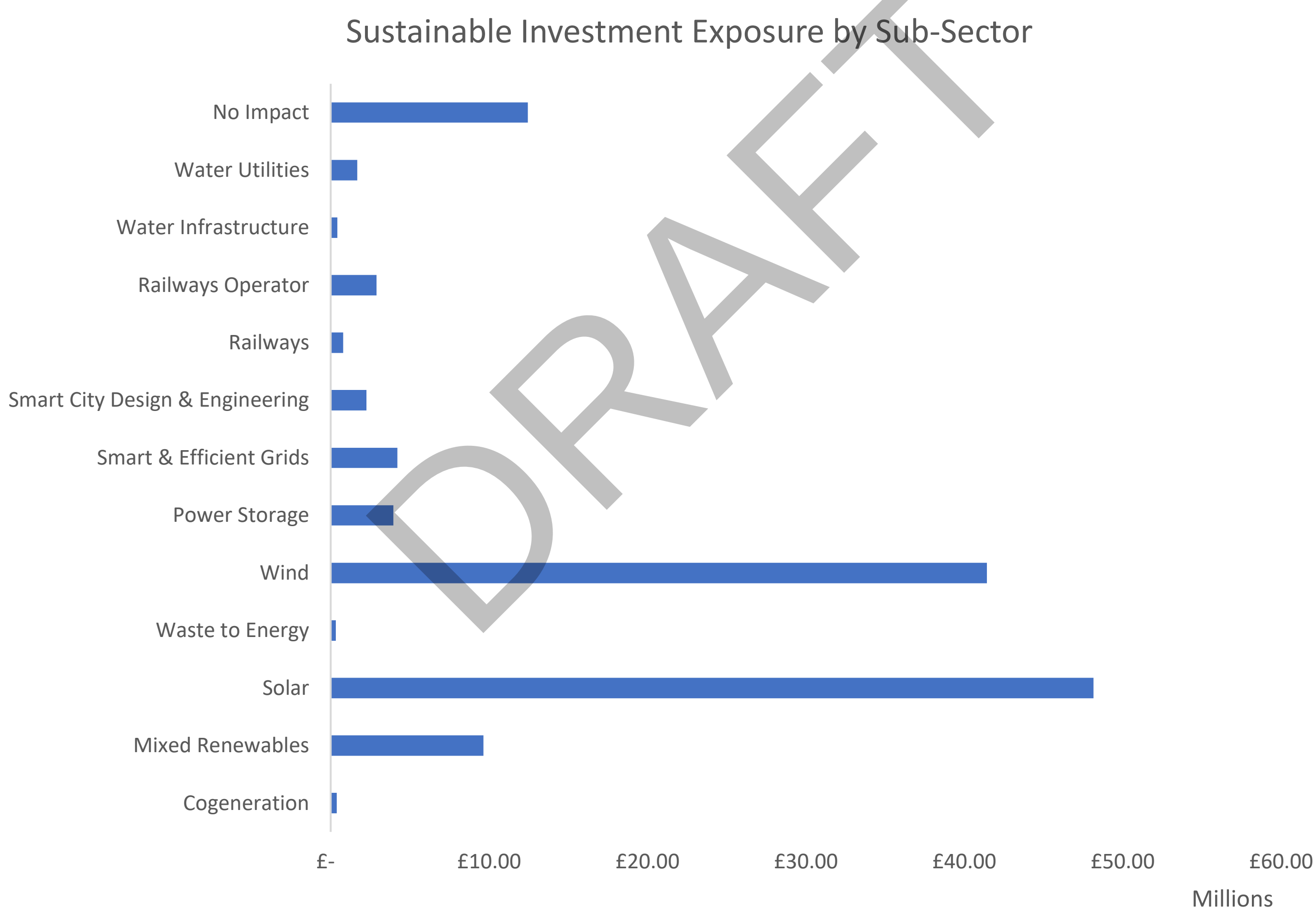
The conversion of conventional farmland to organic, and sustained organic farming practices, are expected to drive impactful environmental benefits from improved soil health and microbial activity that will result in improved biodiversity and ecosystems. The improved soil organic matter will allow for additional sequestering of carbon from the atmosphere. A further benefit of organic farming is the reduced usage and run off pesticides and synthetic fertilisers into water systems.

Source: https://www.brunelpensionpartnership.org/wp-content/uploads/2023/05/2023-Responsible-Investing-and-Stewardship-Report.pdf

[1] The 'just transition' highlights the social consequences of climate change and provides the framework for connecting climate action with inclusive growth and sustainable development for regions and communities most effected by the phase out of the fossil fuel industry. The Fund pledged its support for a 'just transition' alongside a $5 trillion coalition of investors in 2019.

This year saw Brunel work with their strategic partner, StepStone, to map underlying infrastructure investments to FTSE's Green Revenues Methodology. Below is a breakdown of sustainable investments by sub-sector that fall into FTSE's classification system. This represents pioneering work to bridge the data consistency gap between public and private markets reporting. "No impact" investments in this context refers to currently unassigned investments that do not fit into the FTSE classification system. This does not mean the investment is by any means not impactful. As technologies evolve and capital deployed in certain areas reach critical mass, they may be assigned to a FTSE Green Revenue classification.

As at September 2022 the Fund had £48.2m invested in solar, £41.4m in wind and £9.6m in mixed renewables.



Case Study: Solar on Reclaimed Landfill Sites

Ockedon solar farm owned by NTR (Brunel – Cycle 1) is located in Essex and is considered to be one of the largest solar farms to be built on a repurposed landfill site in Europe. It will provide enough power for 17,000 hones once operational.

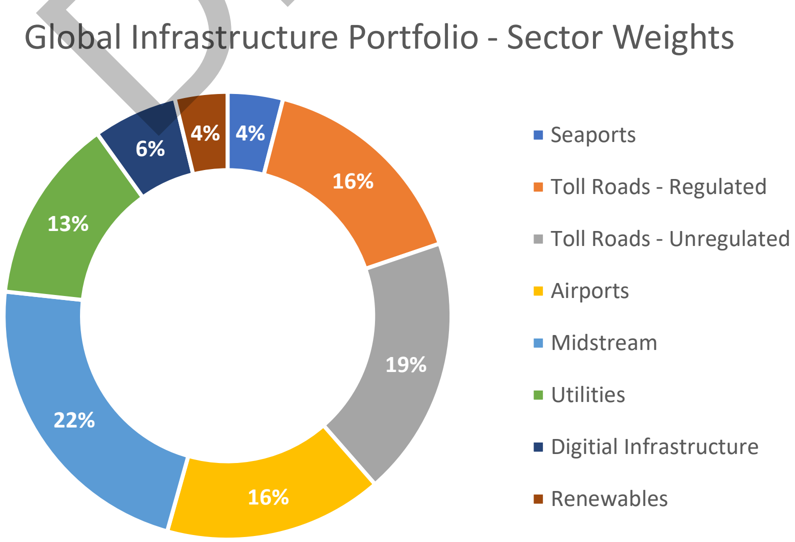
The acquisition is in line with NTR's focus on creating a circular economy, with the former landfill site being left undisturbed. Specialist engineering techniques have been adopted by NTR to repurpose the land for renewable energy power generation.

Using the latest solar technology, NTR will install 540 watt bi-facial panels which are capable of capturing sunlight on both sides of the panel. These panels have a higher efficiency rate, resulting in increased output density and optimisation of energy yield per square metre. The project is expected to start delivering power to the grid as early as 2023/24.

Source: https://www.brunelpensionpartnership.org/2023/11/29/climate-change-progress-report-2023-published/

At the end of the year the Fund had c.£165m of its £290m commitment to renewable infrastructure invested across all Brunel private markets cycles.

The general infrastructure portfolio, which the Fund currently has a 4% strategic allocation to, will continue to transition new and existing assets gradually to decarbonise over time, with the aim of achieving net zero Scope 1 and 2 emissions for all portfolio companies by 2050; and reducing scope 1 and 2 annual emissions by at least 2.02 million tonnes of CO_2e by 2030 (from a 2019 baseline).



The airport assets held in the portfolio, which represent approximately 16% of sub-sector exposure, have been in focus this year. The criticality of decarbonising and transitioning the aviation sector is brought into sharp relief by the fact flying will continue to be the only viable means to connect many destinations globally for both passenger and airfreight purposes. Research points to major airports continuing to see strong demand, and with it, aviation technology will have to evolve to deliver improved fuel efficiency, sustainable aviation fuels (SAF) and eventually electrification and/or a switch to hydrogen.

Case Study: Sustainability at Manchester Airport Group

Sustainable Aviation Fuels

A portfolio company - Manchester Airport Group (MAG) - have signed a memorandum of understanding with Fulcrum BioEnergy to support the development and delivery of Sustainable Aviation Fuel (SAF). As part of the agreement, SAF will be supplied to Manchester airport, meaning that up to 10% of the fuel used by aircraft at the airport could be replaced by SAF.

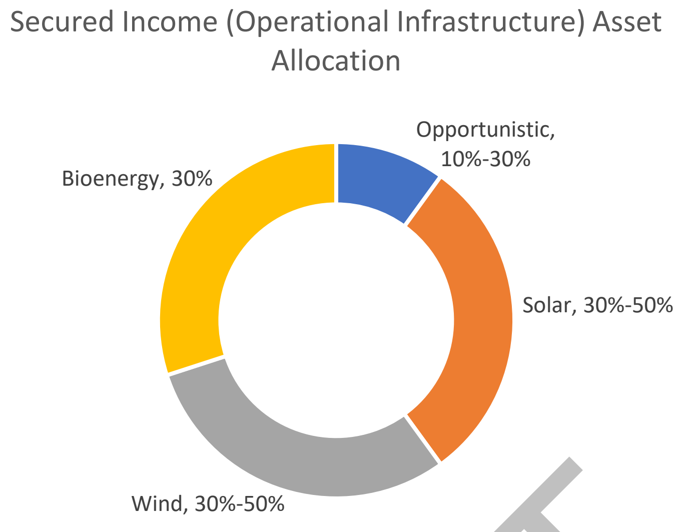
Jet Zero Strategy Engagement

MAG has welcomed the UK Government's Jet Zero Strategy to support the aviation industry to reach net zero by 2050. The strategy includes an interim target of Net Zero domestic flights by 2040, a new SAF mandate to ensure at least 10% of jet fuel is SAF by 2030 and a commitment to ensuring at least five SAF plants are under construction by 2025.
Specifically, to support the aviation industry in delivering these goals, MAG has announced new pledges including launching a new initiative offering five years of free landing fees to the first zero-emission aircraft operating transatlantic flights from its airports. It has also created financial incentives to encourage airlines to go beyond the UK SAF mandate on flights from its airports.

Source: *https://mediacentre.manchesterairport.co.uk/manchester-airport-supports-governments-jet-zero-strategy-with-new-pledges-for-a-more-sustainable-aviation-sector/*

(II) Secured Income

The Fund has a £700m commitment to the Brunel Secured Income portfolio. Approximately 60% of capital is allocated to long-lease property assets, which consist of traditional sale & leaseback arrangements, ground rents and forward funding agreements. 40% of capital is allocated to an operational infrastructure fund formed to make investments in renewable assets located predominantly in the UK, with the principle objective of generated contracted income over a long-term time horizon from multiple sources. The fund continues to acquire a diversified portfolio of assets with a focus on solar, onshore and offshore wind, bioenergy and, opportunistically, assets in other renewable infrastructure areas. We have reported extensively on our investment in the ground-breaking project that saw the construction and operation of two of the UK's largest commercial greenhouses, warmed by waste heat from nearby water treatment facilities. Further detail on this particular investment is available here.



Case Study: Renewables, Recyclability and the Circular Economy

Achieving national net zero commitments relies in part on the adoption of a more circular economy, where waste is continually recycled and used as an input for something new. While an estimated 85% to 90% of wind turbine components can be recycled, wind turbine blades remain a challenge. Most commonly, decommissioned turbine blades are landfilled. Schroders Greencoat (SG) are working to understand and overcome the challenges in turbine recyclability.

Funding for Innovation

In 2022 SG launched its first grant-making programme to find and support academic research and non-profit projects that advance the industry's knowledge around wind turbine blade recycling, repurposing and recovery. The programme was launched in partnership with BizGive, an online platform that connects organisations to external impact partners, such as universities, charities and community groups. The £250,000 impact programme has attracted applications from a wide range of unique projects. Through this project the University of Edinburgh received a grant of £125,000 for a 12-month research project focused on recycling old wind turbine blades into powders that can be used in surface coatings. The project aims to deliver an easy, low-cost processing route for decommissioned blade materials which produces a valuable, high-end product that can be added to the surface coatings of engineering and structural components to prevent corrosion and erosion. For example, it could be used to protect new wind turbine blades from erosion caused by particulates.

Source: https://www.greencoat-ukwind.com/~/media/Files/G/GreenCoat-UKWind/ESG/c120063CCL_High.pdf

(III) Private Debt

Fixed income markets have lagged equities in the application of ESG criteria. This likely reflects a range of factors, principally; bondholders do not have the control rights shareholders do. To account for this, Brunel have been working with their underlying managers within the Private Debt portfolio, which the Fund has committed £415 million to, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis. Innovative financing solutions developed by the underlying fund managers reward borrowers who are able to demonstrate the impact of sustainability initiatives that span environmental themes, labour and human rights and sustainable procurement and supply chain transparency.

(IV) Property

Our UK Property portfolio is given a sustainability score by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio is compared to its peers and hence it’s potential climate change resilience. The most recent annual analysis showed that we exceeded the benchmark average in overall ESG performance, achieving a score of 81 (average 79). Among a diversified portfolio of core sectors including industrials, office-space, retail and residential the portfolio has continued to build exposure to specialist sectors. Last year we reported on the Fund’s investment in a UK Affordable Housing Fund which seeks to alleviate the supply and demand imbalance in affordable housing for working families across the UK. At the end of the year all of the Fund’s original £10m commitment had been deployed and further opportunities for the property portfolio to invest in impact strategies had been identified in the life sciences, social and healthcare sectors.

Case Study: Local Positive Impact in UK Residential Sector

Across multiple buildings fronting Castle Park, Castle Park View adds 300 new Build to Rent homes and 75 affordable homes to Bristol's housing at the heart of the city centre. The construction process created local jobs and supported skills development with c.1,290 apprenticeship weeks and over 300 career support sessions.

The scheme has been designed around the principle of using and sharing sustainable energy sources and benefits from a new district heating network, powered by a large-scale water source heat pump that draws water from the nearby harbour – the country's largest project of its kind and a key component of Bristol's 2030 Net Zero carbon plan. Heat is produced by a central plant and supplied to buildings throughout the city, allowing for improved efficiency over a series of localised boilers. This provides low carbon, cost-efficient heat and hot water for residents.

Renewable energy is generated on-site at Castle Park View through almost 200 photovoltaic roof-mounted solar panels which convert sunlight to electricity, powering the building's communal areas. The ability to tap into this resource equates to carbon savings of around 20% versus regular electricity sources. Other energy-saving measures include the installation of energy-efficient lighting and high-performing fitted kitchen appliances in each apartment, contributing to an Energy Performance Certificate rating of B.

Efficient waste management is incorporated in the building's design with refuse chutes on each floor divided into three vessels, reducing the amount of refuse going to landfill by up to 66%. A brown roof across 80% of the structure – which recreates the brownfield site that existed before the building was constructed – promotes biodiversity by allowing plants and wildlife to self-colonise. The scheme has been built to a voluntary certification standard known as the Code for Sustainable Homes, and BREEAM In-Use Residential certification will be sought once the minimum required occupancy level is reached.

Source: https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/stewardship/mg-investments-annual-stewardship-report-2022.pdf

Section 4 – Local Impact Investments

A key outcome of the Fund's 22/23 investment strategy review was agreement to allocate an initial 3% (£160m) of total fund assets to a local impact portfolio, building on the Fund's existing 'impactful' investments which include renewable infrastructure, affordable housing, and listed exposure to sustainable and transition aligned equities.

Case Study: Orchard Street Partners (UK Property Impact Fund)

Via its Brunel UK Property allocation, the Fund committed £8.5m to Orchard Streets inaugural impact fund at first close.

The fund will target value-add real estate investment opportunities with the potential to generate a measurable social and environmental impact. Specifically, it will focus on three impact areas from decarbonising existing buildings via an accelerated programme of refurbishment, investing in local communities, using a proprietary place-based needs model to identify and respond to local social issues.

It will also focus on making buildings healthier for those that live and work in them, for example through improving air quality, access to green space and wellness amenities.

Orchard Street has also taken a market leading approach by linking 30% of its performance fees to the achievement of the fund's specific impact objectives, thereby aligning itself directly. Not only to financial outcomes, but also to important environmental and social goals.

Source: https://www.orchard-street.co.uk/news/orchard-street-announces-first-close-ps400-million-impact-fund-focused-decarbonisation

A prerequisite of any investment will be its ability to exhibit demonstrable impact both in terms of intentionality and additionality in the local area. Investments made as part of this new allocation will be asset-class agnostic and are expected to be made up primarily of sustainable infrastructure assets, affordable housing strategies and, to a lesser extent, sector-specialist opportunities.

These asset classes have the benefit of being well established and scalable and achieve a balance between delivering positive impact across 'environmental' and 'social' dimensions while meeting the Fund's overarching risk/return objective.

"Investing in renewable generation assets across Brunel's constituent counties generates resilient cashflows for underlying investors, and clean energy where their pension beneficiaries work and live. We're very pleased to be working with Brunel partner funds again – our close relationship with them, which dates back to 2019, is key to making initiatives like this one possible."

Matt Ridley, Partner, Schroders Greencoat

The portfolio will comprise a smaller allocation to specialist sectors such as Supported and Regulated Housing and/or venture capital including SME financing. These opportunities are expected to be additive to the return of the overall portfolio and deliver a highly material social impact.

The Fund has built in sufficient flexibility so as not to preclude investments outside of the region if a particular opportunity enables capital to be deployed in the Southwest. The Fund made its first local impact commitment in October 2023, details of which can be found in the below case study.

Case Study: Renewable infrastructure and Energy Transition Assets Across the South West of England

October 2023 saw the Fund make its first local impact commitment to a Schroders Greencoat managed fund, Wessex Gardens LP along with 5 other underlying Brunel partner funds. Aggregate commitments totalled £330m, with Avon committing £50m. The mandate will make long-term investments in renewable infrastructure and energy transition assets across the South West of England.

In scope investments include a wide range of renewable energy technologies, including traditional sectors of solar PV and wind, and innovative energy transition sub-sectors such as battery storage and green hydrogen production. With a large amount of capital being deployed into a concentrated geography, the investments are expected to deliver significant local impact across the region, creating jobs in the South West while providing clean energy to the national grid.

The partnership represents the largest-ever commitment by UK local government pensions into place-based and locally-focused renewable energy infrastructure.

The investments will not only contribute to meeting the UK's net zero and energy security targets, but also the net zero targets and environmental impact goals of the Fund.

Source: https://www.schroders.com/en-gb/uk/institutional/media-centre/schroders-greencoat-raises-%C2%A3330-million-for-renewable-infrastructure-fund-from-uk-local-government-pension-schemes/

Section 5 – Stewardship

(I) Policy Advocacy

Engagement and active ownership are central to the Fund’s approach to ESG; we believe that meaningful engagement can make a positive impact and ultimately create long-term value for our members.

The Fund recognises that real world change comes about through coordinated action with the investment industry, corporate community, regulators and policymakers all working together. Playing our part means working with these groups to effect change and maximise the impact we can make within our sphere of influence. We work closely with our strategic partners to drive the development of ESG regulation and commitments made globally. An overview of the initiatives that the Fund is an active member of, along with a brief description of key workstreams is included below:

Organisation/Initiative	Remit
BRUNEL Pension Partnership	To best identify and respond to market-wide and systemic risks, Brunel engages with wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Consultation responses are published on the Brunel website here: Policy advocacy. Brunel is involved in a number of industry initiatives including: IIGCC, Principles for Responsible Investment (PRI), CA100+, Transition Pathway Initiative (TPI), International Corporate Governance Network (ICGN), the UK Sustainable Investment and Finance Association (UKSIF). Brunel RI and Stewardship Report 2023
	IIGCC’s Policy Programme works with policymakers and other stakeholders to help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. The IIGCC have also been responsible for developing a Net Zero Investment Framework, which outlines a common

IIGCC Institutional Investors Group on Climate Change	set of recommended actions, metrics and methodologies to maximise investors' contribution to achieving net zero emissions by 2050 or sooner. Over the year, and as part of a continued programme of expansion, the IIGCC issued consultations and co-ordinated working groups made up of industry thought leaders, on how to integrate infrastructure, derivatives, hedge funds and private equity into the framework.
Local Authority Pension Fund Forum	LAPFF is a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the LGPS funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. This year LAPFF continued their engagement work with high emitting sectors under the purview of the 'Say on Climate' initiative. Human rights have been a significant focus for LAPFF for several years. LAPFF has particularly focused on the impact of the global mining industry on human rights and has also undertaken substantial engagement with companies operating in the Occupied Palestinian Territories after many LAPFF member funds were approached by activist groups working on this issue. Officers and Committee members attended four LAPFF business meetings during the year. One of the Fund's Committee members is a member of the LAPFF Executive Committee. The most recent LAPFF Annual Report is available to read here

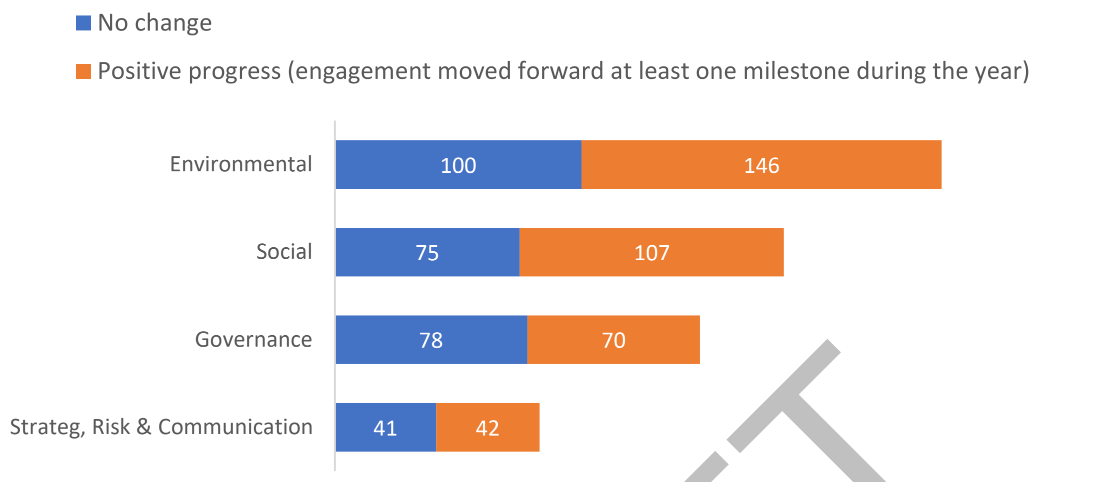
	The Climate Action 100+ (CA100+) Net Zero Company Benchmark assesses the performance of focus companies against three high-level goals: emissions reduction, governance, and disclosure on and implementation of net zero transition plans. The Benchmark draws on public and self-disclosed datasets from companies, which are categorised into two types of indicators: • Disclosure Framework Indicators, which evaluate the adequacy of corporate disclosures; • Alignment Assessments, which evaluate the alignment of company actions with the Paris Agreement goals. The Framework is assessed by the Transition Pathway Initiative (TPI) and FTSE Russell. Alignment assessments are provided by the Carbon Tracker Initiative. Source: https://www.climateaction100.org/net-zero-company-benchmark/

(II) Engagement with Investee Companies

Listed equities provide the most immediate route into engaging with companies on a broad range of issues. Other asset classes are less advanced and are structured in a way that is not always conducive to active engagement with investors. However, progress is being made and, in this report, we discuss some of the mechanisms being implemented by investment managers in other asset classes such as fixed income that are helping to move the industry forward.

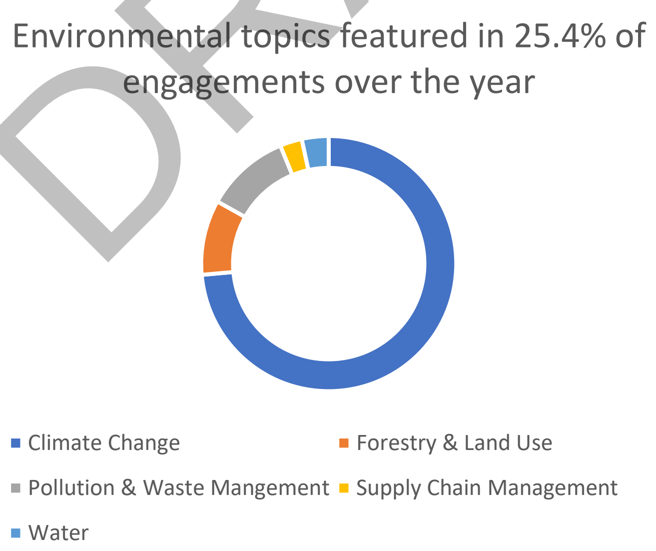
As the Fund's invests in Brunel portfolios it is vital that underlying investment managers and EOS at Federated Hermes (EOS), as Brunel's appointed voting and engagement provider, meet our expectations, and that there is continued alignment of engagement and voting priorities and practices.

To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also defined. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal. Engagement undertaken by EOS on behalf of the Fund during the year to December 2022 made significant progress. Across the Fund's listed equity investments, EOS were able to move at least one milestone forward for 55% of the objectives set during the year. This compares to 48% in the prior year.

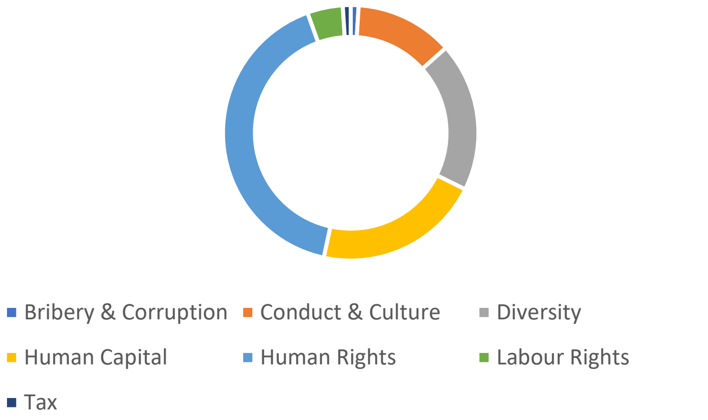


Note: Engagement covers active equity portfolios and does not include engagement undertaken by underlying investment managers and/or Brunel

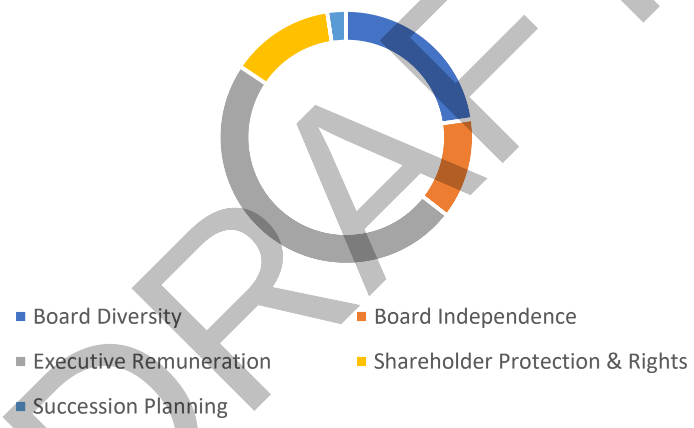
During the year, EOS engaged with 466 companies across 1,977 issues spanning Environmental, Social, Governance and Strategy, Risk and Communication matters. A summary of the issues and objectives on which EOS engaged with companies is shown below:



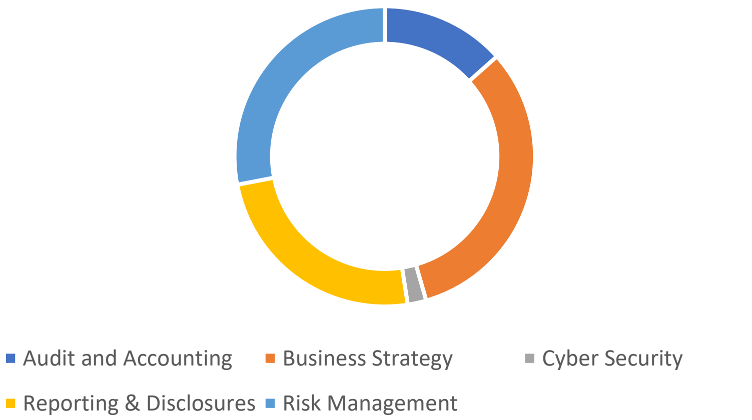
Social topics featured in 24.9% of engagements over the year



Governance topics featured in 37.2% of engagements over the year



Strategy, Risk & Communication topics featured in 12.4% of enegagements over the year



Case Study: German Automotive Sector & Climate Lobbying (GHA, GSE, PAB)

12% of global greenhouse emissions come from the road transport sector.

Many automotive companies have set emissions reduction targets focused on a shift to electromobility – but to implement this effectively, a supportive policy environment is essential.

EOS have undertaken extensive engagement with Mercedes-Benz and BMW (companies held in the Fund's active and passive equity portfolios), discussing how these companies must align their direct and indirect lobbying activities through trade associations with disclosed emissions targets. Work has been ongoing for 5 years and has included numerous site visits, in-person meetings with investor relations and heads of department at both companies, questions posed at AGMs and co-ordination of shareholder resolution proposals.

Outcome & next steps: BMW issue first Group Climate Engagement Report, Mercedes-Benz undertake public review of all lobbying activity, publish Group Climate Policy Report. EOS continue to engage on this topic, pressing for greater quality and detail in disclosures.

Source: https://www.hermes-investment.com/uk/en/institutions/eos-insight/stewardship/german-automotive-engagement-on-climate-lobbying/

EOS Engagement Initiative: Deforestation, Biodiversity and Sustainable Food Systems

Over the year EOS have continued to advocate for best practice and industry standards, including calling for an ambitious Global Biodiversity Framework at COP15.

Specifically, EOS have developed a dedicated biodiversity engagement programme to accelerate and deepen the focus on biodiversity protection and restoration. The programme includes 15 companies from the food and beverage sector and raises material issues for engagement including regenerative agriculture, deforestation, sustainable proteins, water use, animal welfare, antimicrobial resistance, chemicals and pollution, and ocean health.

Other sectors for which biodiversity loss is material include infrastructure, banking, fast fashion, chemicals and extractives due to their operational and supply chain impacts on biodiversity. In future, EOS will be integrating more biodiversity discussions for these sectors to progress cross-industry action on biodiversity.

Source: https://www.hermes-investment.com/uploads/2023/02/d61735e0dbe2062de0912a79f28e734e/eos-annual-review-2022-singles.pdf

Other notable company engagements undertaken by EOS over the year spanning the rising cost of living, human capital and the concept of a “just transition” and digital privacy rights are available to read here.

Brunel also undertake a number of collaborate engagement efforts directly with companies and policymakers on behalf of partner funds, as set out in their Responsible Investment and Stewardship Outcomes report.

Building on the momentum of previous initiatives including the ‘Global Investor Statement to Governments on the Climate Crisis’, Asset Owner Diversity Charter and a targeted campaign calling for water utilities companies to reduce pollution and to preserve natural capital by having clear biodiversity action plans, this year saw Brunel co-ordinate a joint two year engagement programme on climate physical risks in the food and agriculture sector. The Fund is an active participant in the initiative, further details of which can be found below:

Brunel Engagement Initiative: Climate Physical Risks in the Food and Agriculture Sector

In July 2023 a leading sustainability advisory firm was appointed by Brunel to co-ordinate and conduct a two-year engagement programme focussing on 20 companies in the consumer staples sector on behalf of Brunel partner funds.

Understanding and engagement on physical risks is relatively nascent. The objectives of the engagement are to:

1. Articulate the investment risk linked to food and agriculture companies.
2. Encourage companies to assess and manage physical risks.
3. Understand how companies are impacting biodiversity and managing biodiversity to mitigate climate impacts.

Engagement meetings with companies are expected to start in 2024 with reports issued shortly thereafter assessing progress, identifying learnings, themes, good practices and innovations.

Escalation is a key component of stewardship and we expect anyone acting on the Fund’s behalf to take account of our RI priorities, alongside policies and frameworks that we have helped to inform and develop, principally through Brunel, and to take appropriate action should efforts to advance the Fund’s priorities fail to progress satisfactorily. Where Brunel manages the Fund’s assets, it is appropriate that day to day stewardship activity is delegated to Brunel and the underlying investment managers they choose to appoint. It is essential, therefore, that appropriate monitoring and reporting of stewardship activity takes place to ensure that our RI priorities are being met and that appropriate steps are taken to escalate the issue if not.

We recognise that efforts to engage should take place within a well-defined framework and should not continue indefinitely where no progress is made.

Engagement Escalation and Divestment: Suncor Energy Inc.

[INSERT GRAPHICS]

- Highly carbon intensive investment in energy company (global high alpha equity portfolio).
- Business model (oil sands) fundamentally challenged by desire to transition to low carbon future with revenue streams concentrated in areas where transition is dependent on significant technological innovation.
- Ambitious emission reduction targets (scope 1 & 2) and actively seeking positive industry change meant the company could demonstrate a commitment to transition alignment.
- Ultimately, due to targets being insufficiently embedded into action and management incentives and a public shift in policy direction, the underlying investment manager was unconvinced public commitments would be delivered and the decision was made to disinvest in 2023.

An additional route of escalation, outside of Brunel, is through LAPFF. A range of factors inform how LAPFF undertakes an engagement, including the company, the sector, and the nature of the issue to be addressed. The primary means by which LAPFF chooses its engagements is driven by aggregate member holdings. If LAPFF's approach to engagement is met with resistance or deemed not to be progressing quickly enough, escalation routes may include voting recommendations to members such as voting against the re-election of board member(s), filing shareholder resolutions at company Annual General Meetings (AGMs), or taking a more public stance such as targeted media campaigns including press releases.

One of LAPFFs strategic priorities over the past few years has been on holding the mining sector to account following several high-profile and devastating tailings dams collapses. LAPFF holds a firm view that understanding and addressing human rights impacts are necessary to ensure the sustainable creation of long-term shareholder value. A summary of recent LAPFF engagement work with the mining sector can be found below. Further detail is included in LAPFFs Annual Report here.

LAPFF Company Engagements: Mining and Human Rights

Anglo American

Objective: During its recent visit to the Minas Rio dam it was clear to LAPFF how threatened local populations felt by the presence of the dam. Consequently, LAPFF would like to ensure that the Anglo American board understand the risks presented by the possibility of this dam's collapse and that the company engages meaningfully and effectively with communities

Achieved: LAPFF has alerted Anglo American to the communities' concerns on a number of occasions, including through a letter to the chair raising these concerns. The company chair and CEO have been receptive.

In progress: LAPFF will continue to engage with Anglo American to ensure that the company listens appropriately and effectively to communities and takes appropriate accountability for its legacy tailings dams.

BHP

Objective: BHP has historically been open to engagement with LAPFF however, when pressed on its approach to addressing its impacts from the Samarco tailings dam collapse, BHP has shut down its engagement avenues. This withdrawal from engagement raises significant concerns for LAPFF, both in terms of the prospects for improving the company's approach to human rights and environmental impacts and in terms of what this behaviour says about its company culture.

Achieved: LAPFF has written continuously to BHP expressing its concerns about the company's lack of engagement and questioning the company's reasoning in refusing to engage.

In progress: LAPFF will continue to press on the engagement issue as it believes that engagement is critical to progress, and that BHP has not adequately justified its position not to engage. It will also continue pushing the company to consider better ways that ensure ESG issues do not fall through accountability gaps present in joint venture governance structures.

Glencore

Objective: LAPFF has engaged with Glencore on a range of topics, including board composition, anti-bribery and corruption, climate, and human rights. Over the course of the year, LAPFF was approached by Peruvian community members concerned that Glencore's operations at Antapaccay are creating negative social and environmental impacts, in particular water contamination.

In progress: LAPFF will prioritise the need for an independent environmental and social impact assessment. LAPFF has asked Glencore for independent assessments of its processes in the past(for example, in relation to its internal control system) and will continue to push the company to take this route in relation to a range of critical processes.

Source: https://lapfforum.org/wp-content/uploads/2022/12/LAPFF_annual-report-final.pdf

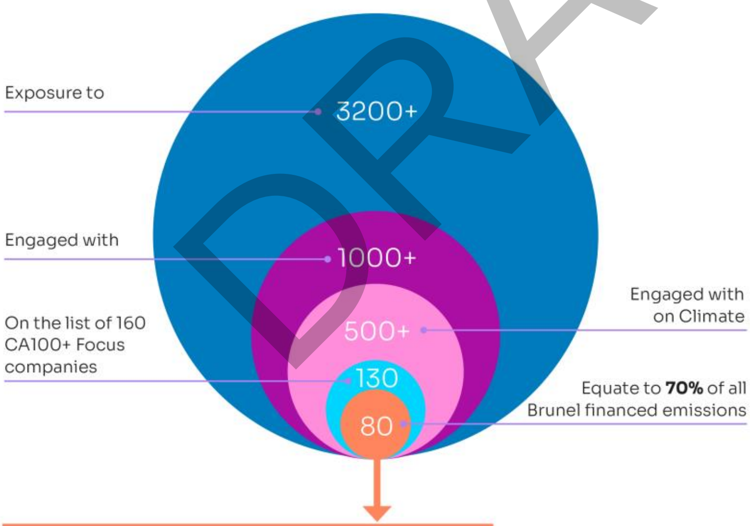
(III) Engagement Targets

One of the central tenets of the Paris Aligned Investment Initiative (PAII) is the *"implementation of a stewardship and engagement strategy consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner".*

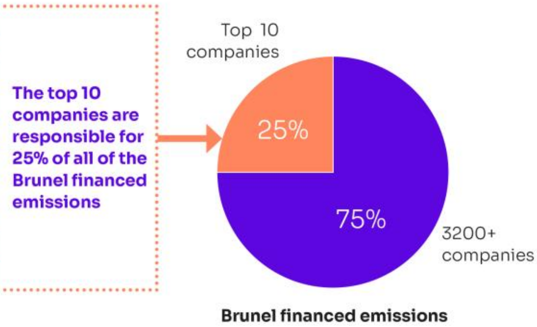
Aligned with the PAII Asset Owners Commitment and Brunel, the Fund agreed to adopt a formal engagement target ensuring 70% of financed emissions in material sectors are covered by active engagement by 2024, increasing to 90% by 2027 for all listed equities across Brunel portfolios.

The target applies across all Brunel listed equity portfolios, rather than specifically to the Fund's investments. This approach is consistent with maximising real-world impact, where the entire market is required to decarbonise and, ultimately, transition to a low carbon economy.

Analysis undertaken by Brunel reveals a relatively small number of companies account for an outsized contribution to emissions and some of the highest contributors to emissions demonstrate alignment with 1.5 degrees, having set accredited net zero targets. However, others have not been assessed and/or have not set targets; these companies will be the focus of engagement work and progress will be monitored annually.



Rank	Company Name	% of Brunel financed emmissions
1	Shell plc	3.90%
2	Holcim Ltd	3.65%
3	Anglo American Plc	3.01%
4	Breedon Group plc	2.54%
5	BP p.l.c.	2.44%
6	Suncor Energy Inc.	2.07%
7	Anhui Conch Cement Company Limited	1.98%
8	CRH Plc	1.93%
9	Glencore Plc	1.92%
10	Steel Dynamics, Inc.	1.80%



Figures correct at December 2022

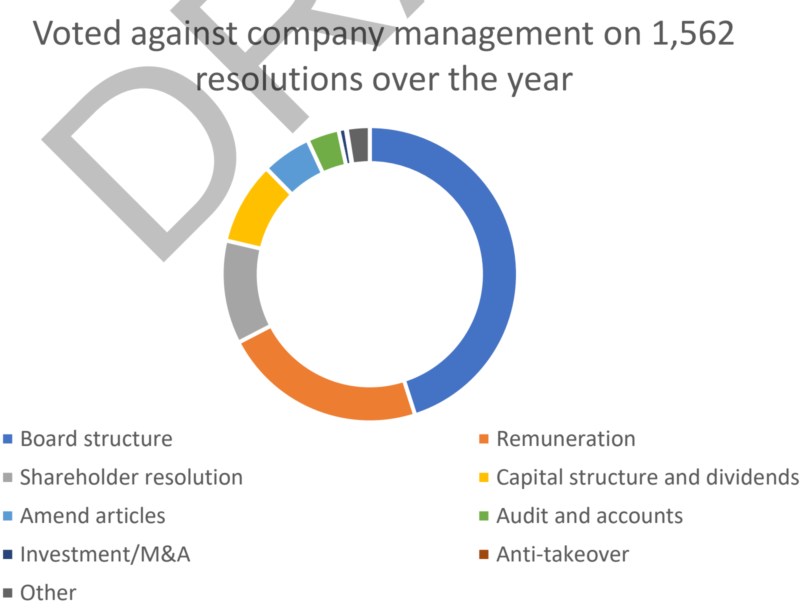
(IV) Voting Activity

The Fund believes that voting is an integral part of the RI and stewardship process and serves to enhance long-term value creation for our members. Voting is delegated to Brunel and its underlying managers for the shares we hold in publicly listed companies, and we expect all underlying managers to exercise our right to vote at company meetings.

The Fund provides input into the development of Brunel's voting guidelines, which guide EOS's voting recommendations alongside country and region-specific guidelines. Brunel's voting decisions are also informed by investment considerations, consultation with portfolio managers, other institutional investors, engagement with companies and escalation by the Fund. More details on this and the voting process, including the approach across asset classes, is explained in Brunel's Stewardship Policy.

During the year EOS made voting recommendations on 10,177 resolutions at over 850 meetings on our behalf. At 474 of those meetings, EOS recommended opposing one or more resolutions, while at 2 meetings, EOS recommended abstaining. They supported management on all resolutions at 341 meetings and recommended voting with management by exception at 36 meetings. A vote "for by exception" is applied where there is a reasonable prospect of ongoing positive engagement.

The **issues** on which EOS recommended voting against management or abstaining on resolutions are shown below:



Case Study: Significant Vote Real Living Wage

Sainsbury's

Background: Nearly 10,000 UK employers are accredited with the living wage foundation , nearly half of whom have signed up since March 2020. Over half of the FTSE 100 are accredited.

Escalation Process: Despite improvements in other sectors, no companies within the supermarket sector are accredited, and ongoing engagement has struggled to yield results. Brunel and Good Work Coalition, discussed escalation options and decided to proceed with filing a shareholder resolution seeking for Sainsbury's to accredit as a living wage employer by July 2023.

Sainsbury's is the second largest U.K. grocery chain with 16.5% of market share. It operates over 600 supermarkets; 800 convenience stores and at the time directly employed 189,000 workers. Across the coalition the highest holdings were in Sainsburys, and it was felt that given Sainsbury's policies and approach there was a higher chance of success.

Resolution Outcome: The resolution was taken to Sainsbury's AGM on the 7th of June where the living wage shareholder resolution received the support of 16.7% of investors, a further 2.6% abstained. This was the first ever resolution of its kind filed in the UK, the level of support for this first of its kind resolution is positive.

The resolution did not receive enough support to pass or require a public response from the company and Sainsbury's did not decide to accredit to the real living wage foundation. Whilst this is disappointing, resolutions of this kind rarely pass first time. Pre-declaration by several investors in support of the resolution did mean pay rises were secured for thousands of London-based workers and helped to significantly raise the profile of this issue and drive further discussion with the wider industry.

Source: https://www.brunelpensionpartnership.org/wp-content/uploads/2023/05/2023-Responsible-Investing-and-Stewardship-Report.pdf

Voting Misalignment at Oil & Gas AGMs

Shell plc

Following a notable deceleration of prior commitments to reduce oil & gas output from Energy companies this year, Brunel along with select other UK pension schemes opted to vote against Shell directors at its AGM in May. Votes were also cast against Shell's Energy Transition Progress Report and in favour of a shareholder resolution calling for near-term large scale emissions reductions targets.

UK Asset Owner Roundtable

Following the conclusion of the proxy season, Brunel announced that it would convene a meeting (via the UK Asset Owner Roundtable forum) of major fund managers over a perceived misalignment between long-term interests and voting intentions, with European oil and gas majors as the focus.

"UK asset owners are concerned that despite unequivocal warnings from the United Nations and the IPCC of the risks of delayed action on climate change, that short-term interests are trumping long-term interests of pension funds.", writes Faith Ward.

Source: https://www.brunelpensionpartnership.org/2023/10/13/positive-dialogue-at-the-aligning-expectations-roundtable/

Source: https://www.brunelpensionpartnership.org/2023/05/17/opening-a-constructive-dialogue-are-short-term-considerations-eclipsing-the-long-term-interests-of-pension-funds/

(V) Stakeholder Engagement Initiatives

In autumn 2023 we gathered key stakeholders' views on our investment strategy and net zero goals as part of a far-reaching climate review. A series of engagement sessions allowed us to interact with hundreds of stakeholders including staff, Councillors, Unions and Employers in the scheme. We also conducted a second ESG focussed member survey. Ensuring Members views are properly considered is a key requirement of the FRC Stewardship Code and the results of the survey and engagement sessions form a critical input into the future strategic direction of the Fund.

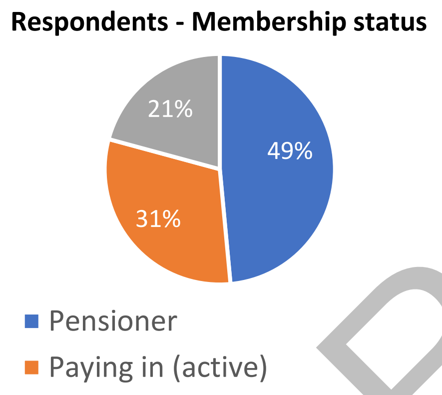
Generally, among key stakeholders and members, there is broad support for driving real-world impact and seeking greater ambition on climate change while not putting the Fund at risk. This tended to converge on a fresh net zero target of 2040-2045.

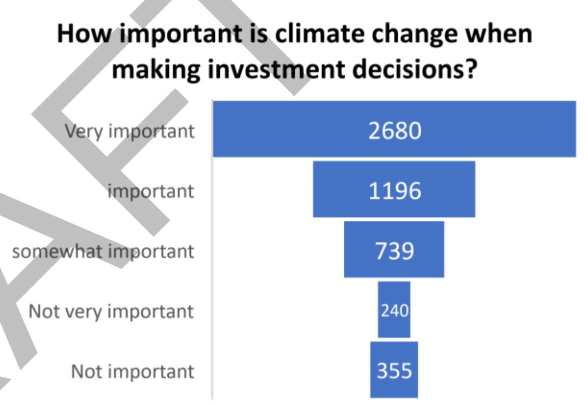
Stakeholders in general support investing in companies aligning towards net zero, even where they exhibit high carbon intensity today. Further, all stakeholders support the idea of making some local investments and generally agree that affordable housing and green infrastructure (e.g. solar / wind) across the South West could make attractive investments and achieve positive goals for wider society.

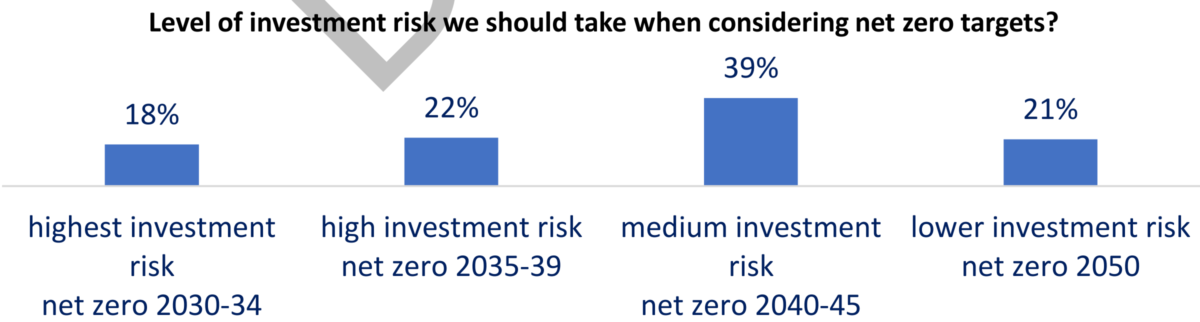
Stakeholders also acknowledged that the ‘Engagement vs Divestment’ issue is complex and nuanced. They generally agreed the Fund needs to do both as joint tools to constructively exert influence and encourage companies to accelerate their net zero path, but engagement should not go on indefinitely. Specifically, there is support for divesting from non-aligning companies by 2030.

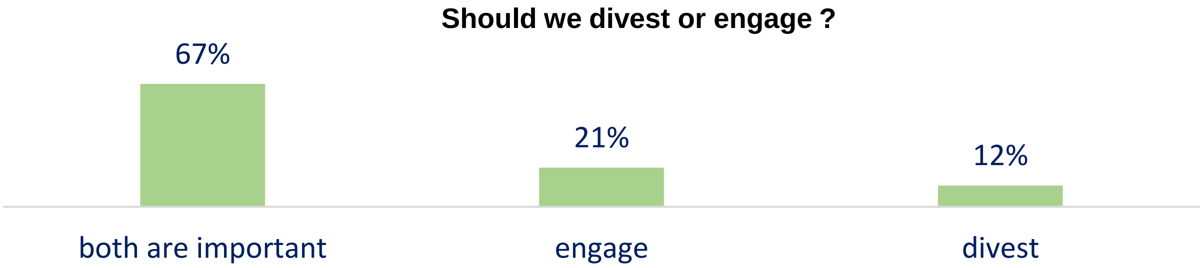
While there is clear support for bringing forward the Fund’s net zero target, with more ambitious intermediate milestones, attendees of the engagement sessions, particularly in the local authority, gave strong consideration to potential material increases in risk, and by extension, the impact on employer contributions this could create.

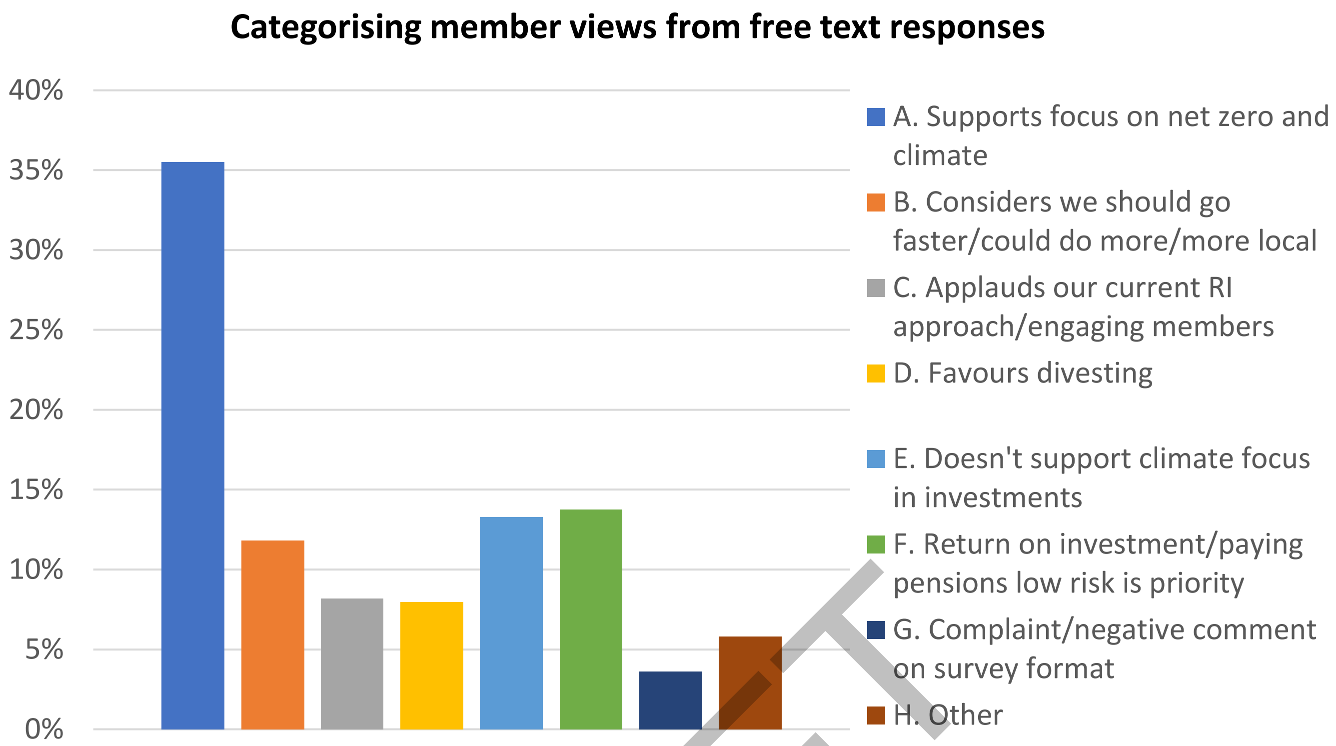
Highlights of the member survey results are presented below. Full survey results were presented to the APF Committee at its December 2023 meeting. The presentation and minutes of the meeting are available to view here [INSERT LINK]










Categorising member views from free text responses
40%
35%
30%
25%
20%
15%
10%
5%
0%
A. Supports focus on net zero and climate
B. Considers we should go faster/could do more/more local
C. Applauds our current RI approach/engaging members
D. Favours divesting
E. Doesn't support climate focus in investments
F. Return on investment/paying pensions low risk is priority
G. Complaint/negative comment on survey format
H. Other

Section 6 – 2024 RI Priorities and Forward Look

The Fund's RI priorities are consistent with Brunel's seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. In addition to these themes the Fund works with Brunel and the other partner funds to identify emerging themes such as sustainable land use, data management and artificial intelligence and fast fashion which are fed into Brunel's annual engagement plan.

The main priorities for the Fund are:

a) Climate change

b) Biodiversity

c) Diversity, equity and inclusion

d) Cyber security

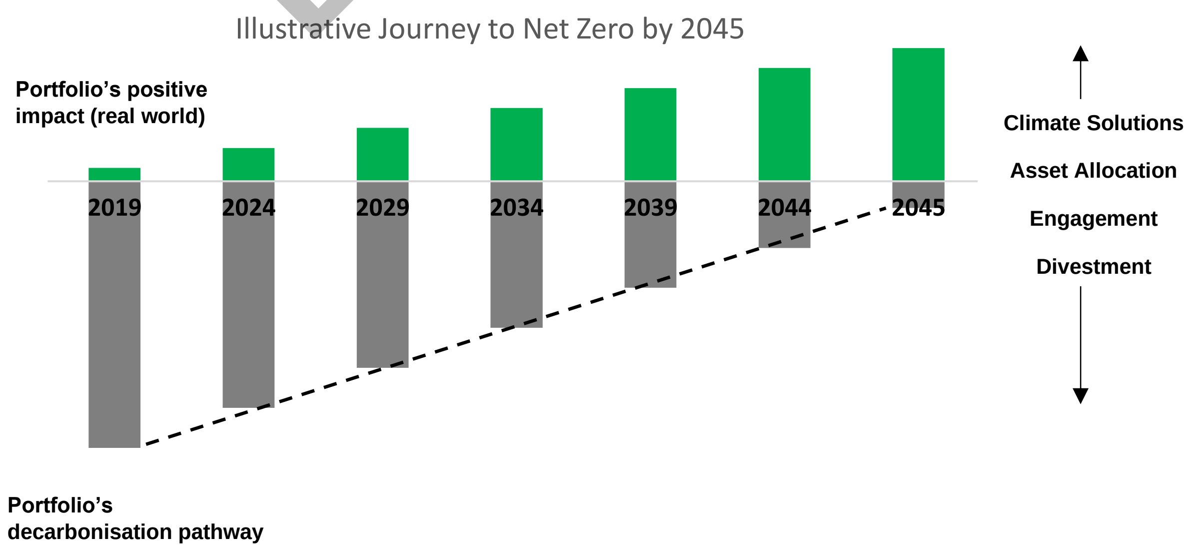
e) Cost and tax transparency

f) Circular economy and supply chain management

g) Human rights and social issues

We have a deep belief in, and focus on, the need for climate related activity to underpin all investments. With this in mind, our approach and methods of reporting will continue to evolve as both data and requirements do. **The amount of the portfolio covered by climate analysis has increased from 42% to 62% in the past year and we will seek to increase coverage to 100% of assets over time.**

Declining carbon intensity metrics alone are not necessarily reliable indicators of a successful transition approach and there is a growing recognition of the importance of adaptation action to increase climate resilience. There is a clear need for a broader definition of the climate transition. This should be one that expands beyond carbon reduction to address the issues of nature loss, physical risks and adaptation.



Our 2045 target reflects the fact conservation and protection of natural capital is critical to mitigation efforts and to combatting climate change. Over the next year we will explore the financial risks associated with the degradation of ecosystems and, by extension, the viability of a dedicated nature-based solutions allocation, which could help to reduce deforestation and support opportunities in regenerative agriculture, food security and water quality.

As responsible stewards of capital we will seek to understand a rapidly evolving market and balance both the risks and opportunities created by climate change as well as broader environmental, social and governance issues while holding ourselves to the highest standards, ultimately for the benefit of our members.

[ENDS]

This page is intentionally left blank

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**15 DECEMBER 2023**
TITLE:	**INVESTMENT STRATEGY (for periods ending 30 September 2023)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Investment Strategy Dashboard Appendix 2 – Mercer Quarterly Investment Performance Report Appendix 3 – Quarterly LAPFF Engagement Report	

1 THE ISSUE

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

1.2 Appendix 1 summarises progress in respect of the investment strategy (including the risk management framework), portfolio performance and responsible investment issues. 1-year and 3-year investment performance remains behind the strategic benchmark driven largely by declines in property valuations and LDI assets.

1.3 The Mercer Investment Performance Report at Appendix 2 contains performance statistics for periods ending 30 September 2023. Mercer will present their paper at the meeting.

2 RECOMMENDATIONS

The Avon Pension Fund Committee is asked to:

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

2.2 **Agrees the recommendation from Investment Panel to reduce the dynamic equity protection hedge ratio to 50% and;**

2.3 **Agrees implementation of 2.2 is delegated to FRMG.**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years commencing 1 April 2023 will impact the next triennial valuation which will be calculated as at 31 March 2025. The returns quoted are net of investment management fees.

4 INVESTMENT STRATEGY

A – Funding Level and Investment Performance ('Amber' Ratings)

4.1 The Fund's assets were £5,268m on 30 September 2023 and delivered a net investment return of -2.9% over the quarter. The decline in the value of Fund assets over the quarter was driven mainly by the LDI portfolio and equity assets. Overseas property and secured income portfolios also detracted.

4.2 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 2023)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-2.9%	-2.1%	1.5%
Avon Pension Fund (excl. currency hedging)	-2.3%	-3.8%	1.7%
Strategic benchmark (no currency hedging)	-0.1%	4.8%	7.0%
Currency hedge impact	-0.6%	1.7%	-0.2%

B – Portfolio Performance

4.3 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are presented to the Investment Panel. A summary of Brunel portfolio performance can be found in Section 4 of the Mercer report at Appendix 2.

4.4 The third quarter saw a decided change in tone and outlook. Although interest rates are no longer rising rapidly, the expectation is that they will now remain at higher levels for longer. This weighed on both global equity and bond markets. Brunel's portfolios were mixed during the quarter, with a number rising in absolute terms, whilst others fell. The Global High Alpha portfolio returned -0.6% during the quarter, underperforming the benchmark by 1.2%. The underweight to the energy sector combined with slower than expected revenue growth from stocks in IT, healthcare and financials weighed on performance.

The Global Sustainable Equity portfolio delivered a return of -4.1% over the quarter, underperforming its benchmark by 4.7%. Many sustainable strategies struggled to outperform during the period due to the inherent 'growth' investment style of these funds. Since inception in 2021, this portfolio has underperformed its benchmark by 5.6%. Metrics designed to assess the quality of the underlying companies in the portfolio highlight sound financial underpinnings, which are expected to be rewarded over time. We believe the long-term proposition for sustainable stocks remains intact.

The Multi Asset Credit (MAC) portfolio delivered an absolute return of 1.9%, flat against both its primary (cash +4%) benchmark and its secondary benchmark, which comprises loans and high yield bonds. Since inception the MAC portfolio has delivered -0.7% in absolute terms, underperforming the cash benchmark by -6.9%. The Diversifying Returns Fund (DRF) generated an absolute return of 2.0% matching its primary (cash +3%) benchmark. Since inception the DRF fund has generated +2.5%, underperforming its cash benchmark by -2.1%.

In private markets, deal flow has tentatively began to pick up, thanks to increased certainty in interest rate movements. However, raising capital remains difficult with many private equity and debt funds extending fundraising periods. Likewise, global property transactions were down over 50% according to CBRE and property funds continue to be plagued by redemptions. The Fund's core infrastructure mandate delivered an absolute return of 3.3% over the quarter, reflecting increased demand for airport, pipeline and seaport assets. The Brunel infrastructure portfolios are still in build-up but performance data is starting to become more meaningful. A very mild 2023 has negatively impacted many operating renewable businesses as a result of low production rates causing lower than anticipated revenues. Lower production rates have been offset somewhat by higher power prices. Brunel's exposure to renewables is well diversified by geography, technology and revenue profile, however the known risks around supply chains, cost of capital and certain types of subsidy regimes continue to be monitored.

The two long lease property funds held in the Secured Income portfolio have been impacted by rising rates, resulting in valuation declines. Both long lease property funds received large redemption requests in 2022 and are still in the process of selling assets to raise cash. M&G has paid down approximately 80% of redemption requests and Aberdeen has cleared approximately 40% of its redemption queue. Further asset disposals are expected. The operational infrastructure component of the Secured Income portfolio, which has benefitted from higher power prices over the past year, continues to offset depressed long lease property valuations.

Finally, private debt benefitted from its focus on traditionally resilient sectors such as healthcare, professional services, and established software which helped the portfolio deliver an interim IRR of 13.8%. The Brunel Private Debt portfolio benefits from the defensive, high quality underlying credits that are typically senior in the capital structure and sponsor-backed. This portfolio remains in build-up phase with c.60% capital deployed at the end of the quarter.

4.5 **Returns versus the strategic assumptions:** Equity and liquid growth assets classes are generally delivering in line or exceeding expected returns based on the 2023 investment strategy review. Property is below its modelled return and the other private market mandates are largely still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

5 INVESTMENT PANEL ACTIVITY

5.1 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.

5.2 The Panel last met on 1 December. Minutes of the meeting will be made available to Committee members in due course. The most substantive item discussed during the meeting was the modelling output of the dynamic equity protection strategy. There was unanimous support to reduce the hedge ratio to 50% from 100% of underlying equity exposure. Panel members considered the trade-offs between asset performance drag and risk reduction, and specifically the impact on the discount rate and employer contributions as part of their decision to recommend the strategic change to Committee. The main reasons Panel supported the reduction are set out below:

(I) **Mitigation of asset performance drag.** The dynamic EPS has detracted c.2.0% p.a. from underlying equity returns since inception, which is equivalent to c.0.8% at total fund level. Historical scenario modelling supports the argument that the dynamic EPS creates a drag on returns in all but the most extreme scenarios.

(II) **Implications for the discount rate.** On balance the impact of reducing the hedge on the discount rate, and by extension employer contributions, was deemed marginal with the materiality of several other competing factors likely to have a far greater effect on employer contributions at the next valuation.

(III) **Fee savings.** The quantum of fee savings from a reduction in the hedge ratio largely offset any projected impact on contributions, further underscoring the performance drag associated with the strategy.

(IV) **Risk reduction.** A meaningful degree of risk reduction under a downside scenario is maintained with a 50% hedge, while minimising the opportunity cost associated with a 100% hedge ratio.

(V) **Collateral.** The collateral position materially improves based on a 50% hedge ratio, freeing up capital to deploy elsewhere such as opportunistically increasing the interest rate hedge ratio.

6 RESPONSIBLE INVESTMENT ACTIVITY

6.1 **Quarterly Stewardship Summary**: Hermes engaged with 153 companies held by Avon in the Brunel active equity portfolios on a range of 521 ESG issues. Environmental topics featured in 35% of engagements, 60% of which related directly to climate change. Social topics featured in 31% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 18% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 123 meetings (1,234 resolutions). At 69 meetings they recommended opposing one or more resolutions. 86% of the issues Hermes voted against management on comprised board structure and remuneration.

6.2 Details of LAPFF lead initiatives and engagement work can be found at Appendix 3.

7 RISK MANAGEMENT

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

8 EQUALITIES STATEMENT

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

9 CLIMATE CHANGE

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

10 OTHER OPTIONS CONSIDERED

10.1 None.

11 CONSULTATION

11.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager 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.	

This page is intentionally left blank

Investment Dashboard at 30 September 2023

1. Investment Strategy

	Objective	Commentary	RAG	Trend
1	**Funding level**	Liability and risk values are currently unavailable as changes to the actuarial basis as part of the monitoring framework are taking place		
2	**Investment Performance**	• Behind strategic benchmark over 1 and 3 years		⇩
	Qtr return	• Negative quarter of -2.9% equity and protection assets lead detractors		⇩
	1 Year return	• Behind funding objective at -2.1% p.a.		⇩
	3 Year return	• Behind funding objective at 1.5% p.a.		⇩
3	**Risk Management**			
	LDI	• Trigger framework reinstated in October • Interest rate hedge ratio c.40% • Mandate performed as expected. Manager in compliance with investment guidelines		⇔
	EPS	• Increased qrtrly net equity performance by 0.15% as markets moved toward the protection levels. Since inception the EPS has detracted c. 2.0% from equity returns and reduced volatility by c. 25%. • Recommendation to reduce coverage ratio to be ratified by Committee		⇔
	FX	n/a		⇔
	Collateral adequacy	• TPR and the Central Bank of Ireland (as the regulator of the QIF) have issued guidance on collateral requirements following significant market volatility in Sept/Oct. • FRMG have worked with the manager to ensure collateral 'headroom' and monitoring levels are in line with current best practice.		⇔
4	**Rebalancing/ cashflow**	• JPM Hedge Fund wind down on track • £125m drawn by Secured Income portfolio (funded from cash) • £100m redemption from core infra mandate to align with SAA		⇔

2. Portfolios

	Objective	Commentary	RAG	Trend
1	Brunel Listed Market portfolios	• Equity portfolio underperformance driven by quality, ESG bias, underweight large tech in Q2 23		⇔

		• Credit portfolios benefitting from higher yields and favourable lending conditions • Portfolios benchmarked vs cash+ underperform due to higher interest rates – expected to readjust over time		
2	**Private Markets Portfolios**			
	Infrastructure (Brunel)	Capital deployment: • Cycle 1: 89% • Cycle 2: 48% • Cycle 3: 15%		⇔
	Secured Income (Brunel)	Performance: • Underperformed due to underlying movements in gilt prices causing a softening of values. • Portfolio still well positioned for current environment with high quality tenant base and inflation linked leases. • Cycle 1: 100% • Cycle 2: 100% • Cycle 3: 53%		⇔
	Private Debt (Brunel)	Capital deployment: • Cycle 2: 61% • Cycle 3: 15%		⇔
	UK Property (Brunel)	• 100% in Brunel preferred funds • Underweight office and retail sectors / overweight industrials and alternatives		⇔
3	**Legacy portfolios**			
	IFM (infra)	• £100m redeemed in 2023 (settled Oct 2023)		⇔
	Partners (Intl Property)	• Majority of funds in realisation phase. c.70% of unrealised value held in fund with 2029 contractual expiry.		⇔
	Schroder (UK Property)	• Single closed end debt fund (£12m) due to expire in 2025		⇔

3. Responsible investing

	Objective	Commentary	RAG	Trend
1	**Climate change targets**	• Climate targets to be approved at Dec-23 Committee		n/a
2	**Equity fund held in Risk Management QIF**	• To replace equities in QIF with transition aligned solution. Panel delegate implementation to Officers Nov 22. ***COMPLETE***		n/a
3	**Local Impact Portfolio**	Panel approved initial 1% of assets to local renewable infrastructure fund at July meeting – currently on track to make first investment by end of 2023		⇧

Mercer

welcome to brighter

Avon Pension Fund

Committee Investment Report

Quarter to 30 September 2023

December 2023

Steve Turner

A business of Marsh McLennan

Contents

Executive Summary

1

Executive Summary

Market background	• Over the quarter equities were broadly negative and came under pressure amid some hawkish central bank announcements, particularly by the US Federal Reserve. • UK nominal and real yields rose at medium to longer tenors, and realised inflation remains considerably above target.
Mercer market views	• Our medium term outlook (as at October 2023) is mixed. • We remain cautious on equities due to expectations for flat or negative corporate profit growth in 2023. • We continue to a have a modestly positive view on growth fixed income markets (e.g. Multi Asset Credit) due to relatively attractive credit spreads and yields.
Funding level and risk	*Liability and risk values are currently unavailable as changes to the actuarial basis as part of the monitoring framework are taking place.*
Performance	• The negative return over the quarter was driven by the LDI portfolio and Equity assets. Overseas Property and Secured Income also detracted, whilst the rest of the portfolios delivered positive returns. • The Currency Hedge detracted from returns over the period due to a relative weakening of Sterling. • Underperformance relative to the strategic benchmark over the one year period to 30 September 2023 is mainly due to the underperformance of the Overseas Property and Secured Income mandates against their cash/inflation-plus benchmarks, as well as the Sustainable Equity mandate. • These mandates, in conjunction with the Equity Protection strategy, also explain the underperformance over three years. • The Currency Hedge overlay had positive returns over the one year period, but has detracted over three years. It should be noted that the benchmark does not make an allowance for the currency hedge. • Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been mostly positive for the Equity and the Liquid Growth assets, whilst they have been generally negative within the Illiquid Growth assets. • A key point underpinning these is that it is comparing only a nine-month period of returns, which is relatively short, so we would caution against making any meaningful conclusions at this stage, on actual performance versus the assumptions used.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-2.9	-2.1	1.5
Strategic Benchmark **(2)** (ex currency hedge)	-0.1	4.8	7.0
Relative **(1 - 2)**	**-2.8**	**-6.9**	**-5.5**

Page 192

Executive Summary

Asset allocation and strategy

- A net amount of c. £31m was drawn down to the Brunel private market portfolios during the quarter.
- Action was taken at the end of Q3 to begin to allocate to the new 3% target allocation to the Local/Social Impact portfolio, with a £55m commitment to the Schroders Greencoat Wessex Gardens strategy, which aims to invest in renewable infrastructure assets and adjacent technologies in the South West region.

Equity option mandate

- Over the quarter to 30 September 2023, given the fall in equity markets, the strategy exhibited positive performance of c. 0.2%.
- The minimum premium condition on the upside in place with each of the counterparty banks is currently being met across all markets.
- A review of the strategy is underway, which was discussed at the December 2023 Investment Panel meeting.

Liability hedging mandate

- BlackRock was in compliance with the investment guidelines over the quarter.
- Following a sharp rise in gilt yields over September/October 2022, a number of interest rate triggers were achieved, and the trigger framework temporarily suspended. The framework was revised and reinstated in October 2023.
- Following the reinstatement of the interest and inflation trigger framework, several interest rate triggers were hit leading BlackRock to trade up to the cap (39% as a % of assets) on the aggregate interest rate hedge ratio. The inflation hedge ratio was c. 22% as a % of assets at the same date.

Collateral position

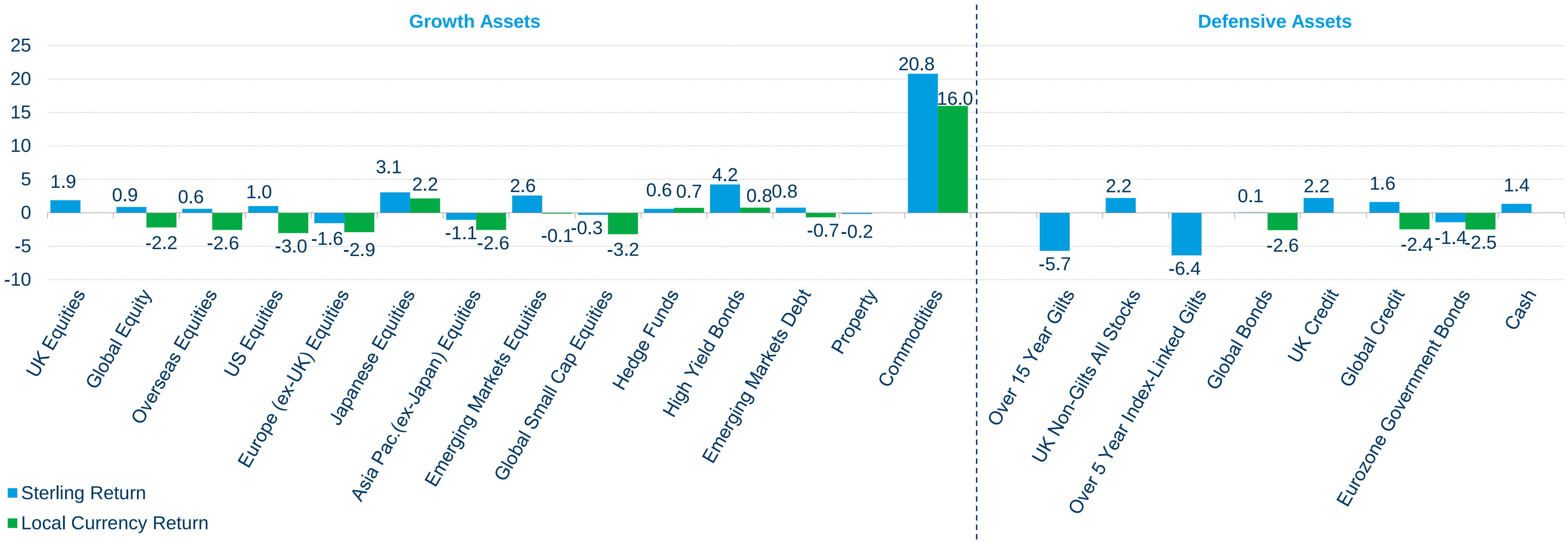
- Following the gilt market volatility experienced in October 2022, the collateral adequacy monitoring and notification thresholds for the Fund were updated.
- In February 2023, c. £212m of equities were synthesised to bring collateral headroom within the target range, and in May 2023, the remaining pooled equities within the BlackRock portfolio were sold (c. £148m) with the exposure replaced with the synthetic positions in the MSCI Paris Aligned Index.
- Inclusive of assets within the collateral waterfall and physical equity that could be synthesised, there was a total interest rate buffer of 4.7% as at 30 September 2023.
- Post quarter-end, the Fund sold and synthesised £200m of Brunel equities referencing the MSCI PAB benchmark in anticipation of reinstating the trigger framework. Following the trigger activity in October, collateral remains at a healthy level of c. 4.4% as at end October, which is expected to have improved following the fall in gilt yields over November.

Market Background

2

Market Background

Return over 3 months to 30 September 2023 (%)



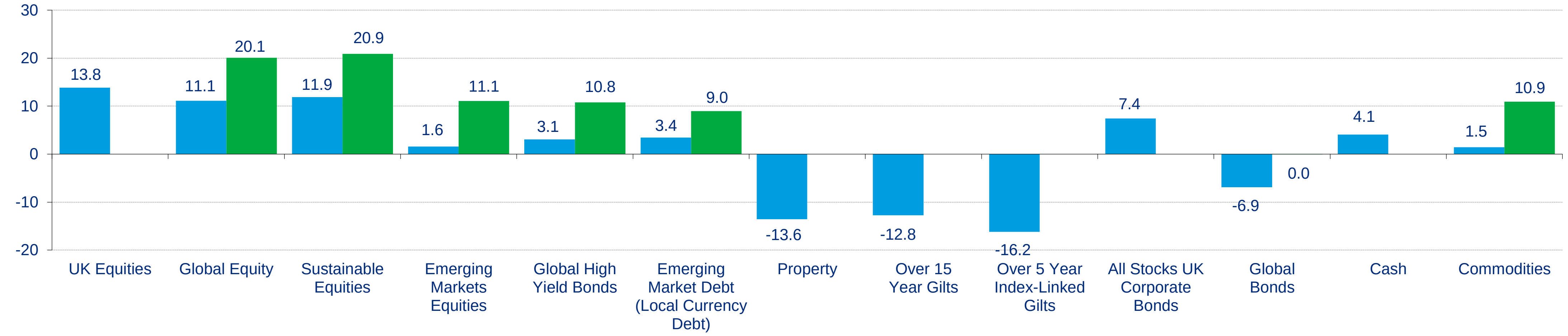
Page 195

Developed market central bank actions were mixed over the quarter, with some deciding to pause hiking interest rates, and others continuing to increase policy rates. Headline inflation continued to slow and core inflation fell in most regions. Inflation expectations also continued to decline over the quarter. During the quarter, equities were broadly negative and came under pressure amid some hawkish central bank announcements especially by the US Federal Reserve.

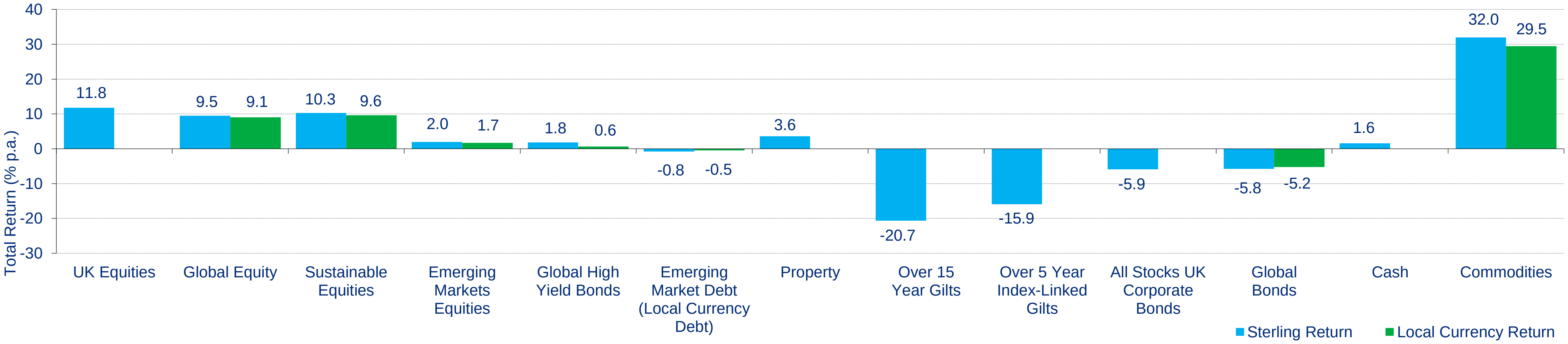
Market Background – 1 & 3 Years

Page 196

Return over 12 months to 30 September 2023 (%)



Return over 3 years to 30 September 2023 (% p.a.)



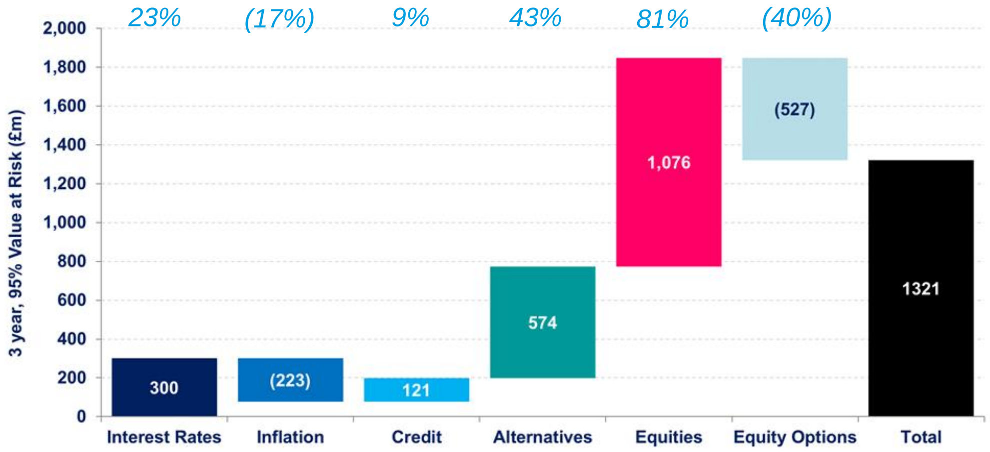
Funding Level and Risk

3

Risk Decomposition – 3 Year Value at Risk

- The two charts below illustrate the main risks that the Fund is exposed to, 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.

30 June 2023



- As at 30 June 2023, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.3bn**.
- 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).

Analysis as at 30 September 2023 is currently unavailable, as changes to the actuarial basis as part of the monitoring framework are taking place.

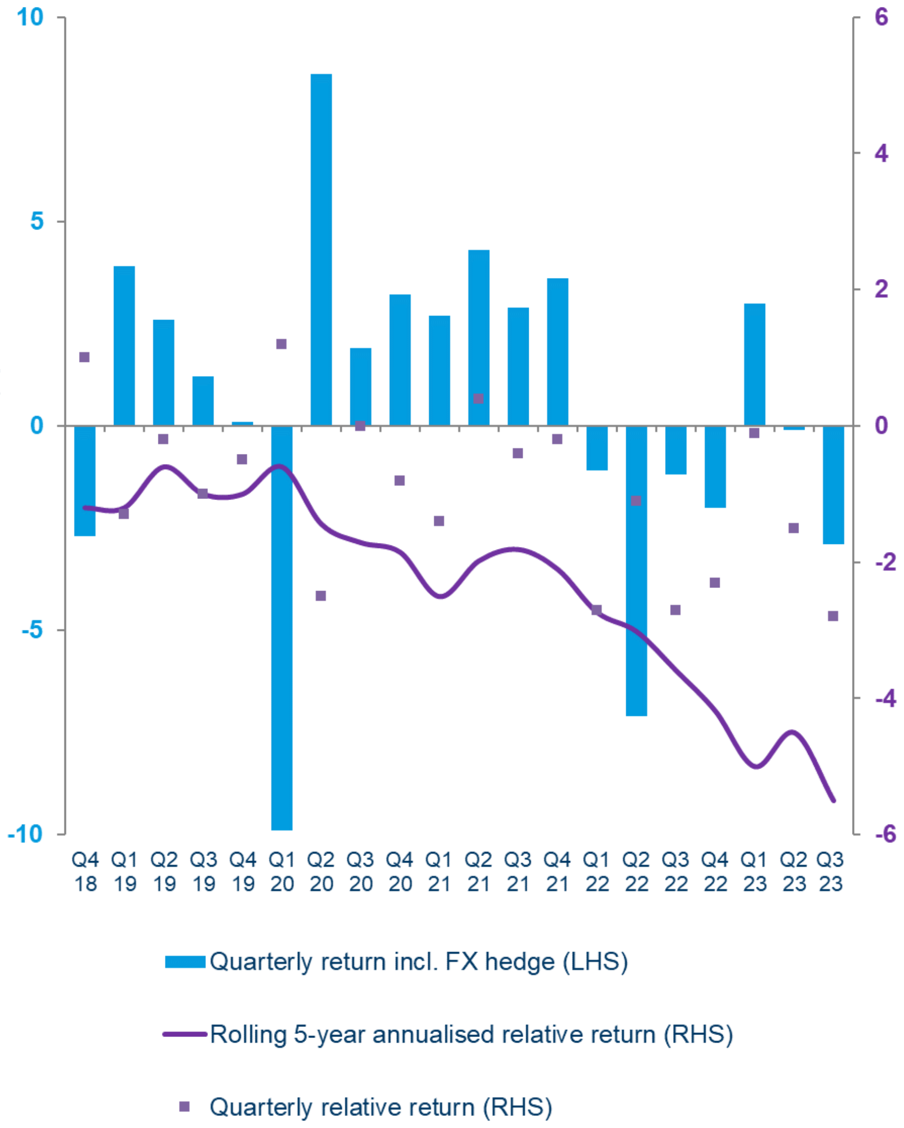
Mercer

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.
They use cashflows from the 2022 valuation.

Performance Summary

4

Total Fund Performance



Page 200

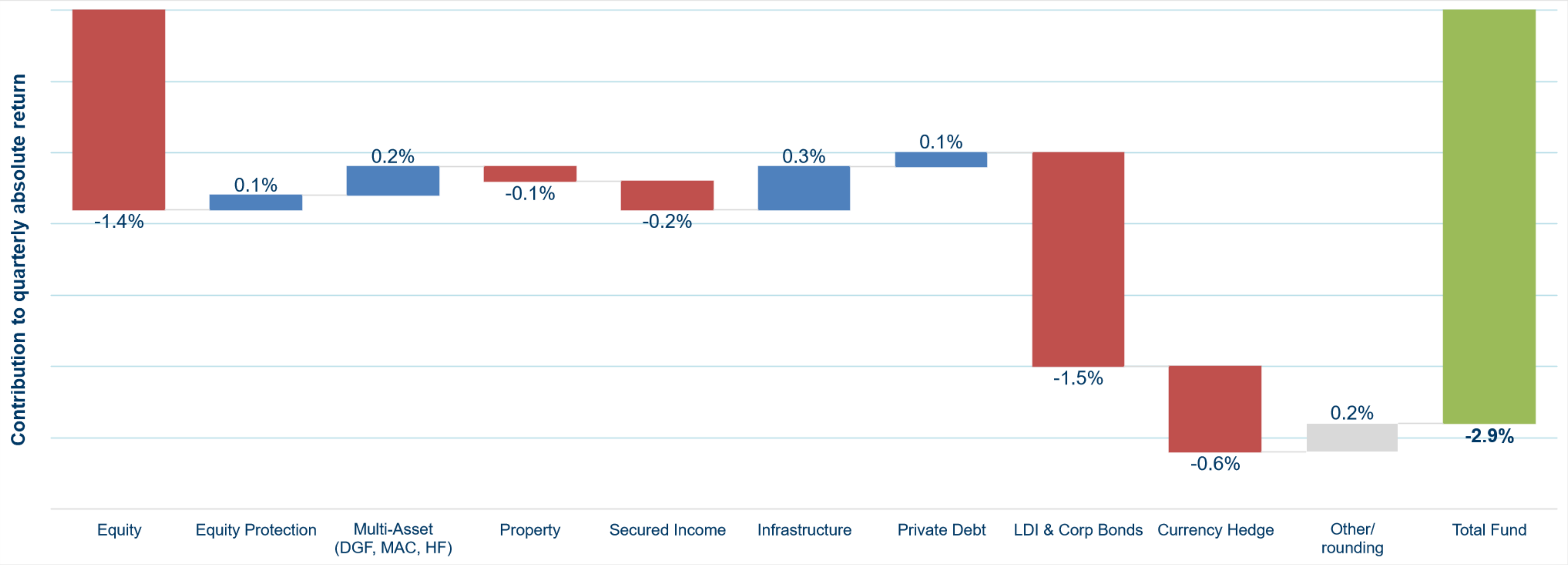
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-2.9	-2.1	1.5
Total Fund (ex currency hedge)	-2.3	-3.8	1.7
Strategic Benchmark **(2)** (ex currency hedge)	-0.1	4.8	7.0
Relative (1 - 2)	**-2.8**	**-6.9**	**-5.5**

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

Commentary

- As illustrated on the next slide, the negative return of Fund assets over the quarter was driven by the LDI portfolio and Equity assets.
- Relative performance was mixed. UK Property, Infrastructure and Private Debt fared well, but total underperformance was ultimately driven by below-benchmark returns for the active equity mandates (which make up around a fifth of the portfolio), and Overseas Property and Secured Income have continued to underperform their cash/inflation-plus benchmarks in the current environment.
- These asset classes also drove underperformance over three years, and the Equity Protection strategy also detracted over this period (as we would expect given the positive performance from the physical equity holdings).
- The Currency Hedge detracted from returns over the quarter and three years due to a relative weakening of Sterling.

Total Fund Performance Attribution – Quarter



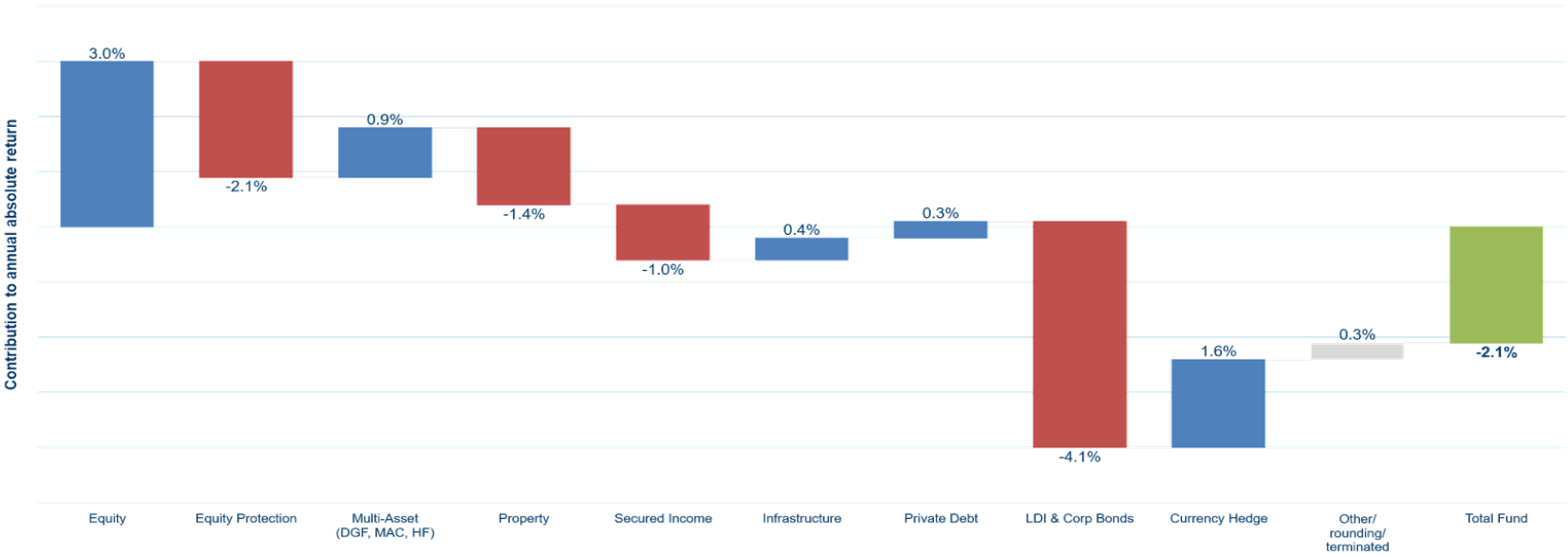
Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The negative return on the Fund assets over the quarter was driven mainly by the decline in value of the LDI portfolio as nominal yields and inflation expectations rose, and negative performance from the Equity portfolio. The Equity Protection dampened losses somewhat, though proportionally this was only marginal, as the majority of the negative performance in Equities was due to active management (i.e. the underlying benchmark index returns were slightly positive).

The other broad Growth asset categories were mixed. The Currency Hedge contribution was negative due to the weakening of Sterling.

Total Fund Performance Attribution – 1 Year

Page 202



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 LDI and the Equity Protection were the main detractors over the 1 year period.

Property and Secured Income have also had a difficult year, though all other Growth asset categories contributed positively, especially Equity.

The Currency Hedge contribution was positive due to the strengthening of Sterling.

Mandate Performance to 30 September 2023

Manager / Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)**	3 Year Performance vs Target
Brunel Global High Alpha Equity	-0.6	0.7	-1.3	13.6	12.1	+1.3	8.3	10.7	-2.2	+2-3	Target not met
Brunel Global Sustainable Equity	-4.1	0.7	-4.8	3.6	11.0	-6.7	3.9	9.5	-5.1	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	0.2	0.2	0.0	14.9	15.0	-0.1	N/A	N/A	N/A	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)	-0.7	-0.7	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	2.1	2.0	+0.1	4.2	7.1	-2.7	3.0	4.6	-1.5	-	Target not met
Brunel Multi-Asset Credit	1.9	2.3	-0.4	10.6	8.2	+2.2	N/A	N/A	N/A	-	N/A
Brunel UK Property	0.5	-0.7	+1.2	-15.6	-13.9	-2.0	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	-4.9	2.5	-7.2	-13.9	10.0	-21.8	-2.2	10.0	-11.1	-	Target not met
Brunel Secured Income - Cycle 1	-2.6	0.4	-3.0	-13.2	6.6	-18.6	-0.1	6.6	-6.3	+2	Target not met
Brunel Secured Income - Cycle 2	-1.5	0.4	-1.9	-11.7	6.6	-17.2	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	3.3	2.5	+0.8	11.4	9.2	+2.0	11.9	6.7	+4.9	-	Target met
Brunel Renewable Infrastructure - Cycle 1	3.8	0.4	+3.4	1.3	6.6	-5.0	6.4	6.6	-0.2	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	1.1	0.4	+0.7	9.6	6.6	+2.8	N/A	N/A	N/A	+4	N/A
Brunel Private Debt - Cycle 2	4.6	2.3	+2.2	10.3	8.2	+1.9	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	1.1	1.1	0.0	7.2	7.2	0.0	-11.5	-11.5	0.0	-	N/A (p)
BlackRock LDI	-7.5	-7.5	0.0	-22.7	-22.7	0.0	-1.0	-1.0	0.0	-	N/A (p)
Equity Protection Strategy	0.2	N/A	N/A	-7.3	N/A	N/A	-5.0	N/A	N/A	-	N/A

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees. Returns are in GBP 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 target. Red = mandate underperformed target. Black = mandate performed in line with target (mainly reflecting passive mandates).

Performance for 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 2023, as this is the latest data available.
**Where the outperformance target has not already been incorporated into the benchmark returns shown. See Appendix for further details.
Performance is not yet illustrated for Private Market Cycle 3 investments, which will become more meaningful with the passage of time.

Asset Allocation

5

Valuation by Asset Class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Relative (%)
Global High Alpha Equity	635,125	652,442	11.6	12.4	10.5	5.5	-	15.5	+1.9
Global Sustainable Equity	589,576	565,170	10.8	10.7	10.5	5.5	-	15.5	+0.2
Paris-Aligned Equity*	1,346,330	1,342,923	24.7	25.5	20.5	12.5	-	28.5	+5.0
Diversified Returns Fund	339,865	346,912	6.2	6.6	6.0	3	-	9	+0.6
Fund of Hedge Funds**	22,335	24,174	0.4	0.5	-	No set range			+0.5
Multi-Asset Credit	310,208	316,209	5.7	6.0	6.0	3	-	9	+0.0
Property	332,948	328,138	6.1	6.2	7.0	No set range			-0.8
Secured Income	543,334	546,652	10.0	10.4	9.0	No set range			+1.4
Core Infrastructure	314,803	325,290	5.8	6.2	4.0	No set range			+2.2
Renewable Infrastructure	168,655	175,333	3.1	3.3	5.0	No set range			-1.7
Private Debt	158,685	180,756	2.9	3.4	4.5	No set range			-1.1
Local / Social Impact	-	-	-	-	3.0	No set range			-3.0
Corporate Bonds	163,667	165,443	3.0	3.1	2.0	No set range			+1.1
LDI & Equity Protection	1,023,496	900,673	18.8	17.1	12.0	No set range			+5.1
*Synthetic Equity Offset**	-733,621	-728,850	*-13.4*	*-13.8*	-	-			-
Other***	239,340	127,087	4.4	2.4	-	0	-	5	+2.4
Total	**5,454,760**	**5,268,365**	**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.
*Paris-Aligned includes synthetic exposure via the BlackRock QIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark to market value of the holding.
**Mandate due to be terminated.
***Valuation includes internal cash, the ETF and currency instruments.

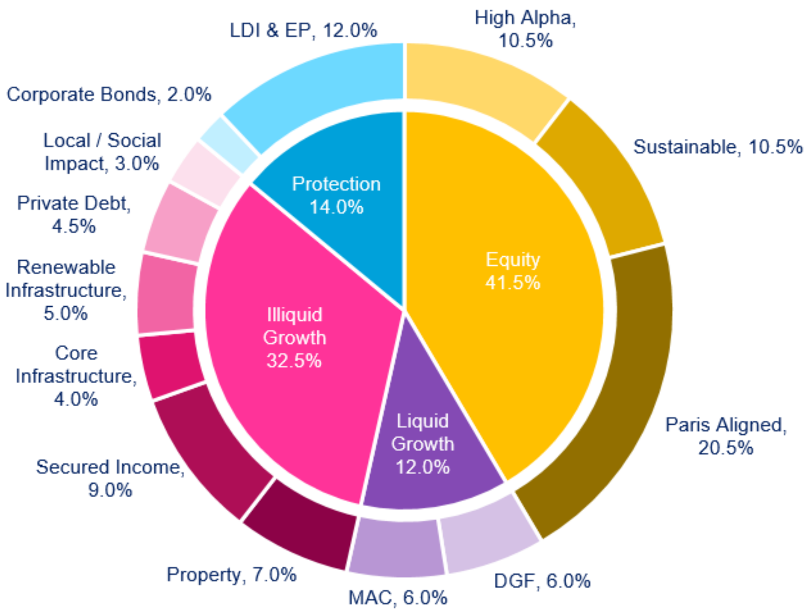
Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	621,442		617,895	11.4	11.7
Brunel	Global Sustainable Equity	589,576		565,170	10.8	10.7
Brunel	Passive Global Equity Paris Aligned	612,709	-12	614,073	11.2	11.7
BlackRock	MSCI Paris-Aligned (Synthetic)*	733,621		728,850	13.4	13.8
Brunel	Diversified Returns Fund	339,865		346,912	6.2	6.6
JP Morgan	Fund of Hedge Funds	22,335		24,174	0.4	0.5
Brunel	Multi-Asset Credit	310,208		316,209	5.7	6.0
Brunel	UK Property	181,693	-45	182,581	3.3	3.5
Schroders	UK Property	12,750	-34	12,738	0.2	0.2
Partners	Overseas Property	138,506	-367	132,819	2.5	2.5
Brunel	Secured Income – Cycle 1	319,833	-2,923	308,645	5.9	5.9
Brunel	Secured Income – Cycle 2	109,972	-2,690	105,805	2.0	2.0
Brunel	Secured Income – Cycle 3	113,528	19,802	132,202	2.1	2.5
IFM	Core Infrastructure	314,803		325,290	5.8	6.2
Brunel	Renewable Infrastructure – Cycle 1	102,773	758	107,496	1.9	2.0
Brunel	Renewable Infrastructure – Cycle 2	58,427	816	60,038	1.1	1.1
Brunel	Renewable Infrastructure – Cycle 3	7,456	407	7,799	0.1	0.1
Brunel	Private Debt – Cycle 2	138,568	9,030	154,272	2.5	2.9
Brunel	Private Debt – Cycle 3	20,117	5,483	26,485	0.4	0.5
BlackRock	Corporate Bonds	163,667		165,443	3.0	3.1
BlackRock	LDI & Equity Protection	1,023,496		900,673	18.8	17.1
BlackRock	*Synthetic Equity Offset**	-733,621		-728,850	-13.4	-13.8
Record	Currency Hedging (incl. collateral)	70,650		36,142	1.3	0.7
BlackRock	ETF	125,687	-65,000	59,927	2.3	1.1
Internal Cash	Cash	55,925	7,586	64,792	1.0	1.2
Total		**5,454,760**	**-27,190**	**5,268,365**	100.0	100.0

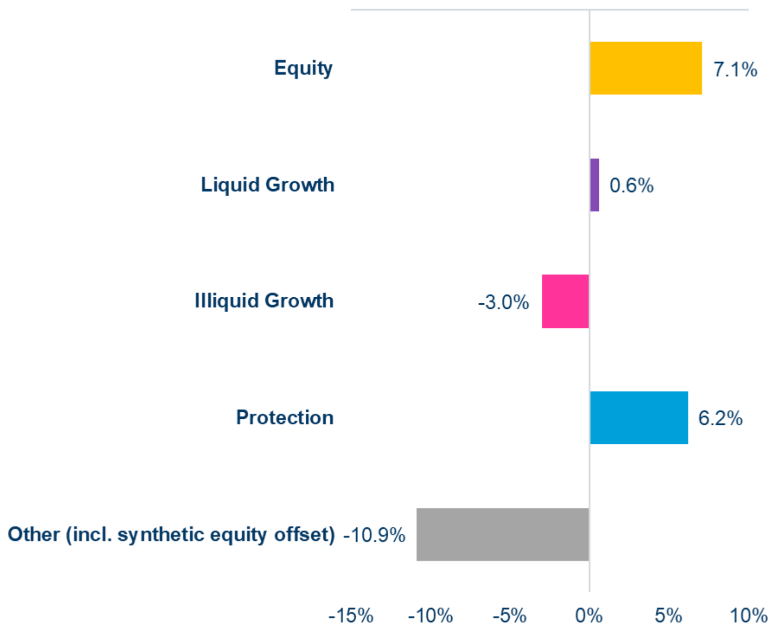
Source: Investment Managers, Mercer. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund. * MSCI Paris-Aligned synthetic exposure is via the BlackRock QIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark to market value of the holding.

Positioning relative to target

Strategic Asset Allocation ("SAA")



Relative positioning



Commentary

- The Plan last updated its Strategic Asset Allocation as part of the 2023 Investment Strategy Review.
  – Action was taken at the end of Q3 to begin to allocate to the new 3% target allocation to the Local/Social Impact portfolio, with a £55m commitment to the Schroders Greencoat Wessex Gardens strategy, which aims to invest in renewable infrastructure assets and adjacent technologies in the South West region.
- The right hand side chart displays the actual relative weights of the key portfolio building blocks compared to the SAA:
  – The overweight to Equity reflects relative outperformance to other parts of the portfolio over the past year.
  – The underweight to Illiquid Growth reflects the fact that capital is yet to be drawn down to the new allocation to a Local / Social Impact portfolio. The other parts of this sub portfolio are in line with the target in aggregate.
  – The overweight to Protection reflects the collateral boost provided by the synthesising of some of the Equity allocation; meaning that in practice an overweight to this building block is likely persist and is unlikely to trigger any consideration for action, which would continue to be driven more specifically by collateral adequacy requirements.

Appendix

Q3 2023 Equity Market Review

In the US, equities were broadly negative, the rally in the so-called magnificent seven (e.g. Nvidia & Microsoft) slowed. The hawkish US Fed announcement had an adverse impact on US equities. Within equities, emerging markets outperformed developed markets but still generated negative returns on an absolute basis. Energy was the best-performing sector last quarter.

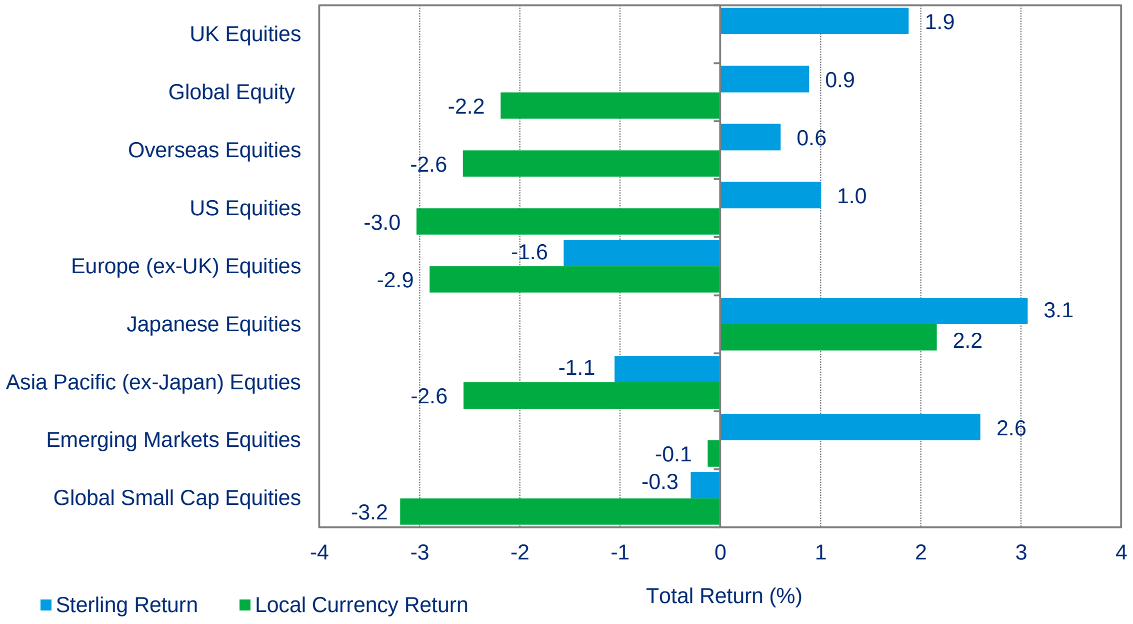
Global equities returned 0.9% in sterling terms and -2.2% in local currency terms as the dollar appreciated versus sterling.

US equities returned -3.0% in local currency terms, whilst European (ex-UK) equities returns -2.9%, and Japanese equities returned 2.2%.

Emerging markets ('EM') equities returned -0.1% in local terms.

Global small cap stocks returned -3.2% in local terms. Small-cap equities were negative as more cyclical assets underperformed during the quarter.

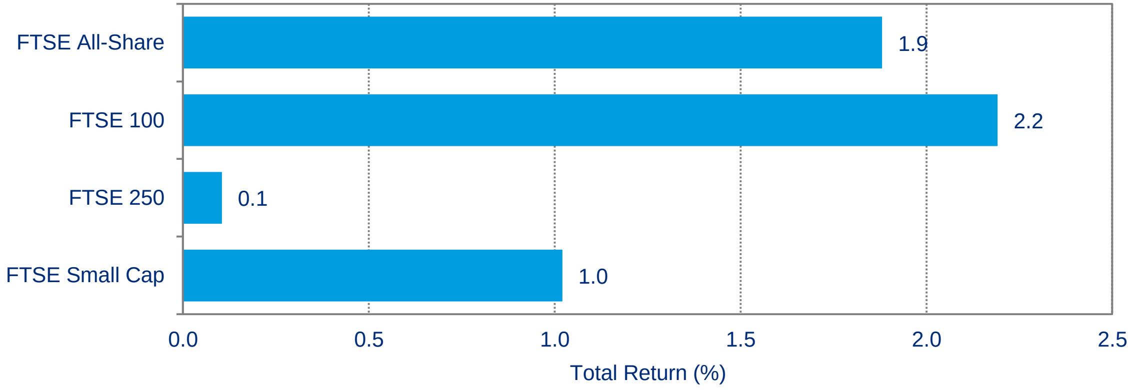
Equity Performance



The **FTSE All Share** index returned 1.9% over the quarter with the large cap **FTSE 100** index returning 2.2%. More domestically focused, equities (**FTSE 250**) produced positive returns. The **small cap** index produced a positive 1.0% return.

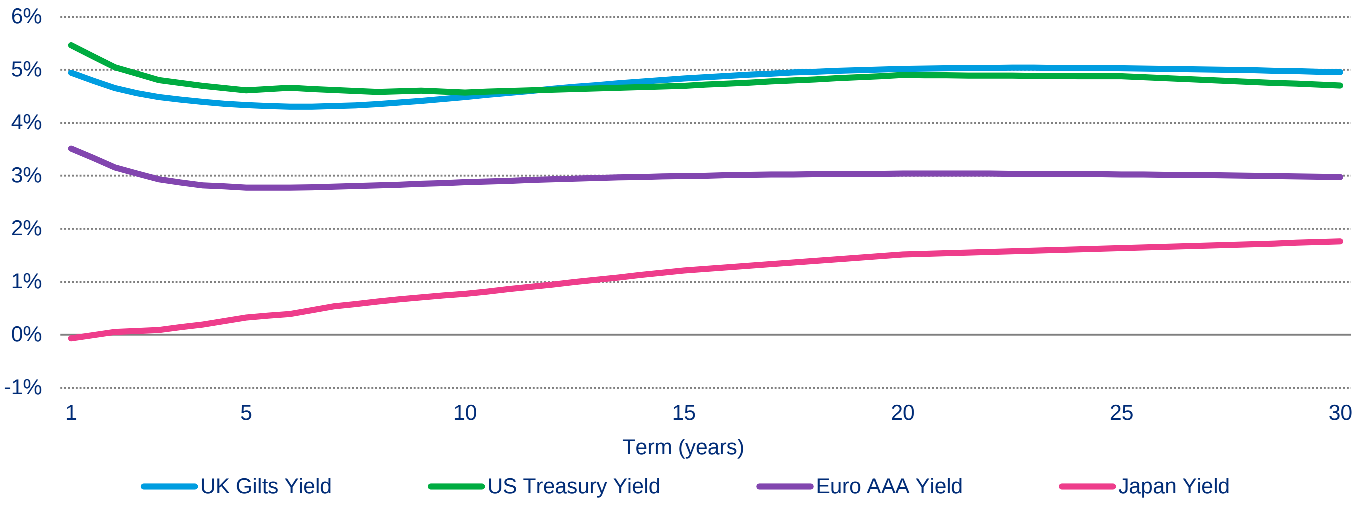
Strong performance in the basic materials and energy sectors supported the UK performance relative to global equities.

FTSE Performance by Market Cap

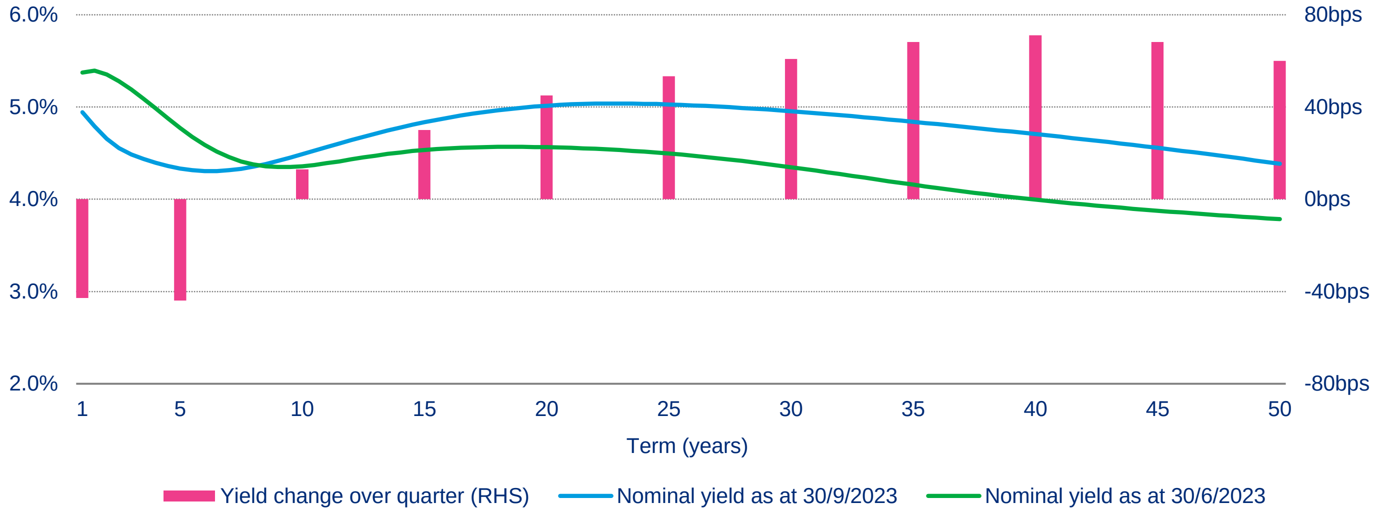


Q3 2023 Bond Market Review

Page 210



Source: Mercer and Bloomberg



Source: Mercer

Government Bond Yields

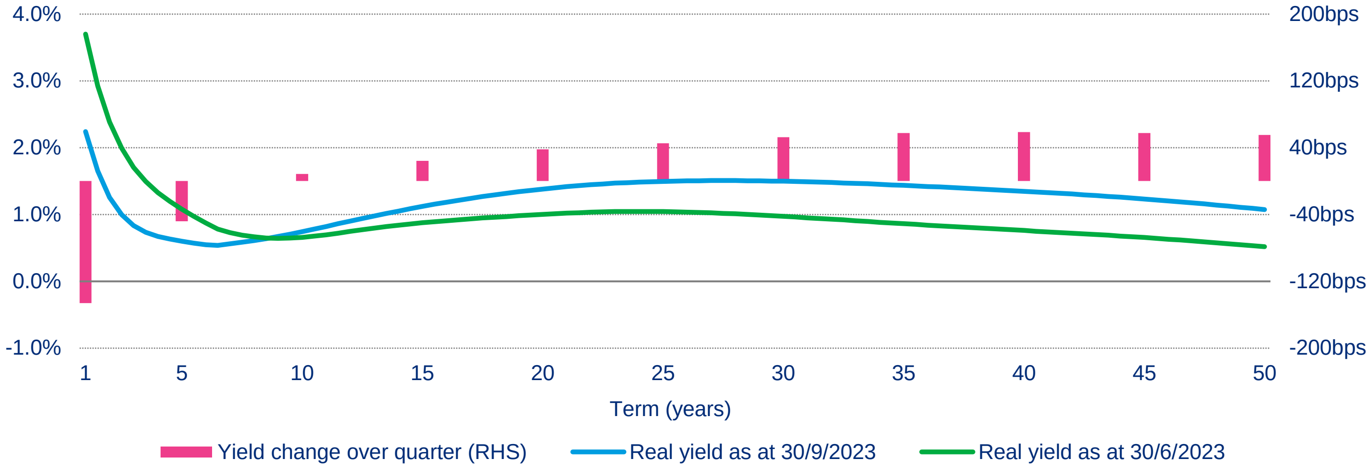
10-year global government bond yields rose sharply over the quarter. Across developed markets, curves steepened after prolonged flattening since the start of the central banks' policy tightening. In the UK, short-dated gilts were volatile and fell sharply post lower than expected inflation numbers and the BoE's dovish hikes. Intra quarter UK yields surpassed the levels witnessed during the gilt crisis in September 2022 but finished the quarter around 4.5%.

Unlike the UK, in the US most of the steepening was driven by the long end of the curve. 2-year yields in the UK fell by 30bps while in the US it rose by 25bps. 20-year yields rose by around 50bps in the UK and 100bps in the US.

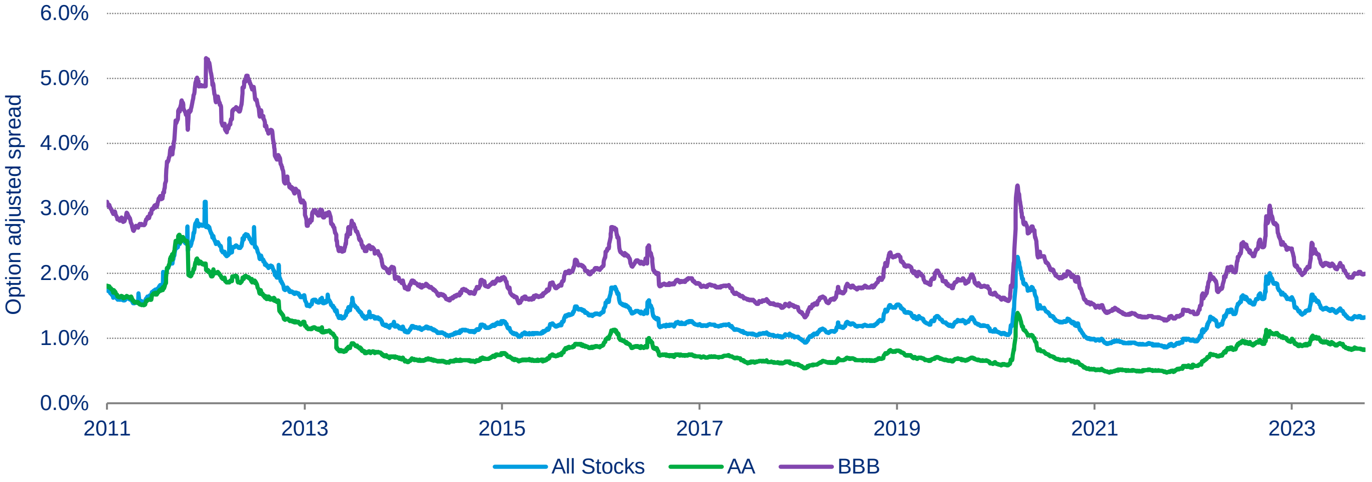
Both the Federal Reserve and the Bank of England raised interest rates just once over the quarter.

The German 10-year yield rose by c.50bps. The European Central Bank raised rates twice over the quarter and signaled that it is close to the peak of rate hike cycle and now leaning more towards leaving rates on hold for a long period to bring inflation back to target rather than continuing to hike rates further. Most of the rise in yields took place in September due to spill over from the US.

Q3 2023 Bond Market Review



Source: Mercer



Source: Refinitv

UK Index-Linked Gilt Yields

UK real yields rose most in the long end of the curve, led by spillover effect from the US real yields move. UK inflation remains considerably above target. Real yields, for all maturities remain in positive territory. Market based measures of inflation expectations, in the form of breakeven inflation were flat over the quarter. The UK 10-year breakeven rate finished the quarter at ~3.85%. Market based measures of inflation expectations for the US rose over the quarter.

Corporate bonds

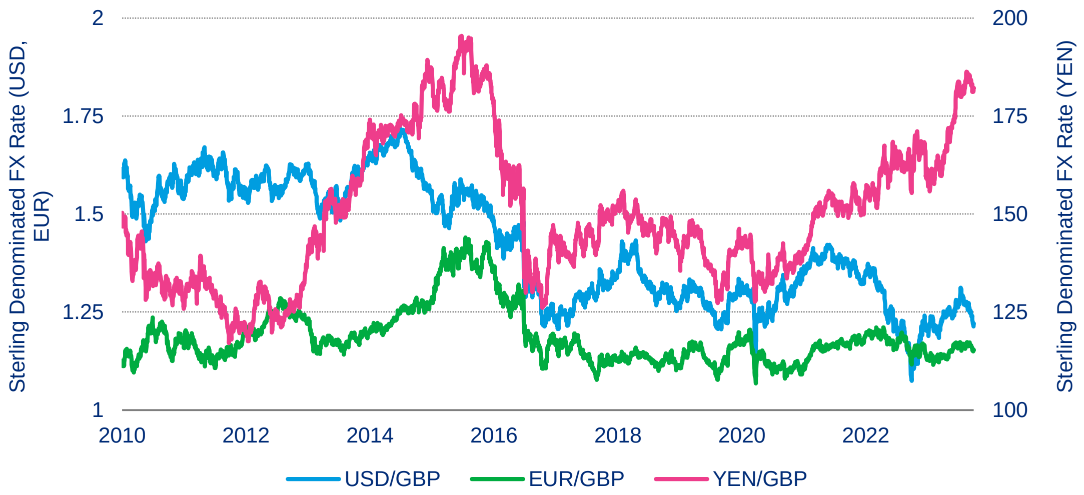
Spreads on UK investment grade credit tightened marginally over the quarter, with spreads on lower rated credit tightening more than for higher rated credit. UK credit outperformed equivalent duration government bonds.

Q3 2023 Currency Market Review

Sterling's performance over the quarter was negative, depreciating versus the US dollar, euro and against yen. While the weakness was more prominent against the dollar and euro versus yen, Sterling weakness against the dollar was driven by a combination of a strong US dollar, stagflation risks in the UK, a surprise hold by the BoE in September and lower than expected hawkishness in the August meeting.

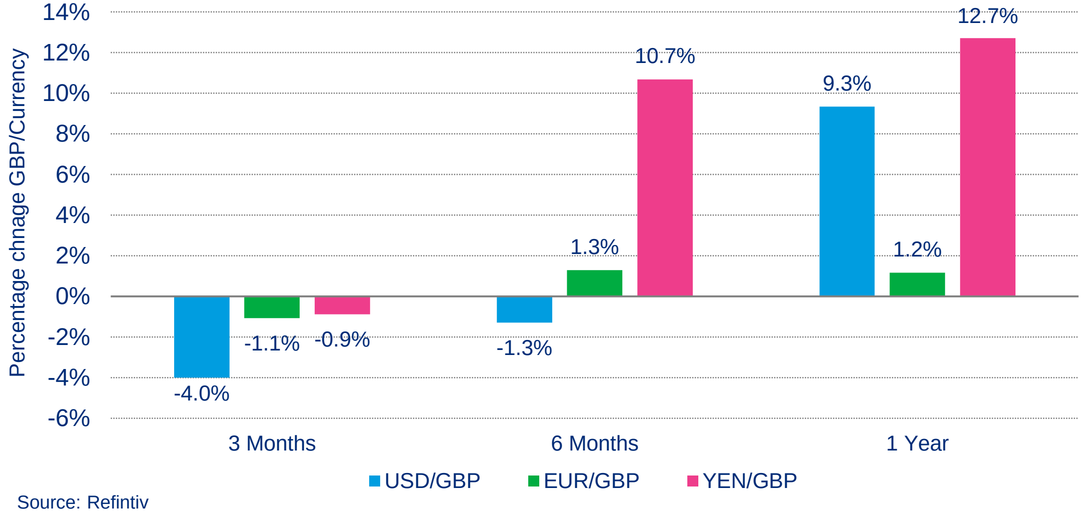
On a 12-months basis, sterling has appreciated considerably versus US dollar and yen but marginally versus euro.

Sterling Denominated FX Rate



Source: Refinitiv

Change in sterling against foreign currencies



Source: Refinitiv

Q3 2023 Property

UK property as measured by the MSCI Index decreased by 0.2% over the quarter.

Summary of Mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Paris-Aligned Equity (Synthetic Exposure)	MSCI Paris-Aligned Benchmark	-	May 2023
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Global Equity Paris Aligned	FTSE Developed World PAB Index	-	October 2021
Brunel	Diversified Returns Fund	SONIA +3-5% p.a.	-	July 2020
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 (Cycles 1-3)	CPI	+2%	January 2019
IFM	Core Infrastructure	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure (Cycles 1-3)*	CPI	+4%	January 2019
Brunel	Private Debt (Cycles 2-3)	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	-	-	-

* The primary performance objective of this mandate is a Net IRR of 8% p.a. (GBP). Its inflation-plus benchmark is used by the custodian due to a greater ability to incorporate and the objective has value over the relative short-term, however, over time, comparison against the IRR objective will become more relevant.

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 Emerging
Global Small Cap Equity	MSCI World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	ICE BofAML Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	MSCI UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	ICE BofAML Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	ICE BofAML Global Broad Market
Global Credit	Bloomberg Capital Global Credit
Eurozone Government Bonds	ICE BofAML EMU Direct Government
Cash	SONIA

Important Notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Quarterly Engagement Report

July-September 2023

Local Authority Pension Fund Forum

Climate and Finance Engagement, Minimum Wage, Water Companies, New Member

UPDATES

Smoke from Canadian wildfires blows south over New York, June 2023

Climate and Finance

Objective: LAPFF has been engaging with financial institutions on climate for a number of years now. Most notably, it has issued voting alerts for Barclays, HSBC, and Standard Chartered in recent years. In 2020, LAPFF also sent letters to 11 insurers asking how they approached climate change from a strategic perspective. Discussions with these companies suggested that they tended to approach climate in terms of its effect on the companies rather than in terms of the companies' effects on climate.
While investors are clearly interested in the impact climate change is having on insurers, LAPFF's approach is to ask first what companies' impacts are on climate. This approach aligns with the approach set out in the UN Guiding Principles on Business and Human Rights, which call for companies to assess their impacts on human rights and rights holders before assessing the impact of human rights on their businesses. This framing is supported not least because risks to the business are missed if the human rights and impact analysis is not undertaken. In LAPFF's experience, the same logic applies in relation to climate change. LAPFF therefore began a process of following up with the eleven insurers, but also expanded the engagement to cover additional insurers of global impact in which LAPFF holds a significant number of shares. It also wrote to large global banks in which members have large holdings. Finally, in line with a growing interest of the LAPFF membership in biodiversity and environmental impacts of climate change, the engagement will explore these companies' strategies in relation to natural resources and their link to climate.

Achieved: LAPFF has now written to 13 global insurers to engage on their approaches to decarbonisation and natural resources. There have been responses from four companies so far. One company with which LAPFF will clearly not be engaging is Berkshire Hathaway. Its pro forma email stated that no one is reading messages sent to the investor relations email address, and no one is likely to respond to a letter sent to the company's physical address. LAPFF would have hoped for more from Mr. Buffett, but LAPFF found this response to be in line with that of many US companies, which tend to be less willing to engage in a meaningful way than companies in many other markets, including the UK and Australia. For a full list of companies approached so far through this engagement, please see the company engagement table at the back of this report.

In Progress: LAPFF will continue to send letters and set up meetings with these companies over the course of the year.

Cover image: ask first what companies' impacts are on climate

New Member

LAPFF would like to welcome its newest member, the ACCESS pool. LAPFF's membership now comprises 87 LGPS funds and seven pooled companies, the vast majority of the LGPS family. The more LGPS funds who become LAPFF members, the greater leverage LAPFF gains in engaging with investee companies in relation to their environmental, social, and governance practices as they impact on financial returns. With a membership that in aggregate holds over £350 billion in assets under management, LAPFF's financial clout is already equivalent to that of one of the top ten largest global pension funds. However, any additional members can only help.

Given the success of LAPFF's annual conference in Bournemouth, LAPFF decided to hold its first mid-year conference at Church House in London. This event also proved to be a success with speakers from Unseen UK, Rathbones, and DiCello Levitt. The sessions covered a summary of the 2023 AGM season, the link between climate and executive pay, modern day slavery, investor litigation in Europe, and the ESG backlash in the US.

COMPANY ENGAGEMENTS

Investors are often not provided with a specific vote on company climate plans for shareholder approval

Say on Climate

Objective: It is almost universally recognised that climate change poses significant systemic and company-level risks. Yet, despite the level of investment risks and the need for capital expenditure to deliver the transition, investors are not provided with a specific vote on their climate plans for shareholder approval.

Issuers are increasingly setting out their climate ambitions within a transition plan. It is also something regulators are looking at. For example, the UK's Transition Plan Taskforce, established by HM Treasury, is developing a 'gold standard' for climate transition plans.

Over the past two years, LAPFF has sent letters to the FTSE All-Share companies requesting a vote on climate transition plans. While LAPFF has been encouraged by the substantive responses, such resolutions during 2023 were far from standard practice, including among high-emitting companies.

Achieved: To continue to encourage companies to provide shareholders with such a vote, LAPFF organised a letter to 35 companies in high-emitting sectors considered to face heightened climate risks, whose actions are essential to the accelerated action required to meet the Paris goals and where the risks investors face are substantial.

The letter, like the previous one, was supported by CCLA Investment Management, Sarasin & Partners and the Ethos Foundation. LAPFF gained the support of a wider group of investors and in total had 18 signatories which collectively represented £1.8 trillion in assets under management. The letter stressed the climate-related risks to investors. It also urged companies to provide such votes to enable shareholders to first express their view on climate strategies through a specific AGM vote rather than immediately voting against the chair or another board member. The letter requested a response so that the signatories could make an informed assessment of the company's position.

In Progress: LAPFF will be tracking the responses to the letter and will continue to engage with companies about holding a climate transition plan vote. This could become an important area of shareholder focus if the recommendations of the Transition Plan Taskforce are introduced. LAPFF supports such votes becoming mandatory and will raise the issue where appropriate with policymakers.

Mining and Human Rights

Objective: While LAPFF is continuing to engage with **Anglo American, BHP, Glencore, Rio Tinto**, and **Vale** on their human rights practices, LAPFF has picked up a new mining company engagement with **Grupo Mexico**. LAPFF has been approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico.

The main objective of these engagements is to ensure that the companies understand that any failure to respect human rights and environmental impacts could have financial consequences for them and for their shareholders. One of the main milestones LAPFF is looking for is how well the companies acknowledge and engage with the workers and communities they affect. Effective stakeholder engagement is important to LAPFF both as a human rights imperative and because it can expedite less costly solutions to operational, reputational, legal, and financial concerns at companies.

LAPFF is pleased that both the Anglo American and Vale groups in the PRI Advance initiative have recognised the importance of stakeholder engagement. There are plans for both groups to engage with relevant affected stakeholders.

Achieved: LAPFF met a Grupo Mexico representative for the first time. LAPFF Chair, Cllr Doug McMurdo, spoke with an investor relations contact, who he found to be open to the engagement. It was interesting to hear that the company has been approached by a number of investors in relation to environmental, social, and governance (ESG) issues of late. This increase in attention on ESG issues might not be a coincidence as the company is one of those chosen for inclusion in PRI's Advance human rights initiative.

As with many mining companies, LAPFF's view is that Grupo Mexico has a number of processes in place, some of which appear to be sound on paper.

COMPANY ENGAGEMENTS

However, there appears to be significant work to be done in practice. Once again, the company accounts of its human rights practices and the community accounts differ drastically.

In relation to its PRI engagements, LAPFF has reached out to a couple of non-governmental organisations and community representatives on behalf of the Anglo American PRI Advance group to see if they would be willing to meet the group. There have been positive responses.

In Progress: Cllr McMurdo is now seeking to speak with the Sonora community group affected by Grupo Mexico's operations. As LAPFF has done in other such engagements, it will use the community and company perspectives to form a view of how to encourage improved human rights practices at the company.

LAPFF will now work to set up the community meetings for both the Anglo American and Vale PRI Advance groups.

Water Companies and Sewage Pollution

Objective: Water companies are currently facing considerable reputational risks and regulatory scrutiny around their environmental performance. The focus of concern centres on the use of storm overflow drains. These drains are used to stop water backing up into people's homes when there is heavy rain but result in sewage being released into the waterways. As water companies are effectively regional monopoly suppliers subject to environmental and economic regulation, there are considerable regulatory risks, not least those driven by current reputational perceptions and public concern. The sector has faced further recent public scrutiny when financial concerns about Thames Water came to light.

The main objective of the engagement activity, which started in 2022, is to ensure that these risks are being appropriately addressed and that environmental performance improves. An important focus was ensuring plans were in place and progress is being made in reducing the amount of sewage being released into waterways. In addition, LAPFF sought to ensure companies had credible climate transition plans and progress was being made against them.

Water companies are currently facing considerable reputational risks

Achieved: During the quarter, LAPFF's chair, Cllr Doug McMurdo, met with the Chair of **Severn Trent**, Christine Hodgson. The meeting was held against the backdrop of the problems facing Thames Water and covered the challenges facing the sector as a whole. This meeting was very constructive, and it was welcome news that the company was ahead of its targets on reducing overflows. The discussion covered the company's longer-term plans and targets and capital investment. The company also set out how it was addressing climate change, including through capturing emissions from the sewage treatment process.

LAPFF met with the chair of **United Utilities**, David Higgins. The meeting was positive despite the significant challenges that remain in the sector. The company outlined how it had reduced the number of overflows in the past couple of years. The meeting also covered plans to reduce overflows further and investment to address overflow issues. As with the discussion with Severn Trent, issues facing the sector were raised. The company also set out its plans regarding climate adaptation and mitigation.

LAPFF's chair also met the Head of Environment and Sustainability at **Northumbrian Water.** The company is owned by three holding companies, two of which (CK Hutchinson and CK Asset Holdings Limited) a large number of LAPFF members hold. It was a useful meeting which covered the company's plans and targets to reduce storm overflows and capital investment required to do so. The meeting also covered the company's wider environmental performance and its climate change ambitions.

In Progress: While there is progress, significant risks remain. Adverse publicity and concerns about sewage overflows show few signs of diminishing while there is continued focused from regulators. LAPFF therefore will be continuing to engage with the companies on their progress and plans.

COMPANY ENGAGEMENT ACTIVITY

Electric Vehicles and Human Rights

Objective: Continuing its engagement with electric vehicle manufacturers to better understand how they are addressing the risks associated with minerals for batteries for their vehicles, LAPFF wrote to a number of companies seeking further engagement with those it has already engaged on this issue and to meet others for the first time.

Achieved: LAPFF met with **Volkswagen** (VW) and **Volvo Group** (trucks and HGVs) this quarter, both for the first

COMPANY ENGAGEMENTS

time. LAPFF had a detailed discussion with Volkswagen, which published its third iteration of its raw materials report this year. The discussion covered the company's overall human rights programme and more focussed attention on individual minerals. LAPFF also broached questions about the scrutiny VW faced for one of its joint ventures linked to auto manufacturer supply chains allegedly associated with Uyghur forced labour in Xinjiang. VW has publicly announced that it will be undertaking a social audit of this factory, although it has faced scrutiny from various NGOs and labour groups that social audits in China are ineffective based on political pressures.

Volvo provided a high-level overview of its human rights programme, which in terms of reporting, appears to be lacking compared to some of its peers, particularly on risk management of human rights in critical mineral and material supply chains. Despite this lack of transparency in reporting, Volvo provided a promising conversation on its aspirations to improve various parts of its human rights work.

In Progress: More and more legislative instruments pertaining to corporate sustainability are being enacted around the world, such as the EU Battery Regulation which came into effect in August 2023. These new regulations impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU. Responsibility and due diligence requirements are also extended to supply chains for materials like cobalt, lithium and nickel. The EU's Corporate Sustainability Due Diligence Directive, whilst still in development, will require companies to conduct due diligence on, and take responsibility for, human rights abuses and environmental harm throughout their global value chains. Therefore, LAPFF will continue to monitor and engage on how companies are set to meet these requirements, including for minerals and materials being used in the production of electric vehicles, where human rights abuses continue to be a major source of concern.

A number of companies not adhering to wage floor requirements including listed companies such as M&S. Above: M &S in Truro City centre in Cornwall

Minimum Wage

Objective: LAPFF believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value. It is therefore concerning when investee companies are found to be in breach of statutory national minimum wage standards. In June, the Department of Business and Trade announced that an investigation had found a number of companies not adhering to wage floor requirements including listed companies such as **WH Smith, Marks & Spencer, Argos** (which is owned by **Sainsbury's**) and Whitbread. LAPFF therefore sought to ensure that changes were in place to avoid future incidents.

Achieved: LAPFF wrote to the four companies requesting details around how the incidents occurred, what actions were taken to address the breach, and how they would be prevented in the future. All four companies responded and provided information about the nature of the breaches. Companies provided details of actions taken and gave assurances about seriousness with which they took the issue.

In Progress: LAPFF will continue to monitor breaches in labour law and engage companies where any issues are found to ensure that they are addressed.

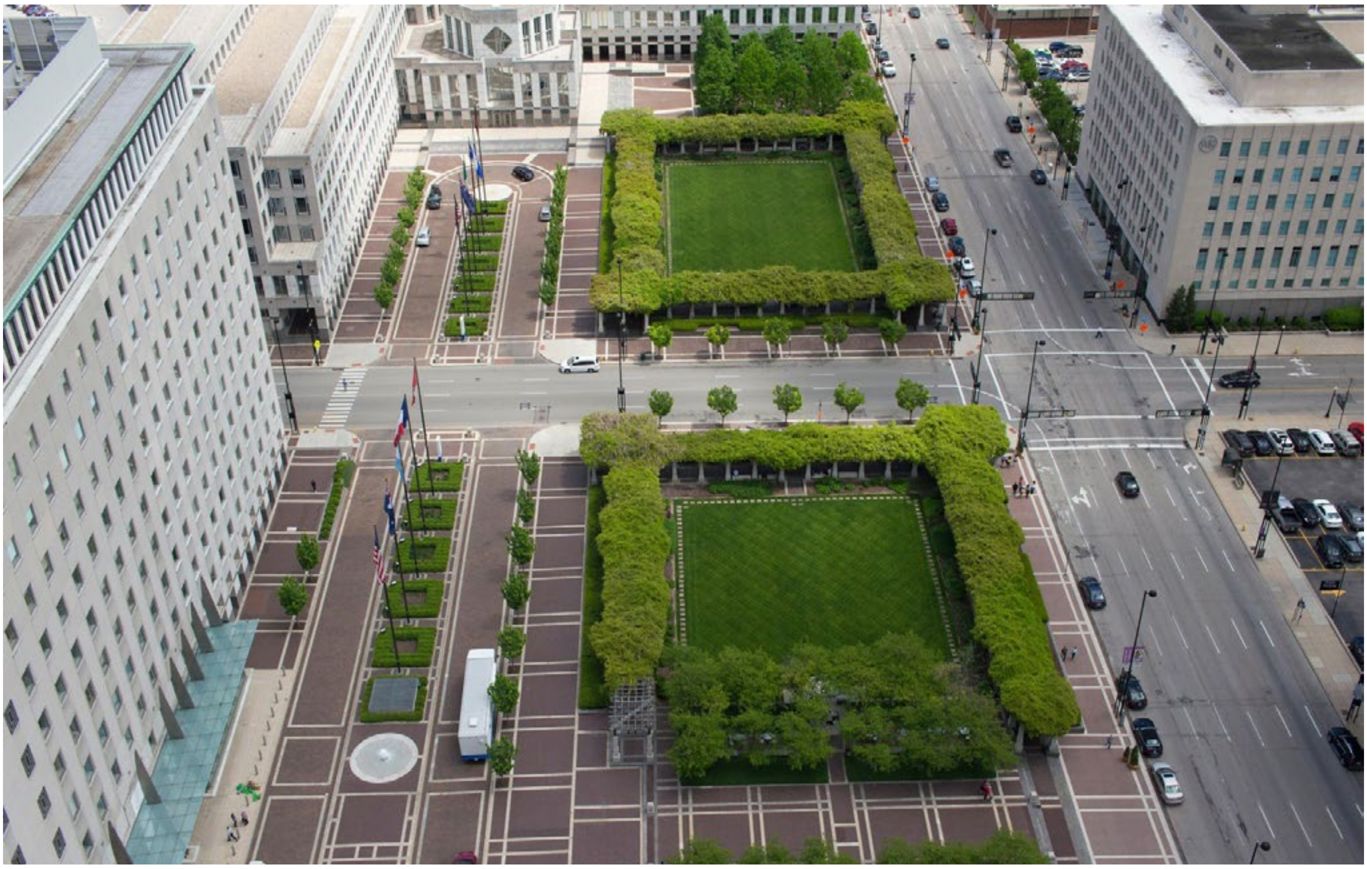
Biodiversity

Objective: Alongside writing to financial institutions regarding their role in supporting positive developments on biodiversity and climate change, LAPFF has also sought to understand approaches to biodiversity at companies in other industries. For example, Procter & Gamble was recently reported to have removed policy commitments not to buy wood pulp from degraded forests. This action comes three years after a majority of investors supported a non-binding shareholder resolution at the company's AGM requesting that Proctor & Gamble assess how it could improve efforts to eliminate deforestation and forest degradation in its supply chains. LAPFF also aimed to find out more about Nestlé's approach to regenerative agriculture.

Achieved: LAPFF has written to **Procter & Gamble** regarding this engagement. LAPFF also wrote to **Nestlé**, who hosted the Forum at its chair's roundtable in March 2023. The request seeks to discuss the company's plans for regenerative agriculture and how it contributes to the company's pathway to halve its greenhouse gas emissions by 2030 and reach net-zero by 2050.

In Progress: Deforestation is becoming an increasingly important topic for LAPFF members and wider investors,

COMPANY ENGAGEMENTS



A city park owned by the Proctor and Gamble company in Cincinnati, Ohio

particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. TNFD will have implications for a wide range of market participants. LAPFF will be monitoring how relevant companies incorporate the TNFD recommendations and will seek to engage those lagging behind on biodiversity and deforestation.

Shell

Objective: Further to Shell's rowing back from its already unsatisfactory Energy Transition Plan, the company is now a point of special focus, given both its size and importance as an investment, as well as the scale of its emissions. LAPFF continues to aim to have the company understand its role in the energy transition and take action accordingly.

Achieved: LAPFF has met with the chair of Shell with some meeting of minds on some issues. Comments from the new leadership at the Shell Annual General meeting, that Shell does not have enough visibility on some putative sources of future revenue and growth to attach numbers to, does accord with LAPFF's critique in LAPFF's voting alerts since 2020.

In Progress: Given Shell's historically poor investment performance (over 20 years barely better than a bond return), which is indicative of poor investment decision making, alongside no appreciable record or prospect of investment, further effort will be put into understanding the numbers and the business model as well as direct engagement.

Centrica

Objective: Growing energy prices following the end of Covid lockdowns and since the start of the war in Ukraine have become a major business, economic, social and political issue. Rising costs have been a driver of inflation and reduction in the household standard of living. With prescribed economic regulations this backdrop has led to mounting scrutiny of energy companies' practices, especially those related to low-income households. LAPFF sought to understand how energy companies were managing the regulatory and reputational risks around the cost-of-living crisis, including changes needed to support those on low incomes or in arrears.

Achieved: LAPFF wrote to Centrica one of the major UK energy suppliers and owner of British Gas. The company responded by setting out how it is supporting customers through the cost-of-living crisis. The company also outlined ongoing support and advice that it provides low-income customers.

In Progress: With energy prices remaining high, LAPFF will be seeking to meet the major UK energy suppliers on their approaches to supporting households and managing the ongoing risks.

COMPANY ENGAGEMENTS

One of LAPFF's main concerns is to ensure that the National Grid's transition plan allows for a sufficiently speedy transition for the users of its grid

National Grid

Objective: LAPFF has continued its engagement with National Grid through the CA100+ forum. One of LAPFF's main concerns is to ensure that the company's transition plan allows for a sufficiently speedy transition for the users of its grid.

Achieved: LAPFF's view is that the company is missing some opportunities to decarbonise more quickly, so LAPFF issued a voting alert for National Grid ahead of the company AGM in July. LAPFF cited three main concerns in the voting alert: the company's confusing approach to the use of gas, delays in connecting clean energy projects to the grid, and disclosure on the energy transition. Consequently, LAPFF recommended opposition to the company report and accounts and to the resolution on political donations.

In Progress: LAPFF will continue to engage National Grid on its transition plan, including on the specific points mentioned above.

SSE

Objective: LAPFF has a longstanding engagement with SSE and has found the company to be open and responsive to engagement. Because it is progressive on a number of issues, including a fair and just transition, LAPFF seeks to maintain this relationship and push the company to entrench its leadership role in areas such as just transition and living wage.

Achieved: LAPFF Executive member, John Anzani, attended SSE's AGM again this year and asked a two-pronged question about SSE's approach to a just transition. First, he asked whether the SSE is looking to review its just transition principles in the near future. Second, he asked about capital allocation and whether money being spent on carbon capture and storage (CCS) could be better spent elsewhere.

In Progress: LAPFF has requested a follow-up meeting to discuss SSE's responses in greater detail.

Taylor Wimpey

Objective: Housing is a major contributor to greenhouse gas emissions and a focus of environmental regulation. To reduce the climate risks associated with overall emissions and the specific consumer and regulatory risks companies face, LAPFF therefore seeks to engage housebuilders on having credible transition plans. Following concerns from consumers and policymakers around leasehold arrangements and fire safety LAPFF also seeks to ensure the issues were being managed.

Achieved: The LAPFF Chair, Cllr Doug McMurdo, met with the Chair of Taylor Wimpey to discuss the company's approach to climate change. Since LAPFF last met the company, Taylor Wimpey has produced a transition plan, which has emission targets covering scopes 1-3 emissions and with a net zero by 2045 commitment. The meeting was informative and covered the company's progress and plans for reducing operational emissions, its approach to residual emissions, emissions from its homes when sold, and supply chain emissions such as from concrete and diesel. The issue of the just transition was raised as was putting the company's transition plan to a vote. The meeting also covered issues and costs associated with the agreement with the CMA on leaseholds and works related to fire safety.

In Progress: LAPFF will continue to meet with companies in the sector to ensure they have credible plans in place.

Unilever

Objective: Unilever has received quite a lot of press regarding its decision to remain in Russia after Russia's invasion of Ukraine. LAPFF heard from Total last year about that company's difficulties in deciding whether to leave Myanmar and recognises the significant challenges companies face in taking these decisions. Therefore, LAPFF wanted to understand better Unilever's challenges in deciding whether to remain in or exit Russia.

Achieved: LAPFF's Chair, Cllr Doug

COLLABORATIVE ENGAGEMENTS

McMurdo, met with Unilever Chair, Nils Anderson, to discuss Unilever's challenges in Russia. Mr. Anderson was not only open about the obstacles the company faces in Russia but also appeared to be open to working with LAPFF and others to determine appropriate solutions.

In Progress: LAPFF is continuing to participate in investor webinars on human rights and conflict zones. It will also continue to work with Unilever on this issue and will likely seek to partner with other investors who have been investigating the role of companies in conflict zones over the last couple of years.

COLLABORATIVE ENGAGEMENTS

FAIRR

Objective: The FAIRR initiative is a collaborative investor network that raises awareness of material ESG risks and opportunities caused by intensive animal production. The initiative's engagements have a wide-reaching impact on how business models contribute to material risks for investors. LAPFF aims to increase its understanding of the material ESG risks and opportunities and to engage with relevant companies associated with this issue.

Achieved: LAPFF has re-signed onto a FAIRR engagement focusing on working conditions at food producers, mainly in North and South America. LAPFF has also signed onto two new engagement streams, one examining antimicrobial resistance in animal pharmaceutical industry and the other analysing quick-service restaurant antibiotic policies, both with a focus on the concern about increasing global antimicrobial resistance. More than 20 companies have been contacted across these three workstreams.

In Progress: LAPFF will join calls as appropriate in due course which are being coordinated by FAIRR.

Farm land in Uruguay. This is the result of intensive livestock business in South America

Asia Research and Engagement's Energy Transition Platform

Objective: LAPFF joined calls hosted through Asia Research and Engagement's Energy Transition Platform which seeks to engage both financial companies and coal-exposed power companies. During the second quarter of 2023, LAPFF joined calls with **Mizuho Financial Group, China Construction Bank** (CCB), and **Huaneng Power.**

Achieved: Engagement with Mizuho assessed the feasibility of the company discontinuing all financing of oil and gas projects, and how the company was exploring its reduction targets for upstream activities within these industries. During the engagement, LAPFF raised inquiries regarding Mizuho's transition risk rating matrix, specifically inquiring about the scoring criteria applied to its clients. Additionally, investors sought insights into Mizuho's approach to navigating national policy restrictions, allocating budgets for the development of new green technologies, and leveraging its internal expertise in sustainable finance.

The conversation with CCB revolved around inquiries into CCB's environmental, social, and governance (ESG) rating system for clients, its disclosure practices concerning credit exposure linked to high-carbon industries, and the establishment of green sector targets. Similar to the discussion with Mizuho, this dialogue also delved into considerations related to national policy boundaries and restrictions.

The call with Huaneng Power covered questions around the company's previous disclosures on reaching peak emissions by 2024, as well as continuing aspirations for the company's targets for renewable energy production by the end of China's 14th Five-Year Plan, which comes to an end in 2025.

In Progress: Whilst there are many difficulties with aligning investor expectations with company progress in various markets due to challenging and conflicting national policies, ARE's Energy Transition Platform continues to build positive and meaningful

COLLABORATIVE ENGAGEMENTS

engagement with a variety of financial institutions and coal-exposed power companies.

Nature Action 100

Objective: Nature loss is a financially material risk. As the world's GDP is highly reliant on nature and its services, biodiversity loss creates significant risks for investors. As such, LAPFF's workplan seeks to engage companies to promote positive environmental impacts and reduce the operational, reputational and regulatory risks associated with nature loss.

Achieved: Alongside our own engagement work on biodiversity, this quarter saw LAPFF sign onto a major new collaborative initiative Nature Action 100. The global investor-led engagement initiative led by Ceres and IIGCC seeks to reverse biodiversity loss and drive nature action. The initiative sent letters to 100 companies from eight key sectors systemically important in reversing nature loss. The letter supported by over 190 investors sets out the initiative's expectations.

In Progress: LAPFF will seek to be involved in engagements as part of its participation in Nature Action 100.

30% Club Investor Group

Objective: LAPFF continues to support the 30% Club Investor Group. Initially, the group focused on enhancing gender diversity within UK boards, advocating for a minimum representation of 30 percent women on FTSE 350 boards and senior management positions within FTSE 100 companies. Over recent years, its scope has expanded to cover racial equity in UK boardrooms and promote gender diversity in global boardrooms.

Achieved: LAPFF is supporting the Group's Global Workstream, which looks to markets outside of the UK, namely in the USA and Asia, where boardroom diversity is lacking compared to the EU and UK. Through this workstream, LAPFF wrote to KKR & Co Inc. and Shinhan Financial Group asking the companies to set targets for diversity at board level and seeking to discuss individual company approaches to diversity more widely.

In Progress: LAPFF hopes to secure meetings with both companies in the fourth quarter of 2023 and continues to support other meetings held by the 30% Club Investor Group on an ad hoc basis as appropriate.

Valuing Water Finance Initiative

Objective: LAPFF is co-chair of the Valuing Water Finance Initiative (VWFI), a global investor-led effort, facilitated by the NGO Ceres, to engage companies with a significant water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.

Achieved: Along with other members of the VWFI, LAPFF met with Burberry Plc during the quarter to discuss the company's approach to water stewardship. A headline aim of the VWFI is to work with companies so as not to negatively impact water availability or water quality in areas across their value chain. Water scarcity poses a material risk throughout Burberry's cotton and leather supply chains whilst disposal of wastewater at manufacturing sites and dye houses risks polluting local watersheds. The company outlined its process for assessing risk at a commodity, regional and individual facility level. The outcome of the assessment resulted in the facilities with the highest risk being designated a hot spot. The company has subsequently set a target for zero hot spots within its supply chain by 2030. Burberry has made good progress in identifying water risk in recent years.

In Progress: The VWFI will release a detailed assessment and benchmark of all focus companies by the end of October 2023, including Burberry. LAPFF will assess the benchmark to identify potential shortcomings in the company's approach to manging water risk and follow up accordingly. The VWFI benchmark will provide a means through which performance on this issue can be tracked over time.

SIGN-ON LETTERS AND STATEMENTS

CDP - Science-Based Targets Campaign

LAPFF signed onto the CDP's science-based targets campaign for the third straight year. This campaign offers CDP investor signatories and Supply Chain members the opportunity to accelerate the adoption of science-based climate targets, by collaboratively engaging companies on this matter.

WDI – ISSB Letter

LAPFF signed onto a letter to the International Sustainability Standards Board (ISSB) requesting that the body 'prioritise researching' human capital and human rights indicators in its work plan.

Bank Track – Investor Statement on Global Human Rights Benchmark

Bank Track has finalised its investor statement on banks and human rights and is encouraging signatories to use it as a basis of engagement with banks on human rights. LAPFF is a signatory.

POLICY UPDATES

Letter to the UK Prime Minister

LAPFF signed onto a letter organised by the PRI, IIGCC and UKSIF regarding a statement by the Prime Minister on climate change.

Climate Risks

An updated briefing note for members was produced on LAPFF and climate risks. The briefing document includes an overview of LAPFF expectations of companies regarding climate change and how LAPFF supports change through engagement. The document is available to members on the member section of the website.

Water Risks

During the quarter LAPFF met with the Director of Investor Relations at Ofwat. In a highly regulated sector, Ofwat and

COLLABORATIVE ENGAGEMENTS

other regulators play an important role in shaping what individual companies can do and charge. At the meeting LAPFF discussed issues around capital expenditure, affordability, delivery of investment plans, the resilience of the sector, and the impact of climate change.

Reliable Accounts

Objective: LAPFF has continued to focus on policy making in the area of reliable accounts, given problems with accounting standards and standards of auditing. The focus also extends to climate change aspects of accounts, including decarbonisation. There are cross-cutting issues with capital markets (see later) given the impact that two Parliamentary Committees have given to the effect of pension fund accounting on pension fund asset allocations away from UK equities.

Achieved: The concept of Paris aligned accounts is now a mainstream issue. Two Parliamentary Committees, the DWP Select Committee of the Commons and the Industry and Regulators Committee put the accounting standards at the centre of their criticisms of the regulatory and advisory environment.

Freedom of Information Act requests are revealing more troublesome insights into the way Ministers have been briefed by officials at the Department of Business Energy and Industrial Strategy (BEIS), now the Department for Business and Trade (DBT). Requests first made in the summer of 2021 have elicited new information that had been held back but now released in July 2023 given interjection by the Information Commissioner. Further developments are expected and will be reported in full when the sensitivity of a live case has been settled. There are strong parallels with the circumstances of the Freedom of Information Act requests done in 2015 and 2016 which revealed that the Financial Reporting Council was not portraying the position of His Majesty's Government lawyers properly.

In Progress: The focus on the Freedom of Information Act requests continues, and Parliamentarians have been kept updated. See also capital markets working group (later).

Capital market reform and Capital Markets Working Group

Objective: LAPFF has for over a decade been concerned about the dropping of standards required of companies listing on UK capital markets, with specific problems with certain mining and extractive companies. More recently a group of City of London interests bereft of asset owner representation has made efforts to drop standards even further. There are overlapping issues with the poor quality of some companies coming to the UK for listing, as with NMC Health which joined the FTSE 100 and then collapsed, and poor-quality accounting. There are also ongoing issues given the work being done by the DWP Select Committee on pensions.

Achieved: LAPFF made strong response to the Financial Conduct Authority's consultation on relaxing the Listing Regime further. That response was met by equally strong condemnation of the FCA proposals by other large asset owners, including RailPEN. In the light of this, the LAPFF Executive has decided to set up a Capital Markets Working Group.

In Progress: With Parliament coming out of recess for the autumn session, attention will be given to this area, in association with the newly formed Capital Markets Working Group.

Party conference fringe events

Objective: LAPFF hosts fringe events at the political conferences. The meetings are a valuable way for LAPFF to engage with national politicians and stakeholders. The focus of this year's meetings was greenwashing. LAPFF has raised concerns about greenwashing, including in specific company engagements, and the fringe meetings provided the opportunity to raise such concerns with policymakers.

Achieved: Within the quarter, LAPFF held a meeting at the Lib Dem party conference. Alongside the chair of LAPFF, other speakers included Lord Robin Teverson, Lords Spokesperson Energy and Climate Change, Cllr Keith Melton, Chair of the Green Lib Dems, and Sarah George, Deputy Editor of Edie. LAPFF outlined the work it undertakes, how investors can tackle greenwashing by companies, and the role governments and policymakers could play. The discussion covered how regulations can guard against greenwashing, green taxonomies and labels, the importance of transparency and the role of reporting.

Progress: Meetings at the Conservative and Labour party conferences were planned for the following quarter. LAPFF will also continue to engage national policymakers on the issue and around the importance of reporting and corporate governance standards.

CONSULTATION RESPONSES

UN Consultation on Investors, ESG, and Human Rights

LAPFF has responded to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights. The Working Group is tasked with identifying ways to implement the UN Guiding Principles on Business and Human Rights and has been increasingly interested in the role investors can play in this regard. LAPFF set out a range of measures it employs to supporting both ESG and human rights. You can find LAPFF's response posted here on its website.

MEDIA COVERAGE

Climate

Net Zero Investor: UK stewardship stocktake: engagement at a gridlock?

Human Rights

Corporate Secretary/IR Magazine: Trillion-dollar coalition calls for human and worker rights focus at ISSB

Investments & Pensions Europe: Investors urge ISSB to focus on human and labour rights

Edie: Investment giants press for new global disclosure standards on human rights

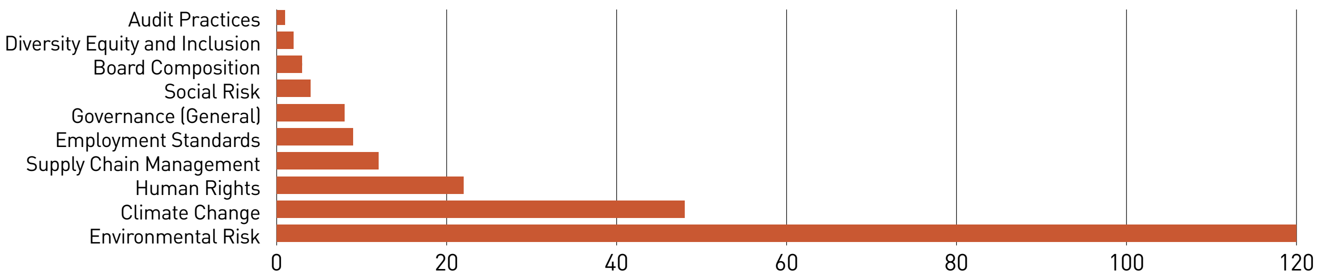
COMPANY PROGRESS REPORT

182 companies were engaged over the quarter. This number includes collaborative engagement letters sent to companies as part of the LAPFF-led Say on Climate initiative and the Nature Action 100 initiative. Excluding these engagement letters, LAPFF engaged with 54 companies.

Company/Index	Activity	Topic	Outcome
AIA GROUP LTD	Sent Correspondence	Environmental Risk	Awaiting Response
ALLIANZ SE	Sent Correspondence	Environmental Risk	Awaiting Response
ALPHABET INC	Sent Correspondence	Diversity Equity and Inclusion	Awaiting Response
APPLE INC	Sent Correspondence	Diversity Equity and Inclusion	Awaiting Response
ASSOCIATED BRITISH FOODS PLC	Received Correspondence	Human Rights	No Improvement
AVIVA PLC	Sent Correspondence	Environmental Risk	Awaiting Response
AXA	Sent Correspondence	Environmental Risk	Awaiting Response
BARRATT DEVELOPMENTS PLC	Sent Correspondence	Climate Change	Awaiting Response
BAYERISCHE MOTOREN WERKE AG	Sent Correspondence	Supply Chain Management	Awaiting Response
BERKSHIRE HATHAWAY INC.	Sent Correspondence	Environmental Risk	Awaiting Response
BOOKING HOLDINGS INC.	Sent Correspondence	Human Rights	Dialogue
BURBERRY GROUP PLC	Meeting	Environmental Risk	Small Improvement
CENTRICA PLC	Received Correspondence	Social Risk	Dialogue
CHINA CONSTRUCTION BANK CORP	Meeting	Climate Change	Dialogue
CHINA LIFE INSURANCE (CHN)	Sent Correspondence	Environmental Risk	Awaiting Response
DEVON ENERGY CORPORATION	Sent Correspondence	Environmental Risk	Dialogue
FEDEX CORPORATION	Alert Issued	Climate Change	Dialogue
FORD MOTOR COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GENERAL MOTORS COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GRUPO MEXICO SA DE CV	Meeting	Human Rights	Dialogue
HENNES & MAURITZ AB (H&M)	Received Correspondence	Human Rights	Dialogue
J SAINSBURY PLC	Received Correspondence	Employment Standards	Satisfactory Response
KKR & CO INC	Sent Correspondence	Board Composition	Awaiting Response
LEGAL & GENERAL GROUP PLC	Meeting	Environmental Risk	Awaiting Response
LLOYDS BANKING GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
MARKS & SPENCER GROUP PLC	Received Correspondence	Employment Standards	Satisfactory Response
MERCEDES-BENZ GROUP AG	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Human Rights	Awaiting Response
METLIFE INC.	Sent Correspondence	Environmental Risk	Awaiting Response
MIZUHO FINANCIAL GROUP INC	Meeting	Climate Change	Small Improvement
MUENCHENER RUECK AG (MUNICH RE)	Meeting	Environmental Risk	Awaiting Response
NATIONAL GRID GAS PLC	AGM	Climate Change	Dialogue
NESTLE SA	Sent Correspondence	Climate Change	Awaiting Response
NORTHUMBRIAN WATER GROUP	Meeting	Environmental Risk	Moderate Improvement
OCCIDENTAL PETROLEUM CORPORATION	Sent Correspondence	Environmental Risk	Dialogue
PERSIMMON PLC	Sent Correspondence	Climate Change	Awaiting Response
PING AN INSURANCE GROUP	Sent Correspondence	Environmental Risk	Awaiting Response
PRUDENTIAL PLC	Sent Correspondence	Environmental Risk	Awaiting Response
RENAULT SA	Sent Correspondence	Human Rights	Awaiting Response
RIO TINTO GROUP (AUS)	Sent Correspondence	Human Rights	Dialogue
RYANAIR HOLDINGS PLC	Alert Issued	Remuneration	No Improvement
SALESFORCE INC	Sent Correspondence	Board Composition	Awaiting Response
SEVERN TRENT PLC	Meeting	Environmental Risk	Moderate Improvement
SHINHAN FINANCIAL GROUP LTD	Sent Correspondence	Board Composition	Awaiting Response
SSE PLC	AGM	Climate Change	Dialogue
SUZANO SA	Meeting	Climate Change	Small Improvement
TAYLOR WIMPEY PLC	Sent Correspondence	Climate Change	Awaiting Response
TESLA INC	Sent Correspondence	Human Rights	Awaiting Response
THE PROCTER & GAMBLE COMPANY	Sent Correspondence	Environmental Risk	Awaiting Response
TOTAL ENERGY SERVICES INC	Sent Correspondence	Human Rights	Dialogue
UNILEVER PLC	Meeting	Human Rights	Small Improvement
UNITED UTILITIES GROUP PLC	Meeting	Environmental Risk	Moderate Improvement
VALE SA	Sent Correspondence	Human Rights	Dialogue
VOLKSWAGEN AG	Meeting	Human Rights	Small Improvement
VOLVO AB	Meeting	Human Rights	Small Improvement
WH SMITH PLC	Received Correspondence	Audit Practices	Satisfactory Response
WHITBREAD PLC	Received Correspondence	Employment Standards	Satisfactory Response
ZURICH INSURANCE GROUP AG	Sent Correspondence	Environmental Risk	Awaiting Response

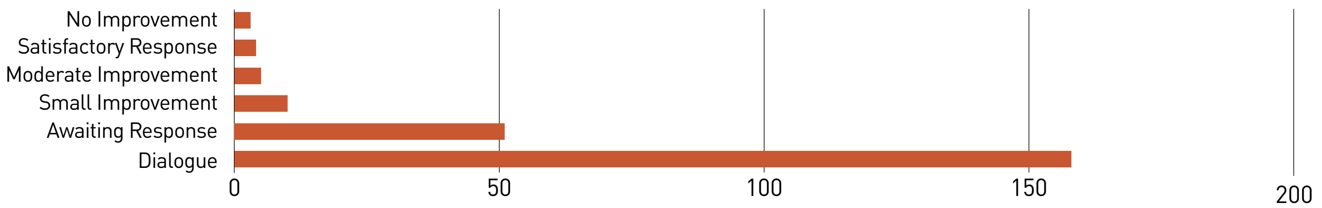
ENGAGEMENT DATA

ENGAGEMENT TOPICS



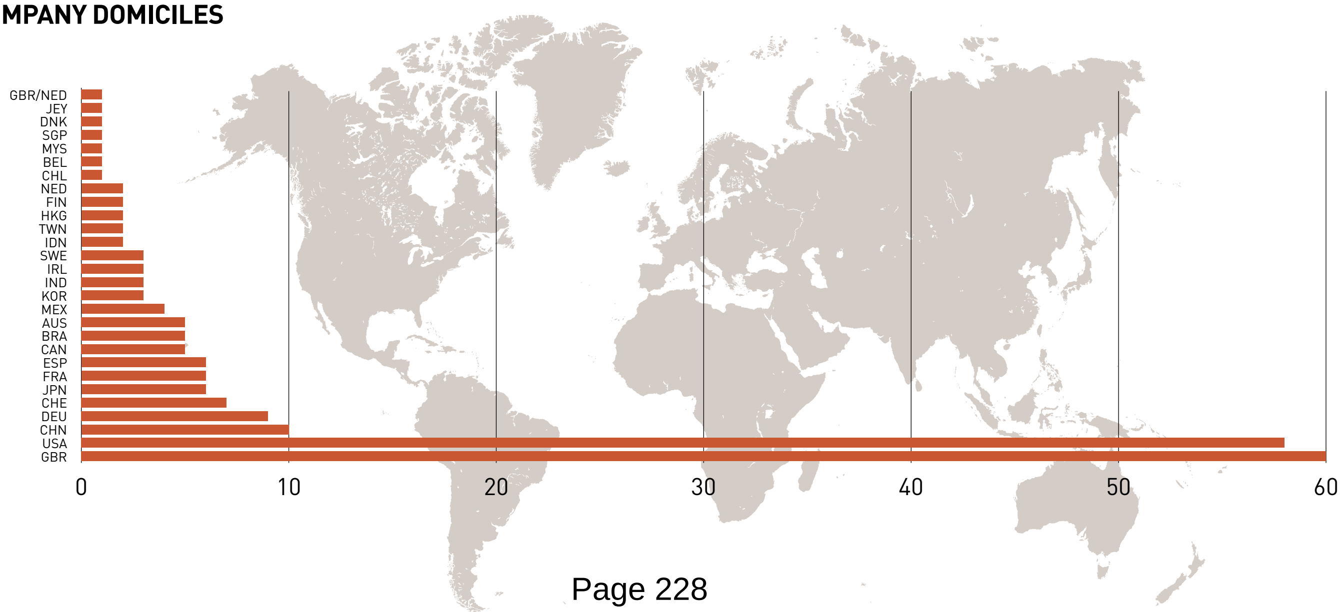
ACTIVITY

MEETING ENGAGEMENT OUTCOMES

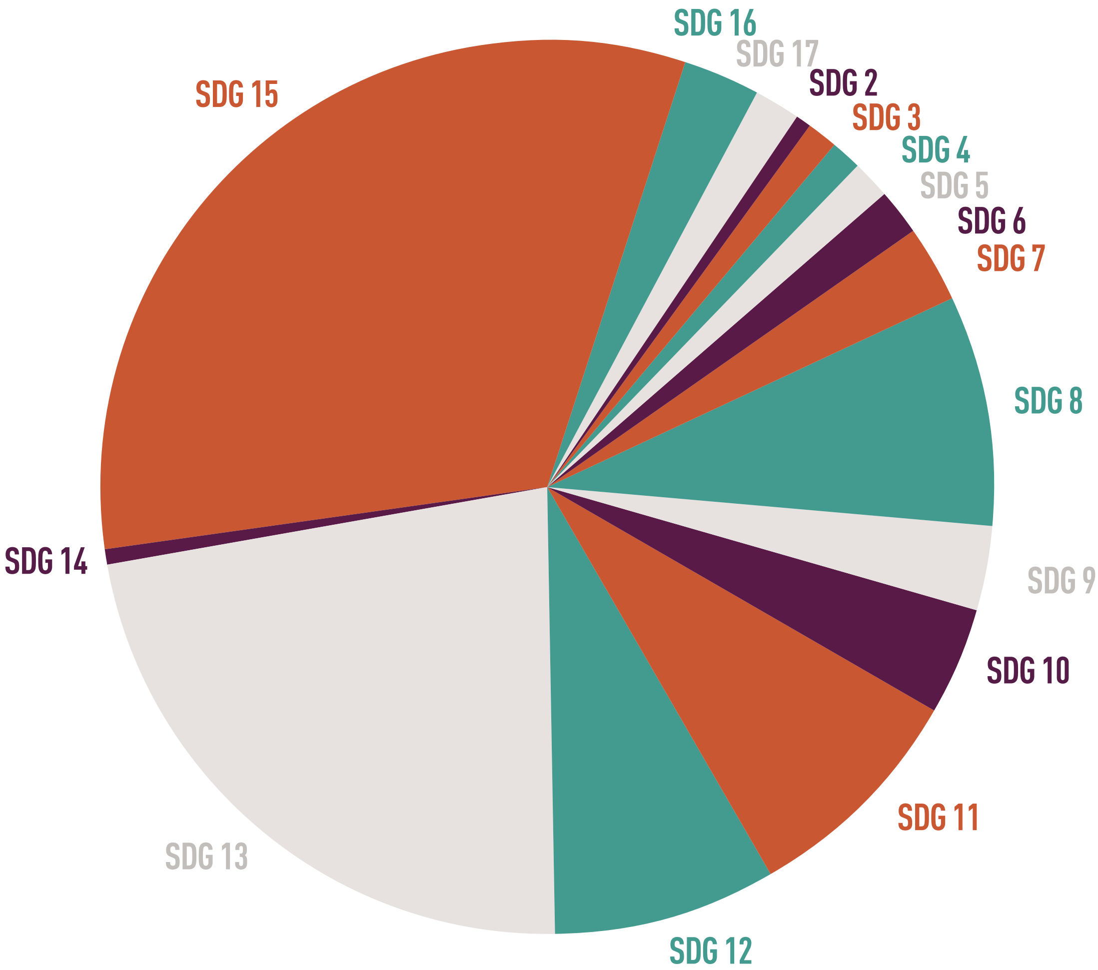


POSITION ENGAGED

COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	4
SDG 6: Clean Water and Sanitation	6
SDG 7: Affordable and Clean Energy	9
SDG 8: Decent Work and Economic Growth	27
SDG 9: Industry, Innovation, and Infrastructure	10
SDG 10: Reduced Inequalities	13
SDG 11: Sustainable Cities and Communities	27
SDG12: Responsible Production and Consumption	27
SDG 13: Climate Action	73
SDG 14: Life Below Water	2
SDG 15: Life on Land	106
SDG 16: Peace, Justice, and Strong Institutions	9
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	5

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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

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

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**15 December 2023**
TITLE:	**UPDATE ON LEGISLATION**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - Current matters affecting LGPS administration	

1 THE ISSUES

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

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 FINANCIAL IMPLICATIONS

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

4 THE REPORT

4.1 The table below provides a summary of the main regulatory updates since the last meeting, including brief comment on what the implications are for the Fund and what the next steps will be.

5 RISK MANAGEMENT

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

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 in line with the Council's Climate Strategy. 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, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nicky Russell – Technical and Compliance Manager; Tel 01225 395389
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	

Appendix 1

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
Local Government Minister	As part of the ministerial reshuffle on 13 November 2023, the Local Government minister Lee Rowley moved to the Ministry of Housing. His replacement, Simon Hoare was announced on 14 November 2023.	https://www.bbc.co.uk/news/uk-northern-ireland-67412853	Whilst no immediate impact of this change, it remains to be seen what progress will be made on various outstanding regulatory matters and with this change comes the potential for delays whilst the new Minister gets up to speed on the relevant issues.
McCloud Judgment	01 October 2023 saw the McCloud Regulations become effective following DLUHC's publication of its response to the May 2023 consultation. Working groups have now been established to consider statutory guidance and the Government Actuary's Department will be updating actuarial guidance to reflect the changes emerging. An initial prioritisation policy for administering authorities to follow was published in draft by DLUHC in October Central guidance/support for administering authorities in relation to member information and websites / communications / disclosure / administrator guidance are being considered by LGA and rolled out to Funds. A technical guide was issued on 15 November. A further consultation will take place on some elements of the remedy, in particular for excess teacher's service (as referred to in previous updates). The Teachers Pension Scheme has now issued its first communications to employers on this subject. In addition, HMRC published guidance for LGPS administering authorities with regard to how the remedy will impact annual allowance / lifetime allowance calculations both historic and future.	https://www.gov.uk/government/consultations/mccloud-remedy-in-the-lgps-supplementary-issues-and-scheme-regulations https://www.legislation.gov.uk/uksi/2023/972/contents/made https://lgpslibrary.org/assets/gas/ew/McC_Prioritisation.pdf Chapter 3, local government pension scheme — scheme administrators' guidance - GOV.UK (www.gov.uk)	Whilst Regulations have now become effective, a number of calculation routines / processes will be on hold until updated factors/guidance and in some instances, software updates, are released. Business as usual cases have started to be processed by the administration team based on the latest calculations available. The Fund are also working on a McCloud communication to all members as part of the Disclosure regulations, which must be sent within 3 months of the regulation effective date. There remains a lot of work for the team to undertake to implement the remedy in full both in terms of calculations and communications including any potential retrospective tax adjustments alongside the remedy itself. The team will be relying on central support and also external advisory support as part of this process given the complex nature of some elements of the remedy.
LGPS Cost Management Process	In September, HMT issued a written ministerial statement regarding the 2020 cost management process and how their cost control mechanism has been reformed. The SAB is also currently considering its own cost control mechanism in light of the above.	https://questions-statements.parliament.uk/written-statements/detail/2023-09-19/hcws1051	Given no changes to benefits/employee contributions arise from these latest updates, there isn't any immediate impact on the administration team. The outcomes of the 2020 exercise are now awaited.
Pensions Dashboard	On 14 November 2023 in its on-line connection forum, the Pensions Dashboards Programme (PDP) confirmed the proposed staging date for public service pension schemes will be within the period of one month up **to 30 September 2025.**	https://www.pensionsdashboardsprogramme.org.uk/2023/10/12/common-questions-on-dashboards/	The Fund are continuing to work on this as a separate project and are currently investigating ISP connection costs.

	PDP are currently consulting with industry regarding the final staging guidance that will be published by the Money and Pensions Service (MaPS) in the Spring of 2024. The staging guidance will confirm the proposed staging date of 30 September 2025. Regulation 15(2) of the Pensions Dashboards Regulations 2022 confirms administering authorities have a legal duty to have regard to this guidance. July 2023 – The announcement of the reset in the updated Dashboard Regulations that were laid in July, other than this it has been a relatively quiet period relative to previous months whereby there have been just a few publications by the PDP on common questions raised, why the Dashboard project is being undertaken and also a DWP update setting out guidance for Funds should they wish to defer connection beyond 31 October 2026.	https://www.pensionsdashboardsprogramme.org.uk/2023/09/13/why-are-pensions-dashboards-needed/ https://www.gov.uk/government/publications/pensions-dashboards-guidance-on-deferred-connection	
Pension Taxation	In September, the LGA responded to the 18 July 2023 consultation on abolishing the LTA. The response set out a number of comments around simplification, member confusion, limits and also implementation (given other competing resource demands at the moment).	https://lgpslibrary.org/assets/cons/nonscheme/20230718_LTA_CR.pdf	Whilst the changes to the annual and lifetime allowance are favourable to members, the changes have led to administrative processes and member communications to be updated. Once final details of how the LTA will be abolished are released, further consideration will be given to what changes are required to processes/communications going forwards.
Academies	In October, the SAB Section 13 working group published guidance on academy conversions, providing information and common nomenclature for approaches adopted by LGPS Funds when an LEA school converts to academy status in relation to funding positions and the setting of contribution rates.	https://lgpsboard.org/images/Guidance/Oct2023SABGuidanceonAcademyConversions.pdf	Whilst the guidance can be issued to newly converted academies this may lead to further questions/discussion with the Fund which need to be managed accordingly.
Levelling Up / Pooling	On 22 November, DHULC issued a response to the LGPS Investment Consultant. Details of the response can be found in the attaching link: In October, SAB issued its full response to the next steps on investments consultation – including commentary/concerns on the proposals underlying each of the 3 key areas – pooling, levelling up and private equity. The Fund also issued its own response to the Consultation on 27 September.	https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response https://lgpsboard.org/images/Responses/DLUHC_Investment_consultation_SABresponse.pdf	The response to the consultation, will be considered further by the investment team.

Responsible Investment	The LGA has submitted written responses to the Public Bill Committee in September, focussing on some of the practical implications of the Bill's current wording and the potential impact this may have on the operation of the LGPS and fiduciary duties of Funds.	https://www.local.gov.uk/parliament/briefings-and-responses/economic-activity-public-bodies-overseas-matters-bill-report#key-messages	These updates, and the impact on the Fund, will be considered further by the investment team.
Autumn Statement 2023	On 22 November 2023, the Chancellor delivered the Autumn Statement and one of the notable announcements that affects the LGPS, is that the Government announced its plans to proceed with key reforms relating to investments.	https://www.gov.uk/government/publications/autumn-statement-2023/autumn-statement-2023-html	These will be further considered by the investment team.

This page is intentionally left blank

Bath & North East Somerset Council	
MEETING:	**Avon Pension Fund Committee Meeting**
MEETING DATE:	**15 December 2023**
TITLE:	**PENSION FUND ADMINISTRATION** **Overview & Summary Performance Report**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Performance against SLA & Workload Appendix 2 – TPR Data Improvement Plan	

1 THE ISSUE

1.1 The purpose of this report is to present the Fund's administration performance for the three months to 30 September 2023 vs key performance indicators (KPI's).

2 RECOMMENDATION

The Committee:

2.1 Notes the service performance for Q3, the three months up to 30 September 2023.

3 PERFORMANCE –

3.1 Appendix 1 summarises service performance vs SLAs[1] to 30 September 2023. The Fund is operating below its target of >90% for the majority of case types (Annex 1) and Annex 2 illustrates cases completed within/outside of the SLA. Service levels have stabilised since Q2 2023 and no aggregate deterioration has occurred, though service levels remain materially below where they need to be.

3.2 The following are key factors continuing to impact performance.

- **People**: the vacancy rate has reduced from c.15% but remains high with 7 vacancies (10%)
- **McCloud** regulations came in to force on 1 October 2023. The fund has undertaken significant work including testing, training and process changes during September to ensure we align with regulations from the required date. We are currently stock piling transfer-out cases for members who may be impacted by the underpin while we await further GAD guidance. We are operating within regulations but awaiting further regulatory guidance before we can rectify members affected from 1 April 2014 to 31 March 2022. We have

[1] *service level agreements*

identified c.25,000 members who are in scope of the underpin who may require re-calculation and remedy.

- **Pension Increases:** a project team has been formed to review and rectify c. 1,500 cases with potential errors. We are currently working with our software provider and an external consultant to remedy affected members, including members who may have died. We pay c. 40,000 current pensioners per month and believe the issue impacts approx. 3.7% of these.
- **Demand:** we continue to experience a rise in incoming case load, see Annex 5. All work on hold due to the SCAPE rate change earlier this year has now been released and is reflected in the high level of refunds and deferred benefit tasks over 60 days. The team has focused on backlog and complex cases, which impacts KPI measures (cases completed outside of KPI measures). And in the last 3 months we have succeeded in reducing the backlog by c.300 cases.
- **Avon Fire Service:** APF is currently handing over administration of the scheme to West Yorkshire, with an exit date of 31 January 2024. This is consuming 2-3 FTEs of APF resources as the project enters its final stages. Work is ongoing to ensure clean reconciliation and data transfer, with payroll services controlled and transferred to the new provided. McCloud regulations for Fire also came in to force on 1 October which has triggered a higher-than-normal level of retirements which require processing before the transfer date.
- **Payroll:** ongoing secondment of member services team leaders to payroll continues to have an impact on the performance of the team. Though this issue will be mitigated during Q1 2024 as we build up Payroll resources.
- **Process weaknesses**: bulk fixes via our software provider are not currently available to address issues.
- **Management Information:** Despite improved MI being embedded in BAU decisions, development and better use of Insights reporting is still evolving.

4 PROGRESS

4.1 Significant progress has been made during this quarter to align the service for future improvement:

- **People:**
  - Implementation of APF-wide market supplements appears to have helped stabilise staff attrition and is helping recruitment.
  - 13 appointments have been made this quarter with start dates ranging from October 2023 to January 2024.
  - Recruitment for 7 vacant posts is in progress.
  - A significant post, Digital Services Manager was filled in November.
- **Demand:**
  - Following the mailing of Annual Benefit Statements in August, member emails peaked at 600 outstanding items. A short-term task force was formed to tackle the backlog and response times have reduced from 2 weeks to 24 hours.
  - A phone trial was conducted over a 3-week period (along with a 3-week control) during Sept-October, reducing phone opening times to 9am – 1pm to create capacity for member services to target backlogs and complex cases without regular interruption. MI evidences a material efficiency improvement with an additional 300 cases being completed during the trial period vs the control period. No detrimental impact on member servicing has been identified during the trial period and we will discuss next steps with BANES Customer Services.

- **Management Information**
    - Weekly resource decisions are being driven by MI with the support of a Business Analyst, driving better decisions and a focus on older cases and priority workload.
    - Internal processes have been reviewed to remove duplication and the proportion of cases requiring peer checking.
    - The process for refunds under £100 has been reviewed and risk assessed to streamline processing. Further work is ongoing to embed such improvements more broadly across member servicing.
- **Payroll**
    - A new structure has been agreed and we have appointed three pensions payroll officers who will start in January 2024. The new structure includes a payroll manager and recruitment for this post is planned for early 2024.
    - APF has recently upgraded its Bank Account Validation (BAV) system, offering reassurance that new pensions payments are paid to the correct account. This upgrade is being tested and will be implemented by the end of Q4 2023.
    - Mortality screening is due to re-commence in November with a new automated version of the software. The upgrade will provide better reporting and earlier detection of deceased pensioner members.

5 YEAR END & VALUATION

5.1 The fund processed 486 employer year end data returns at 31 March 2023.

5.2 In the financial year the fund saw 50 new employers join and 22 exit the scheme.

5.3 Following the employer year end data submission review, 2 employers will be fined for disproportionate work required by the fund. A penalty fine and data improvement plan (DIP) will be issued as well as ongoing training and support.

5.4 Four other employers will be issued with a DIP based on their data submission.

6 ANNUAL BENEFIT STATEMENTS

6.1 The Public Service Pensions Act 2013 requires Funds to produce Annual Benefit Statements for active members by 31 August annually.

6.2 The fund issued statements to 31,591 active members, 98 gone away's and 56 records in error were suppressed from the ABS run. This equals to 99.5% ABS statements issued within the statutory deadline. A final ABS sweep was run in October to issue revised or missed statements to members.

6.3 39,565 statements were issued to deferred members before 31 August 2023, 4088 statements were supressed for gone away members.

6.4 The fund issued 70 Pension Savings Statements of which 14 had a potential tax charge. 100% of statements were issued within the regulatory deadline.

7 SUMMARY OF FUND MEMBERSHIP DATA QUALITY

7.1 The Fund maintains a Common Data score above 95%. The TPR[2] report summarises an annual view of outstanding cases for the last 12 months, please refer to Appendix 2**.**

2 *The Pensions Regulator*

7.2 An increase in incorrect or gone away addresses has occurred in this period, due to the bulk mailing for annual benefit statements in August.

7.3 The missing Care Pay cases has since been reviewed and the overall cases have been reduced by 123.

8 BUDGET MONITORING

1.1 As at September 30th 2023, the budget for the year (y/e forecast) is predicted to be significantly under spent as shown below.

	Status (Year End Forecast)	Comment if significant under/over
Administration	Green	Reduced salaries expenditure due to delays in filling vacant posts against budget in Benefits team, partially offset by external support brought in
Governance & Compliance	Green	Reduced salaries expenditure in Investments team due to staff vacancies that are in the process of being filled
Pensions Board	Green	

Key:

Green	Significant underspend (>5%) against budget for the year
Amber	On budget for the year (not significantly under or over)
Red	Significant overspend (>5%) against budget for the year

9 RISK MANAGEMENT

9.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund, with responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

10 EQUALITIES STATEMENT

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

11 CLIMATE

11.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. 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, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

12 OTHER OPTIONS CONSIDERED

15.1 None.

13 CONSULTATION

13.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Claire Newbery, Pensions Operations Manager 01225 395247
Background papers	Various statistical documents
Please contact the report author if you need to access this report in an alternative format.	

This page is intentionally left blank

Fund Performance against SLA – KPI's As at 30 September 2023 **Appendix 1**

Annex 1 Overall Performance by Case Type

		Cases Last Quarter Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	**Quote - 15 days**	313	169	53.99%	36	65.50%
	Payment - 15 days	200	166	83.00%	16	91.00%
Retirement (from Deferred)	**Quote - 30 days**	41	13	31.71%	5	43.90%
	Payment - 15 days	231	189	81.82%	12	87.01%
Deaths	**Notification - 5 days**	154	100	64.94%	23	79.87%
	Payment - 10 days	118	89	75.42%	4	78.81%
Refund of contributions	**Quote - 10 days**	396	141	35.61%	12	38.64%
	Payment - 10 days	153	75	49.02%	9	54.90%
Deferreds (early leavers)	**30 days**	1048	574	54.77%	474	100.00%
Transfers In	**Quote - 10 days**	34	8	23.53%	8	47.06%
	Payment - 10 days	20	9	45.00%	2	55.00%
Transfers Out	**Quote - 10 days**	240	83	34.58%	9	38.33%
	Payment - 10 days	35	19	54.29%	1	57.14%
Estimates	**Member - 15 days**	87	81	93.10%	1	94.25%
	Employer - 15 days	52	36	69.23%	11	90.38%
Divorce	**Quote - 45 days**	91	70	76.92%	0	76.92%
	Actual - 15 days	1	0	0.00%	0	100.00%
Starters	**40 days**	1841	1833	99.57%	0	99.57%
TOTAL		5055	3655	72.30%	623	84.63%

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

Annex 2
Case No's vs Target

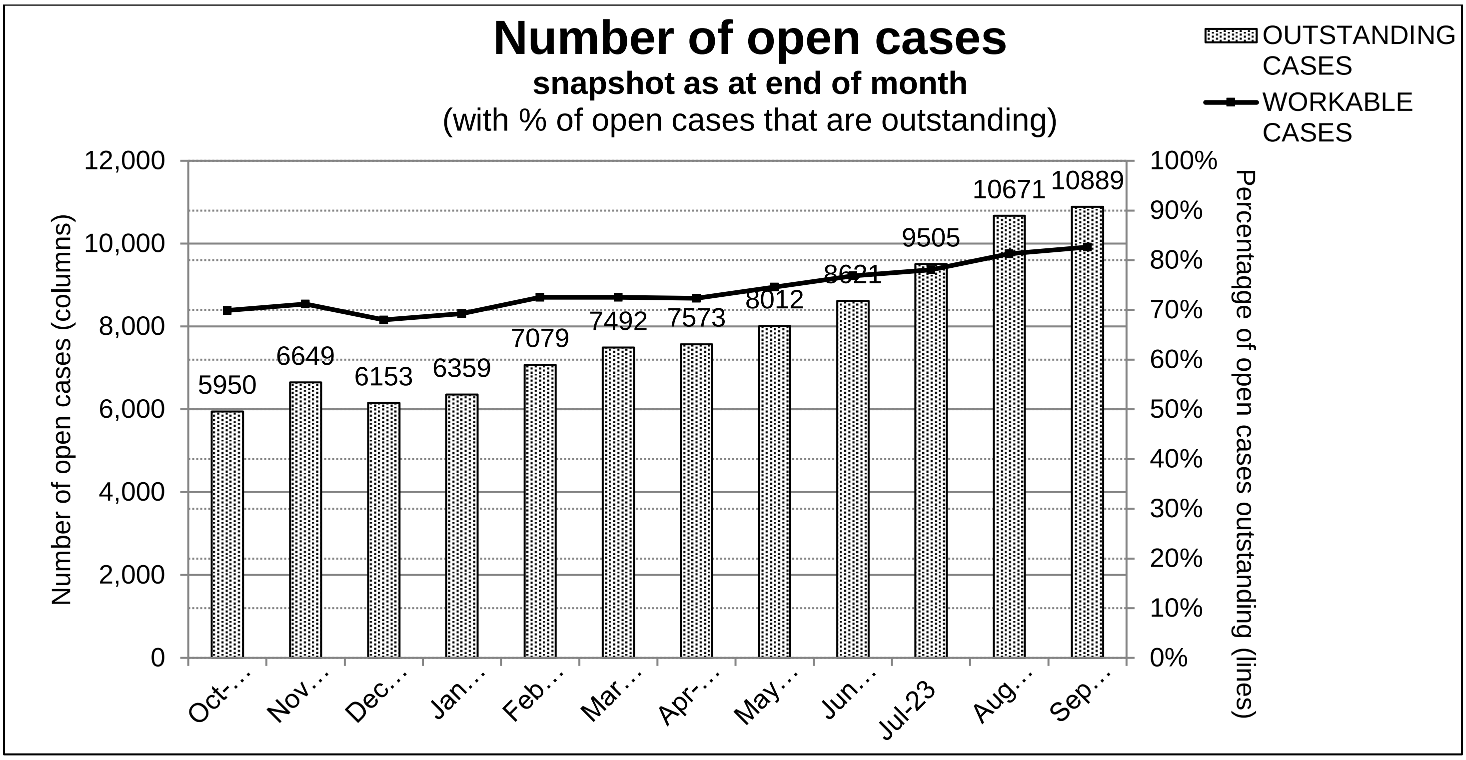
		Tasks Last Quarter							
		Average Days to Process	Actual Days to Process						
			0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	**Quote - 15 days**	27	46	71	52	36	31	18	59
	Payment - 15 days	12	108	38	20	16	6	4	8
Retirement (from Deferred)	**Quote - 30 days**	31	18	5	1	7	3	0	7
	Payment - 15 days	14	148	19	22	12	3	3	24
Deaths	**Notification - 5 days**	6	66	23	10	6	2	4	7
	Payment - 10 days	9	100	39	4	6	1	2	2
Refund of contributions	**Quote - 10 days**	71	61	80	12	21	20	6	196
	Payment - 10 days	34	60	15	9	6	8	5	50
Deferreds (early leavers)	**30 days**	52	156	105	109	58	74	72	474
Transfers In	**Quote - 10 days**	23	6	2	8	2	6	0	10
	Payment - 10 days	33	4	5	2	1	0	1	7
Transfers Out	**Quote - 10 days**	50	72	11	9	3	3	7	135
	Payment - 10 days	30	13	6	1	4	4	0	7
Estimates	**Member - 15 days**	8	47	12	22	1	0	2	3
	Employer - 15 days	9	23	2	11	11	1	0	4
Divorce	**Quote - 45 days**	21	17	4	9	9	4	9	39
	Actual - 15 days	12	0	0	0	0	0	0	1
Starters	**40 days**	9	902	695	97	105	1	28	13

Annex 3 Trend in Overall Performance

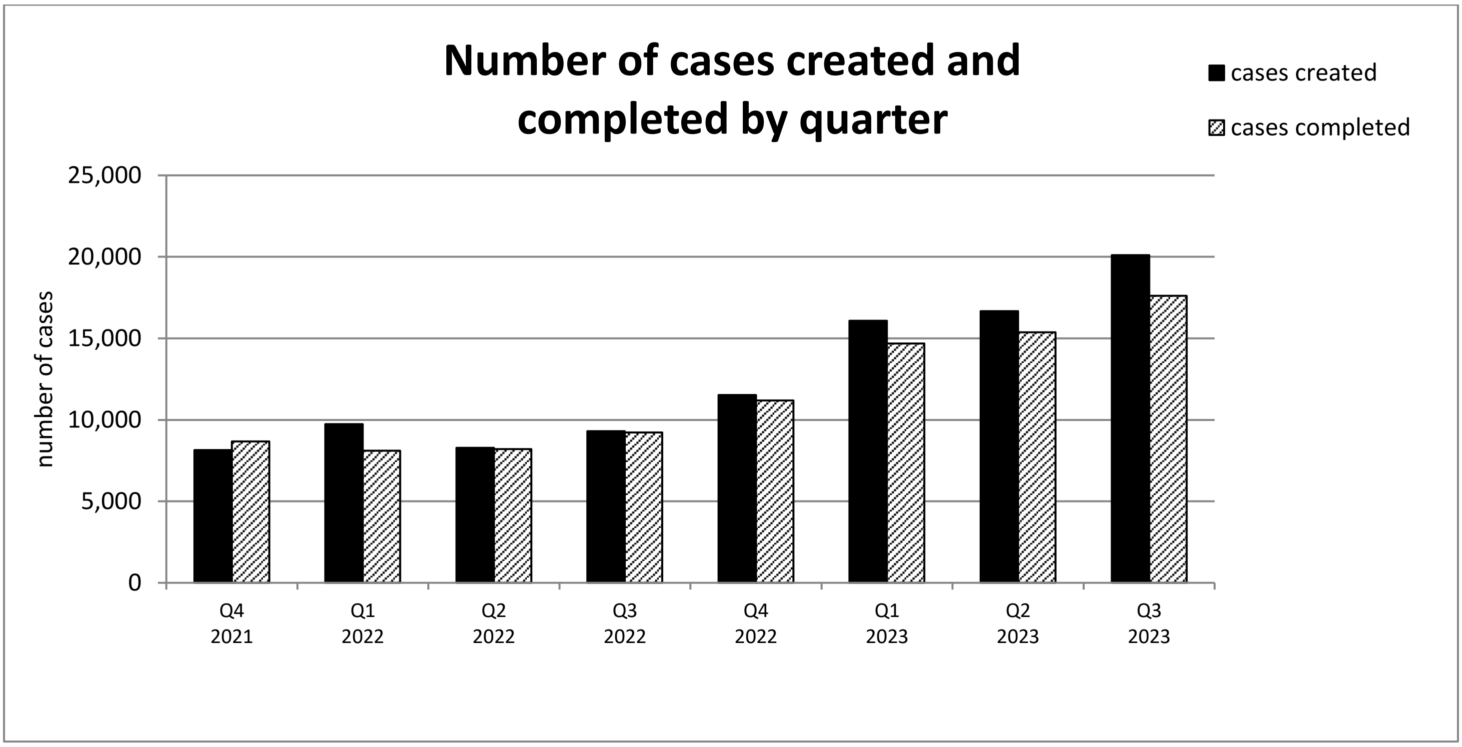
SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA (Old/New)	Q4 Oct 22 - Dec 22	Q1 Jan 23 - Mar 23	Q2 Apr 23 - Jun 23	Q3 Jul 23 - Sep 23	Trend
Retirement (from Active)	Quote - 5 / 15 days	76.37%	77.03%	49.34%	53.99%	
	Payment - 5 / 15 days	94.08%	91.85%	81.21%	83.00%	
Retirement (from Deferre	Quote - 30 days	35.71%	38.46%	51.87%	31.71%	
	Payment - 5 / 15 days	94.31%	92.55%	85.00%	81.82%	
Deaths	Notification - 5 days	96.80%	88.65%	79.61%	64.94%	
	Payment - 5 / 10 days	85.45%	94.34%	68.57%	75.42%	
Refund of contributions	Quote - 10 days	19.80%	45.89%	1.69%	35.61%	
	Payment - 10 days	83.69%	71.88%	41.18%	49.02%	
Deferreds (early leavers)	tification - 20 / 30 days	72.30%	59.50%	41.71%	54.77%	
Transfers In	Quote - 10 days	67.96%	59.18%	2.27%	23.53%	
	Payment - 10 days	63.64%	61.36%	12.50%	45.00%	
Transfers Out	Quote - 10 days	56.82%	53.01%	34.91%	34.58%	
	Payment - 10 days	80.56%	73.08%	45.45%	54.29%	
Estimates	Member - 10/15 days	90.12%	82.35%	87.98%	93.10%	
	Employer - 15 days	87.50%	86.96%	81.95%	69.23%	
Divorce	Quote - 45 days	89.47%	96.88%	90.91%	76.92%	
	Actual - 15 days	50.00%	100.00%	50.00%	0.00%	
Starters	40 days	96.41%	100.00%	98.71%	99.57%	

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

Annex 4



Annex 5



TPR Improvement Plan Data As of 30th September 2023

Annex 1 – TPR Errors by Member Numbers

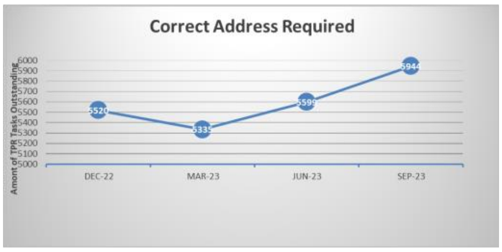
	Jun-23				Sep-23				*Trend
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	
ACTIVE	40979	294	0.72%	99.28	40608	314	0.77%	99.23	+20
UNDECIDED	6294	272	4.32%	95.68	7115	260	3.65%	96.35	-12
DEFERRED	44512	3696	8.30%	91.70	45134	4024	8.92%	91.08	+328
PENSIONERS	36729	485	1.32%	98.68	36561	481	1.32%	98.68	-4
DEPENDANTS	5624	158	2.81%	97.19	5413	150	2.77%	97.23	-8
FROZEN	5930	1766	29.78%	70.22	6628	1766	26.64%	73.36	+0
TOTALS	**140068**	**6671**	**4.76%**	**95.24**	**141459**	**6995**	**4.94%**	**95.06**	+324

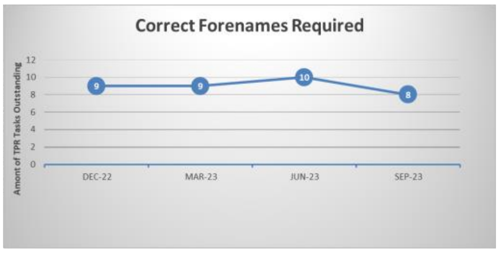
Annex 2 – Outstanding Queries by Type (there may be multiple queries per member)

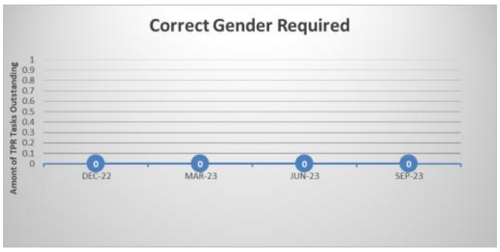
	Jun-23		Sep-23		*Trend
	TPR Errors	%	TPR Errors	%	
Age 75 Exceeded Lgps Eligibility Issue	79	1.18%	77	1.10%	-2
Care Pay For 2014-2015 Required	3	0.04%	1	0.01%	-2
Care Pay For 2015-2016 Required	4	0.06%	3	0.04%	-1
Care Pay For 2016-2017 Required	5	0.07%	5	0.07%	0
Care Pay For 2017-2018 Required	9	0.13%	9	0.13%	0
Care Pay For 2018-2019 Required	13	0.19%	11	0.16%	-2
Care Pay For 2019-2020 Required	20	0.30%	18	0.26%	-2
Care Pay For 2020-2021 Required	21	0.31%	17	0.24%	-4
CARE pay for 2021-2022 required	54	0.81%	48	0.69%	-6
CARE pay for 2022-2023 required	31	0.46%	92	1.32%	+61
Missing data on leaver form - Escalation	0	0.00%	0	0.00%	0
Casual Hours Data Required	0	0.00%	1	0.01%	+1
Correct Address Required	5599	83.93%	5944	84.97%	+345
Correct Forenames Required	10	0.15%	8	0.11%	-2
Correct Gender Required	0	0.00%	0	0.00%	0
Correct Hours Format Required	0	0.00%	0	0.00%	0
Correct Nino Required	168	2.52%	162	2.32%	-6
Correct Title Required Ie Miss Or Mr	1	0.01%	1	0.01%	0
Data Required From A Previous Employer	3	0.04%	1	0.01%	-2
Date Joined Fund Required	2	0.03%	3	0.04%	+1
Historic Refund Case	476	7.14%	476	6.80%	0
Leaver Form Required	171	2.56%	117	1.67%	-54
Pay Ref Required	2	0.03%	0	0.00%	-2
Correct Surname Required	0	0.00%	1	0.01%	+1
Correct Date Of Birth Required	0	0.00%	0	0.00%	0
Grand total	**6671**	**100%**	**6995**	**100%**	

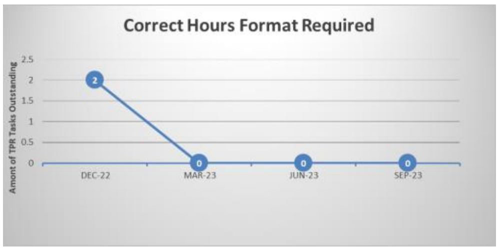
***Trend is influenced by number of errors**

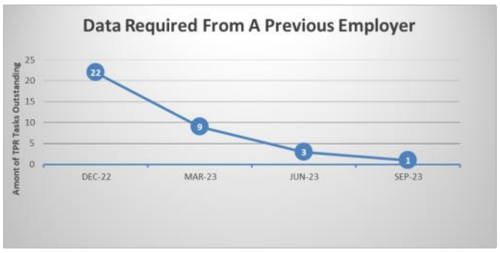
TPR Error Numbers by Error Type



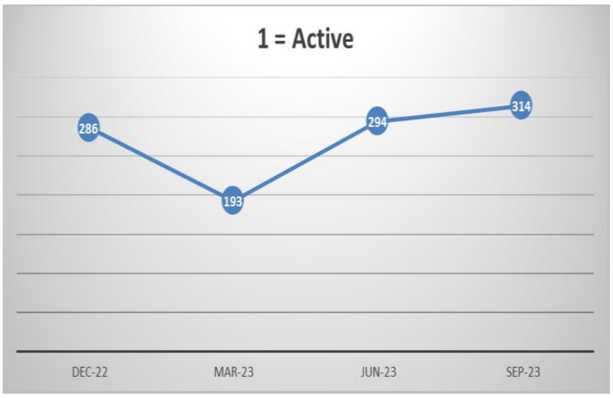


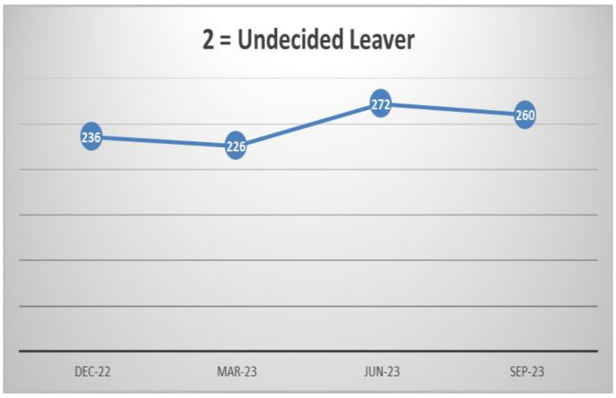


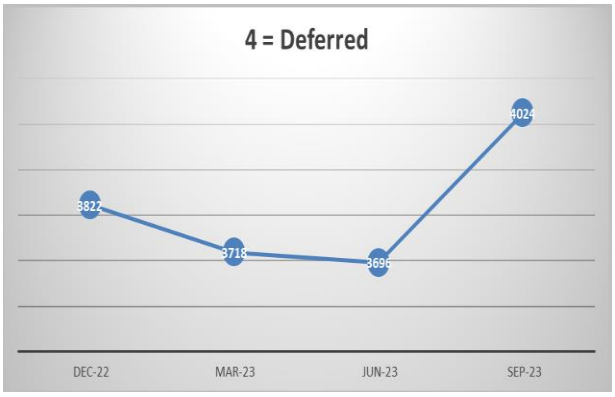


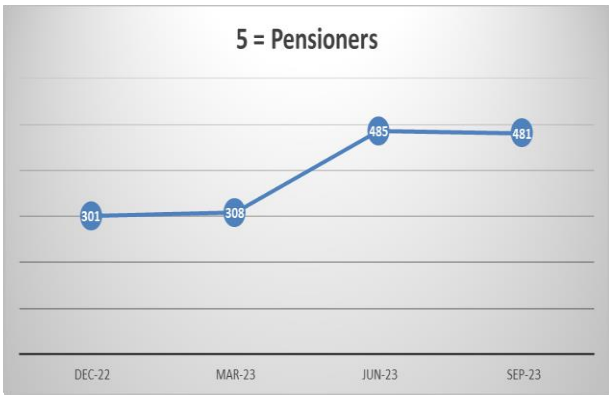


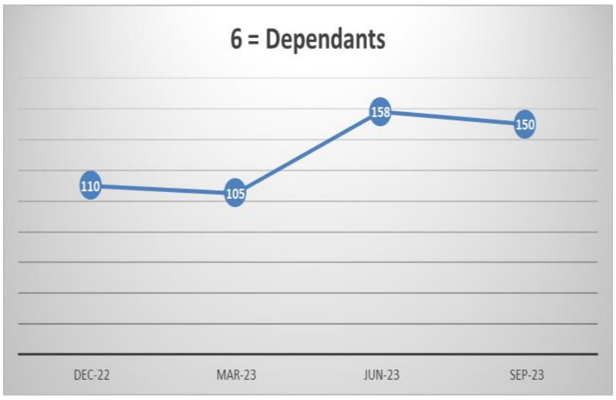
TPR Error Numbers by Status

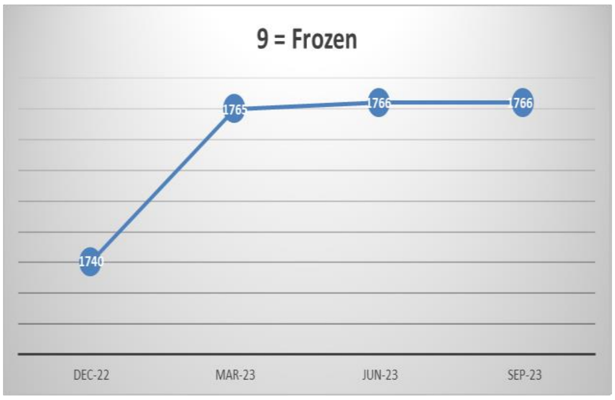












This page is intentionally left blank

Bath & North East Somerset Council

AVON PENSION FUND

lgps

Administration Service Improvement Plan update Q3 2023

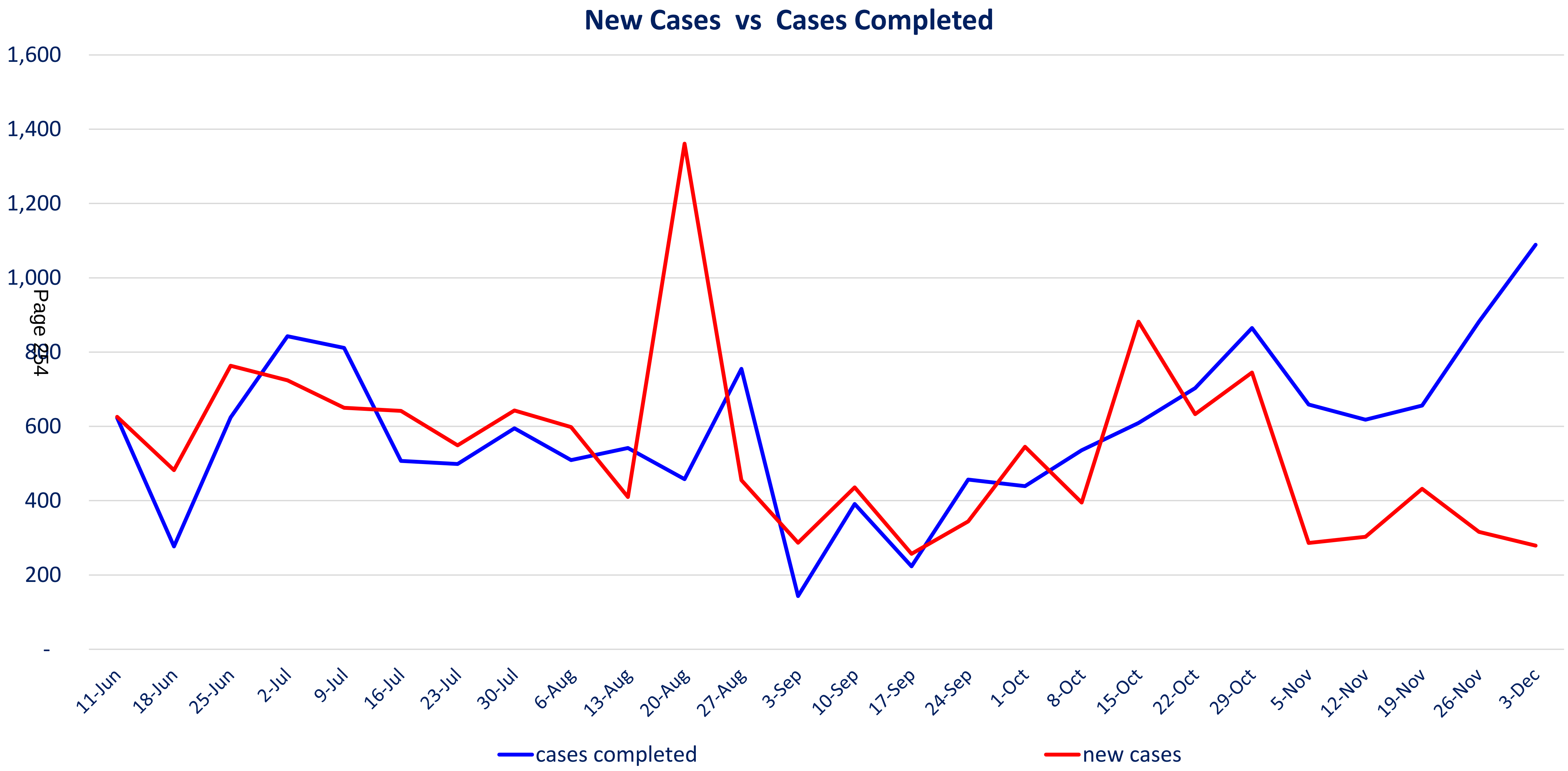
Current service state

The Data

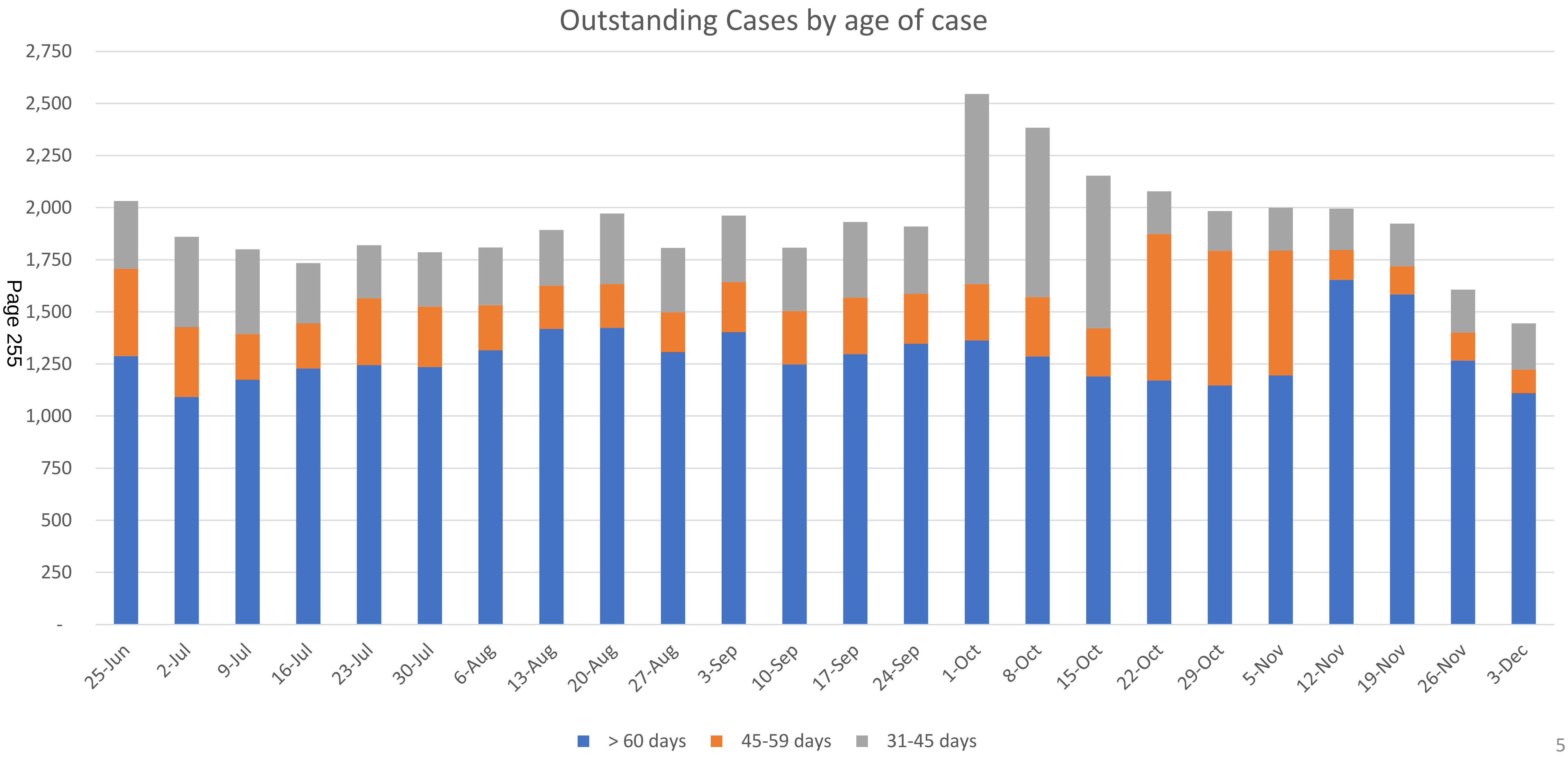
Aggregate performance is broadly stable – but insufficient

	25-Jun	2-Jul	9-Jul	16-Jul	23-Jul	30-Jul	6-Aug	13-Aug	20-Aug	27-Aug	3-Sep	10-Sep	17-Sep	24-Sep	1-Oct	8-Oct	15-Oct	22-Oct	29-Oct	5-Nov	12-Nov	19-Nov	26-Nov
Death Notification	0%	0%	6%	0%	29%	92%	44%	55%	90%	47%	71%	64%	100%	36%	75%	88%	73%	69%	67%	42%	41%	94%	78%
Death - Payment	60%	50%	78%		67%	75%	67%	100%	100%	80%	0%	50%	88%	52%	78%	67%	47%	92%	100%	86%	100%	69%	60%
Retirement (Active) - Quote	53%	57%	59%	64%	91%	92%	9%	46%	53%	41%	40%	33%	32%	44%	52%	19%	27%	26%	26%	23%	23%	28%	26%
Retirement (Active) - Actual	67%	69%	89%	92%	93%	86%	64%	43%	67%	65%	100%	100%	75%	89%	61%	60%	64%	76%	77%	83%	59%	56%	96%
Divorce - Quote		100%	58%	70%	100%	83%	100%		100%		100%		100%	75%	100%	100%		100%	100%	100%		0%	100%
Divorce - Actual			0%														100%						
Refund - Quotes		0%	20%	50%	0%	48%	56%	13%	0%	26%	33%	3%	22%	41%	0%	1%	10%	10%	6%	25%	40%	32%	7%
Refund - Actual	100%	0%	38%	39%		0%	100%	20%	29%	100%	100%	86%	100%	70%	50%	69%	88%	55%	100%	100%	78%	96%	100%
Deferred Benefits	60%	95%	84%	46%	65%	69%	85%	40%	62%	69%	60%	40%	60%	16%	74%	34%	19%	34%	10%	75%	100%	43%	75%
Transfer In - Quote			100%		0%				0%	13%	100%	100%	0%	0%	0%			0%		0%	0%	0%	38%
Transfer In - Actual			100%			0%	100%	0%	25%	100%	100%		100%	0%	20%	0%	0%	50%		100%	0%	17%	100%
Transfer Out - Quote		100%	17%	43%	0%	68%	65%	70%	27%	0%	0%		0%		0%	25%	0%	33%	50%	17%	0%	0%	0%
Transfer Out - Actual		100%		0%		33%	33%	50%	0%	75%			0%	0%	60%	100%		0%	60%	100%	75%	100%	100%
Employer Estimate - Quote	56%		100%	0%	100%				100%			100%	100%	38%	0%	100%	0%	100%	100%	78%		83%	0%
Member Estimate - Quote	46%	95%	100%	100%	100%	100%	100%	100%		93%	71%	100%	78%	75%	75%	93%	57%	100%	90%	93%	100%	100%	75%
Joiner	50%	99%	99%	96%	99%	99%	99%	100%	97%	99%	97%	99%	94%	100%	97%	91%	90%	100%	99%	100%	100%	100%	98%
Weighted Average	**55%**	**69%**	**65%**	**56%**	**64%**	**68%**	**75%**	**59%**	**54%**	**57%**	**63%**	**68%**	**61%**	**45%**	**50%**	**61%**	**46%**	**58%**	**68%**	**67%**	**56%**	**54%**	**62%**

Cases completed are starting to exceed new cases coming in



With consequent decline in outstanding cases



Page 255

Greatest decline in ‘older’ outstanding cases

typically not captured by quarterly performance reporting

	days since case created								
	0-5	6-10	11-15	16-20	21-25	26-30	31-45	46-59	60+
Death Notification	▼ 10	▲ 4		▲ 1		▼ 1			▼ 1
Death - Act/Def/Pen - Payment	▲ 14	▲ 5	▲ 3	▲ 1	▼ 1	▼ 1		▼ 1	▼ 4
Retirement (Active) - Quote	▲ 11	▼ 3	▲ 19	▲ 33	▲ 20	▲ 19	▲ 77	▲ 10	▲ 38
Retirement (Active) - Actual	▲ 13		▲ 2	▼ 3	▼ 2	▼ 6	▼ 19	▼ 5	▼ 90
Retirement (Deferred) - Quote									
Retirement (Deferred) - Actual	▲ 47	▲ 11		▲ 1	▼ 1		▼ 5	▼ 1	▼ 2
Divorce - Quote	▲ 3	▼ 2	▲ 7	▲ 2	▼ 8	▲ 3	▼ 2	▼ 5	
Divorce - Actual									▼ 5
Refund - Quotes	▲ 9	▼ 17	▼ 69	▼ 5	▼ 19	▼ 89	▼ 125	▼ 149	▲ 56
Refund - Actual	▲ 16	▲ 11	▲ 14	▲ 85	▼ 3	▼ 4	▼ 7	▼ 23	▼ 17
Deferred Benefits	▼ 53	▼ 7	▼ 43	▲ 40	▲ 5	▲ 52	▼ 12	▼ 33	▲ 66
Transfer In (Active) - Quote		▼ 1	▲ 19	▼ 3	▼ 2	▼ 7	▼ 8	▼ 46	▼ 172
Transfer In (Active) - Actual	▲ 7	▲ 1	▲ 1				▲ 1		▼ 7
Transfer Out - Quote	▲ 5	▲ 12	▲ 7	▲ 4		▼ 14	▼ 8	▼ 39	▼ 72
Transfer Out - Actual	▲ 2				▼ 1			▼ 2	▼ 2
Employer Estimate - Quote	▼ 5	▼ 2	▼ 3	▼ 1		▼ 1			▼ 1
Member Estimate - Quote		▼ 4	▼ 5			▲ 1	▲ 1	▲ 1	▼ 1
Joiner	▼ 288	▲ 50	▼ 55	▲ 8	▼ 15	▼ 53	▲ 4	▼ 13	▲ 36
Total	**▼ 229**	**▲ 58**	**▼ 103**	**▲ 163**	**▼ 27**	**▼ 101**	**▼ 103**	**▼ 306**	**▼ 178**

Root causes affecting service

People & Capacity

Processes

Regulatory Changes

Spikes in work and project support

Increased demand

Page 258

People & Capacity

Root Cause	Improvement actions
Vacancy rate high – 10% (down from 15%)	• 13 appointments made • Digital Services Manager appointed • Payroll staff appointed • 7 ongoing campaigns • Controlling internal movement of staff • New Payroll structure agreed
Pay	• NJC Pay award • Market Supplement appears to support stabilisation and attracting new candidates
Officer experience	• Ongoing training & development

Page 259

Processes

Root Cause	Improvement actions
Duplication of process and checking	• Started process review – duplications removed • Guidance and training given • Assurances on data and calculation engine given
Volume of Leaver work	• Implemented automated case allocation to buckets • Reviewing tolerances and checks for refunds (reduced for refunds <£100)
Payroll processes	• Bank Account Validation in testing • Mortality screening in testing • New tasks to track pensioner deaths

Regulations

Root cause	Improvement actions
New McCloud regulations wef 1st October	• Data collection project (2000 to date) • System updates tested • Switched on in Live • Training for officers • Process & Letter review • Compliance with disclosure regulations • Attending webinars & POG's • Working within regs from 1st October
New Fire Scheme Sergeant/McCloud regulations wef 1st October	• As above • Working with Avon Fire and Rescue to implement

Work Spikes & Projects

Root cause	Improvement actions
Fire scheme exit (31/2/24)	• Temporary deployment of extra staff to assist project work • Should reduce workload by 1 FTE after 1st February
ABS spike in work	• Task force to address incoming work
Pensions Increase errors	• Officers working on cases manually in advance of project

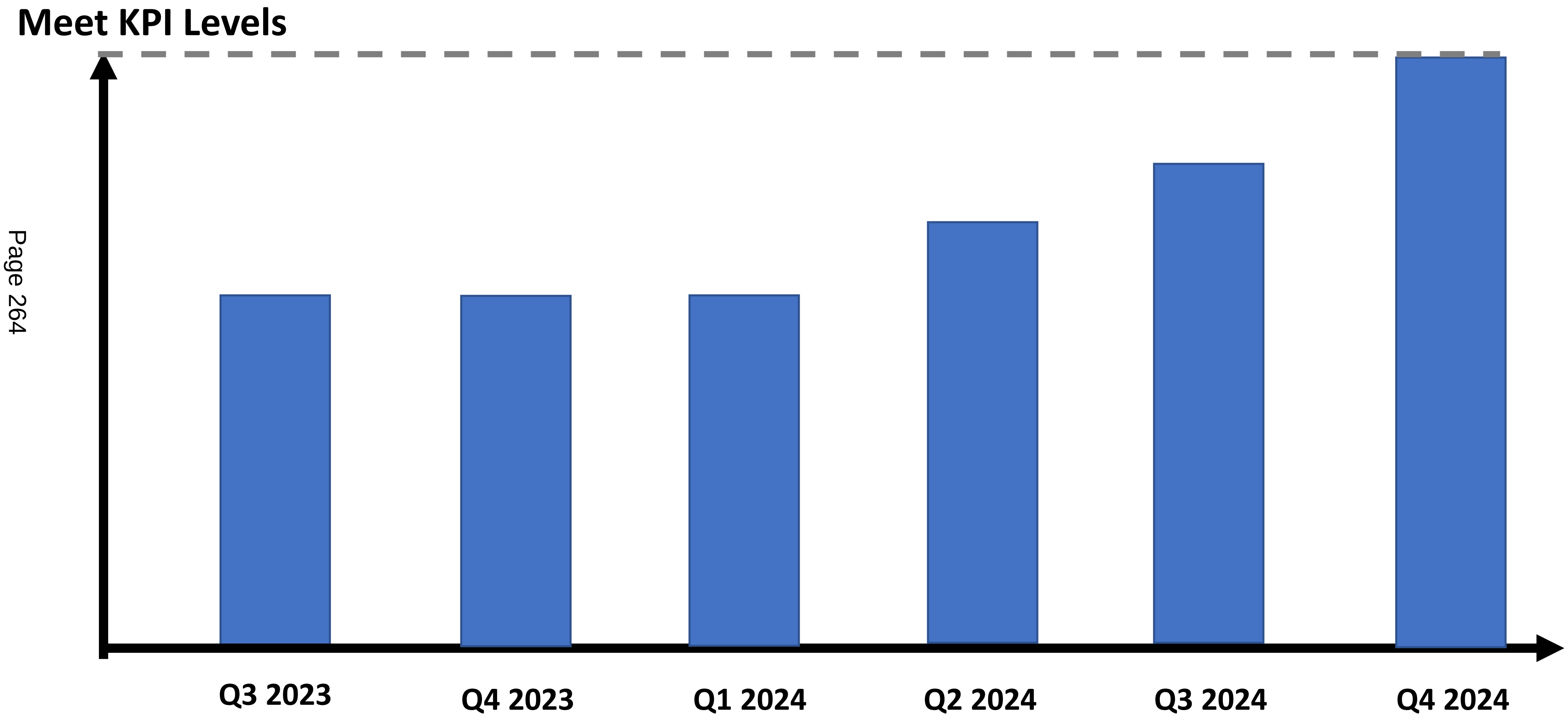
Increased demand

Increased demand	Improvement actions
ABS spike in emails/phone calls	• Task force to address work spike
Increase in case work load	• Reduced phone service trial to create capacity for processing • Ongoing website development to improve member servicing
Increase in Retirements & Deaths	• Weekly resources focused on these cases • Officers from other teams supporting
Backlogs	• Focus on clearance of older cases • Identify complex cases for review

Improvement pathway

	Q4 2023	Q1 2024	Q2 2024	Q3 2024
People	• Ongoing recruitment	• Recruit Payroll Manager • Target priority cases within KPI’s	• New Korn Ferry structure/pay implemented	• Embedded structure • Newly trained officers become effective
Processes	• Agree refund policy to streamline processing	• Launch of new member website (improved “how to” and “tell us” content)	• Start review of bulk processing • Implement improvement for digital processes for new members	
Regulations		• KPI target review • Review Customer Charter & Admin Strategy	• Begin McCloud Remedy	
Work spikes	• Consultant support	• Fire scheme exited (increase capacity)		
Demand	• Task force with focus on priority cases		• New staff working on backlogs	• PI review complete • Backlogs consistently reducing

Future road map……..



Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**15 December 2023**
TITLE:	**GOVERNANCE UPDATE**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Risk Register Appendix 2 – Risk Register Framework and High Level Summary Appendix 3 – Committee Work Plan Appendix 4 – Investment Panel Work plan Appendix 5 – Training Programme Appendix 6 – Service Plan Monitoring Appendix 7 – IA Report plus appendices 7(1), (2), (3), (4)	

1 THE ISSUE

1.1 Attached to this report is:

1.2 The risk register which has been reviewed and updated and is attached as appendix 1 and 2.

1.3 The work plan for the Committee (Appendix 3) the Investment Panel (Appendix 4) and the provisional training programme for 2023 is included as Appendix 5.

1.4 The quarterly monitoring report for the Service Plan is also attached as Appendix 6. This now incorporates the administration change programme projects.

1.5 Internal audit have presented their findings for the year to the Pension Board in December and the reports are attached (Appendix 7) for noting.

2 RECOMMENDATION

2.1 That the committee:

2.1.1 Notes the Committee & Investment Panel workplans, training programme.

2.1.2 Notes the service plan.

2.1.3 Notes the risk register.

2.1.4 Notes the findings set out in the Internal Audit report.

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.

b) The service plan monitoring (Appendix 6) currently includes ongoing projects and now includes the Administration Change Programme

4.2 Training Programme

The provisional training programme for 2023 is also included as Appendix 5, so that Members are aware of intended training sessions and workshops. The plan will be updated quarterly.

4.3 Hymans LGPS Online Learning Academy (LOLA)

4.3.1 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).

4.3.2 Committee members have agreed to complete all training modules within twelve months of becoming a Committee member and repeat the completion of the modules every three years.

4.3.3 The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework.

4.3.4 The modules are set out below:

a. Committee Role & Pensions Legislation
b. Pensions Governance
c. Pensions Administration
d. Pensions Accounting and Audit Standards
e. Procurement & relationship Management
f. Investment Performance & Risk Management
g. Financial Markets & Products
h. Actuarial Methods, Standards & Practices
i. Current Issues

4.3.5 The schedule for completion of the modules is contained within the training programme (Appendix 3) for members who have not already completed the previous version.

4.4 RISK REGISTER

4.4.1 The Fund has in place a documented risk management policy setting 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.

4.4.2 The risk framework to assist risk owners to assess the risk and score is attached as appendix 2.

4.4.3 A high level matrix showing the distribution of risks by score is attached as appendix 2.

4.4.4 The complete 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

4.5 **Quarterly Review of Risk Register**

4.6 Following the quarterly review of the risk register, one new risk has been identified and there are two changes to the current risk score.

4.7 NR18 - A new risk has been added to capture reputational risk to the Fund. Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders. This risk has been considered and mitigating actions are set out in the risk register.

4.8 NR04 – Governance of the Fund is not in accordance with APF policies and internal controls are not adequate. This risk has been increased from medium impact and unlikely (6) to high impact and likely (16) following the non-payment of pension increases to some members. The risk has been increased while the incident is fully investigated, and Internal Audit have been asked to review payroll procedures and internal controls for year-end processes.

4.9 NR08 - Employers unable to meet financial obligations to Fund. In the current economic climate the risk of employers being unable to meet financial obligations to Fund is elevated. There has been an increase in S114 notices issued by councils nationwide and Higher Education employers are particularly constrained as fees are fixed but costs have increased due to inflation. The Fund has no specific information about employers being unable to meet financial obligations and has strong covenant management and information gathering processes in place as a mitigation.

4.10 The other most critical risks are currently:

4.11 NR01 – Ability to deliver admin service to members and employers within agreed standards. The current factors impacting this risk are set out in item 13 – Pension Fund Administration report.

4.12 NR06 – the likelihood of a cyber attack remains a high risk due to the recent high profile attacks in the public domain. The Fund is currently implementing further audit actions around staff awareness and education and will shortly carry out a review of its business continuity plan.

4.13 **Internal Audit Findings**
Internal Audit presented their findings to the Pension Board on 7th December along with the external auditor report. The Pension Board meeting report is attached as appendix 7 with the full audit reports attached as appendix 7 (1), (2) & (3). The external auditor's report is attached as appendix 7 (4).

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2024	2025
22 March	28 March
28 June	27 June
20 September	26 September
13 December	12 December

5.2 The provisional dates for the Investment panel meetings are:

2024
27 February
5 June
5 September
26 November

6 RISK MANAGEMENT

6.1 Forward planning and training plans form part of the risk management framework.

7 EQUALITIES STATEMENT

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

8 CLIMATE CHANGE

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

This page is intentionally left blank

Appendix 1 - Risk Register

				Pre Mitigants				Post Mitigants				
Number	**Function**	**Risk**	**Impact**	**Impact**	**Likelihood**	**Score**	**Mitigating Actions / Control Framework**	**Impact**	**Likelihood**	**Score**	**Trend**	**Owner**
NR06	Governance	Cyber attack	Fund is unable to operate Members do not receive pension payment on time	Critical	Almost Certain	25	- Disaster recovery plan in place - Business continuity plan - B&NES cyber security policy and system defence - Implementation of recent internal cyber audit findings	Critical	likely	20	→	Governance & Risk Advisor
NR01	Admin	Ability to deliver service to agreed standards	Poor member outcomes and/or breach of regulations	Critical	Almost Certain	25	- KPIs & complaints monitored and acted on - Plan to digitise will improve self-serve & operations efficiency - Actions to improve staff recruitment & retention - Process improvements being identified and implemented	High	Likely	16	→	Pensions Manager
NR04	Governance	Governance of Fund not in accordance with APF policies Controls not adequate	Fines for non-compliance Disciplinary issues and reputational risk	High	Likely	16	- Internal Audit is undertaking a review of the Fund's controls which we will implement during Q1 2024 - We have inititiated a new project to correct errors in annual pension increments	High	Likely	16	↓	Investments Manager
NR18	Comms	Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders	Complaints Detrimental media coverage Loss of stakeholder confidence	High	Likely	16	- Regular communications to stakeholders; emergency communication possibe through website and email - Press/media enquiries and issues dealt with in accordance to B&NES policy - Workshops and meetings held for current topics to gain stakeholder input - Contracts in place with legal advisors and PR professionals - Media monitoring undertaken	High	Likely	16	New	Communications & Marketing Manager
NR02	Regs	Regulatory changes	Breach of regulations Poor member outcomes Increased workloads for officers Changes to pooling could undermine delivery of investment strategy	High	Likely	16	- Regulatory changes monitored via LGA and professional advisors - Officers attend SWAPOG/Tech Group - Regulatory projects included in service plans - Officers respond to consultations	Medium	Likely	12	→	Technical & Compliance Advisor
NR05	Governance	Failure to manage personal data per regulations	Personal data corrupted, compromised or illegally shared Fines and reputational damage	Critical	Almost Certain	25	- One West is Data Protection Officer for Fund and advises on data protection matters - Record of processing and privacy notice set out how data is managed - Processes reviewed as a result of data breaches - Regular officer training - Data sharing/transfer agreements and DPIAs implemented for all relevant projects	High	Possible	12	→	Finance & Systems Manager
NR10	Investments	Failure to earn investment returns	Scheme cannot meet liabilities and employer contributions could rise	Critical	Likely	20	- Diversified asset allocation - Professional and independent investment advice - Risk management strategy supports funding strategy - FRMG & Investment Panel monitor performance and risk - Periodic strategic investment review	High	Possible	12	→	Investments Manager
NR11	Investments	Brunel fails to deliver client objectives regarding service delivery	Affects Fund's ability to achieve investment objectives	Critical	Possible	15	- Brunel governance framework - Robust performance reporting - Avon-Brunel working group	High	Possible	12	→	Governance & Risk Advisor
NR12	Investments	Failure to achieve decarbonisation targets	Government climate policies not moving fast enough or sufficiently enforced Significant reputational and financial risks to value of investments	Critical	Almost Certain	25	- ISS/RI Policy embedded by the Fund - Brunel's climate change policy and approach to investing - Use of professional advice - IIGCC developing investment framework for climate risk - Policy advocacy	Medium	Likely	12	→	Finance & Systems Manager
NR08	Employers Funding	Employers unable to meet financial obligations to Fund	Financial cost to other employers in the Fund	High	Possible	12	- Policies on employer financial stability set out in FSS & ISS - Strong covenant management and information gathering processes - Quarterly review and mitigating action	High	Possible	12	↓	Funding & Valuation Manager
NR07	Employers Data	Employers do not comply with regulatory responsibilites	Poor member data Fines and greather scrutiny by TPR Employer liabilities incorrect if data is incorrect.	Critical	Likely	20	- Management of employers set out in admin strategy/MOU - Employer KPIs recorded and monitored vs TPR standards - Employer training	Medium	Possible	9	→	Governance & Risk Advisor
NR09	Investments	Operational risks of investment managers, custodian and other investment suppliers	Loss of assets Inability to trade is assets inaccessible	High	Possible	12	- Due diligence and audits of partners - Controls embedded in investment management agreements - Diversification across different asset managers - Quarterly service & risk review with Brunel and suppliers	Medium	Possible	9	→	Investments Manager
NR14	Investments	An increase in leverage materially reduces capital value leading to an unplanned and significant deviation in strategic asset allocation	LDI strategy may have to be unwound if insufficient collateral Inability to raise hedge ratio	High	Likely	16	- Maintain collateral at prudent level with materia buffer vs risks - Set hedge ratio at level that can be adeqautely collateralised - Auto pause when LDI hedge ration hits 40% - Offsetting nature of synthetic equity and equity protection strategies dampens leverage requirements	High	Unlikely	8	→	Employer Services Manager
NR16	Finance	Cashflow profile is maturing	Not enough cash in bank to meet pension payments	Critical	Almost Certain	25	- Monthly monitoring & forecast of cashflow - Prudent cash buffer - Tradeable assets can be swiftly sold	High	Unlikely	8	→	Investments Manager
NR03	Governance	Pension Committee cannot operate effectively	Delays in decision making for the Fund Failure to meet MIFID & TPR regulations	Medium	Almost Certain	15	- Representation of PC set out in Fund's representation policy - Knowledge requirements in Training policy - Compliance vs regulations defined in Compliance Statement - Decisions responsibilities set out in decision matrix	Medium	Unlikely	6	→	Investments Manager
NR13	Investments	Treasury investments	Loss of capital or income on cash Delayed return of principle or investment income	Medium	Possible	9	- Adopt B&NES Treasury management policy - Due diligene on banks - Diversification across multiple suppliers - Consultation with treasury management advisors	Medium	Unlikely	6	→	Investments Manager
NR17	Finance	Late / incorrect contributions from employers	Cashflow shortfalls Employer funding Deficits / Default TPR breach	Medium	Possible	9	- Monthly reconciliations of contributions - Management reviews and action - Mercer funding monitor tool - Larger employers pre pay contributions	Low	Possible	6	→	Investments Manager

This page is intentionally left blank

Appendix 2 - Risk Framework

Assessment of Likelihood

1	Rare	0 – 5% probability
2	Unlikely	6 – 20% probability
3	Possible	21 – 50% probability
4	Likely	51 – 80% probalility
5	Almost Certain	81 – 100% probability

Assessment of Impact

		Service/Operational	Assets	Legal Obligations	Project	Duty of Care – Clients & Staff
1	**Negligible**	Minimal disruption not impacting on an important service which can be	Capital loss potential up to 1% of assets	Litigation, claims or fines Services up to £10k Corporate £25k	Minimal impact on APF delay < 1 month	Minimal or no impact on Services Duty of Care requirements.
2	**Low**	Brief disruption of important service /service area	Capital loss potential up to 5% of assets	Litigation, claims or fines Services up to £25k Corporate £50k	Some impact on APF delay < 3 months	Consideration required re. Duty of Care unlikely to have adverse
3	**Medium**	Major effect to an important service area	Capital loss potential up to 15% of assets	Litigation, claims or finesx Services up to £50k Corporate £100k	Adverse impact on APF significant slippage > 3 months	Duty of Care issues may have impact meeting
4	**High**	Complete loss of an important service area	Capital loss potential up to 25% of assets	Litigation, claims or fines Services up to £125k Corporate £250k	Significant impact on APF major delay of 6+ months	Significant impact on meeting Duty of Care
5	**Critical**	Major loss of whole service	Capital loss potential > 25% of assets	Litigation, claims or fines Services up to £250k Corporate £500k	Complete failure of project extreme delay > 12 months	Not meeting legal responsibilities placing individuals at risk.

Overall Score

		1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
5	Critical	5	10	15	20	25
4	High	4	8	12	16	20
3	Medium	3	6	9	12	15
2	Low	2	4	6	8	10
1	Negligible	1	2	3	4	5

Risk Summary

IMPACT

PROBABILITY	NEGLIGIBLE	LOW	MEDIUM	HIGH	CRITICAL
ALMOST CERTAIN	0	0	0	0	0
LIKELY	0	0	2	3	1
POSSIBLE	0	1	2	4	0
UNLIKELY	0	0	2	2	0
RARE	0	0	0	0	0

This page is intentionally left blank

Appendix 3

Committee Workplan	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**
Governance				
Pension Board minutes				
Governance Update (workplans)				
Review of Risk Register				
Roles & Responsibilities of the Committee, Governance Compliance Statement				
Internal Audit Plan & Reports				
Approval of Committee’s Annual Report to council & PB Annual Report for noting				
Update on Legislation				
Administration & Budget				
Administration – performance indicators				
Budget & Cash flow Monitoring (as needed)				
Budget and Service Plan				
Treasury management Policy				
Review of Admin Strategy				
Investments & Funding				
Agree Investment Strategy				
Approve Investment Strategy Statement				
Review of Investment Strategy & Performance				
Brunel Corporate update (presentation by Brunel)				
Annual Responsible Investing Report				
Climate Change & progress on net zero targets				
Annual Review of Risk Management Strategies				
Annual Employer Update				
Interim valuation Results / Section 13				
FRC Stewardship Code				
Approve FSS (after consultation) for Death in service policy				
2022 valuation outcome& final FSS				
Noting of Final Accounts 2022/23				
CMA Order Compliance (for Investment Consultant)				

This page is intentionally left blank

Appendix 2

Investment Panel Workplan	**Feb-23**	**Jul-23**	**Sep-23**	**Dec-23**
Quarterly monitoring Items				
Review performance & RM Framework				
Annual Items				
Annual Risk Management review				
Strategic items				
Update on Brunel's revised Climate Policy				
Review of LDI triggers given new liability benchmark (post 2022 valuation)				
Low risk corporate bond strategy – updated benchmark outcome (post 2022 valuation)				
LDI Review				
Local Impact Portfolio				
Equity Protection Analysis				
Training Session (TBA)				

This page is intentionally left blank

Appendix 5
Committee Training Plan

Type of training	Date	Content	
Workshop	28th Feb 2023	Investment Strategy Review	
Workshop	16th June 2023	Induction - Admin & Governance	
Workshop	21st June 2023	Induction - Investment & Funding	
Workshop	21st June 2023	Induction - Brunel & Climate Change	
Workshop	19th October 2023	Climate Change Workshop	

Hymans Learning Academy	Title of Module	Date to be completed	Time Commitment
Introduction	• An Introduction to LGPS Online Learning Academy	Jul-23	
Module 1 – Committee Role and Pensions Legislation	• An Introduction to Pensions Legislation • Role of Elected Members on Committee (podcast)	Jul-23	22 minutes
Module 2 – Pensions Governance	• LGPS Oversight Bodies – DLUHC • LGPS Oversight Bodies – TPR • Business Planning • LGPS Governance	Aug-23	40 minutes
Module 3 – Pensions Administration	• Introduction to Administration • Additional Voluntary Contributions • Policies and Procedures	Sep-23	56 minutes
Module 4 – Pensions Accounting and Audit Standards	• Pensions Accounting and Audit Standards	Sep-23	11 minutes
Module 5 – Procurement and Relationship Management	• Public Procurement	Sep-23	11 minutes
Module 6 – Investment Performance and Risk Management	• Introduction to Investment Strategy • LGPS Investment Pooling • Performance Monitoring • Responsible Investment	Dec-23	49 minutes
Module 7 – Financial Markets and Product Knowledge	• Introduction to Financial Markets and Product Knowledge • Investment – MiFiD II	Dec-23	17 minutes
Module 8 – Actuarial Methods, Standards and Practices	• Introduction to Funding Strategy • LGPS Actuarial Valuations – Process • LGPS Valuation – Technical • Employers	Mar-24	1 hour
Current Issues	• Understanding Cost Sharing • Understanding McCloud • Pensions Dashboard • Understanding Goodwin • Introduction to Cyber Risk • GAD Section 13 • Climate Change and TCFD	ongoing	

This page is intentionally left blank

Appendix 6 - Service Plan Monitoring 2023			

Key Objectives	Current Phase of project	Completion Date of overall project	Status
Change Programme Administration			
Annual Projects			
Year End	YE complete but review and fine assessment still to be done	Jun-23	**Complete**
Annual Benefit Statement	All active and deferred statements published	Aug-23	**Complete**
Annual Allowance / Pension Savings	Calculate allowances & review exceptions	Oct-23	**Complete**
Annual Report	Collation & proof reading	Dec-23	**Complete**
Regulatory/Foundation			
GMP – remedy & equalisation	Category B members review	May-23	In progress behind schedule
MI & Insights on service levels	User Test & Sign-off	Aug-23	In progress behind schedule
Employer number series	Testing and communications	Nov-23	In progress
McCloud (Fire)	Legislation published / Pre-legislation Category 1 remedy	Jan-24	**Complete**
Fire Exit	Initial Planning with WYPF	Jan-24	In progress
Pensions Dashboard	Preparation of data, comms, governance, DAP Admin	Mar-25	In progress
McCloud (LGPS)	Legislation published / Heywood UAT	Sep-25	In progress
Pensions Increments - Correction Project	Investigation of root causes and rectification work	Apr-24	In progress
Transformation			
Website – employers	Content review, update and upload	Nov-23	On hold
Website – members	Content review, update and upload	Nov-23	In progress behind schedule
Rebrand	Delivery of remaining design assets	Nov-23	In progress
Leaver process - phase 1	New leaver team set up	May-23	**Complete**
Leaver process - phase 2	Process review - impact and scoping assessment	May-24	**Complete**
Bulk processing, e.g. refunds	Process review - impact and scoping assessment	May-24	In planning
Organisational structure	Job description preparation	Mar-24	In progress
My Pension Online – upgrade	Scope analysis & recommendation	Mar-25	In progress
New member onboarding	Scope and starter documentation reviewed	Mar-24	In planning

Governance			
Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Jun-23	**Complete**
	Review Governance Compliance statement	Jun-23	**Complete**
	Review register of interest forms	Jun-23	**In progress behind schedule**
	Review scheme of delegation	Jun-23	**Complete**
	Review Conflicts of Interest Policy	Jun-23	**Complete**
	Review Training Strategy Policy	Jun-23	**Complete**
	Review Policy on Committee Representation	Jun-23	**Complete**
	Review Decision Making Matrix	Jun-23	**Complete**
Good Governance Review	Review any new requirements from Good Governance review once published eg - Workforce Plan	Mar-24	**In planning**
TPR SCOP requirements	Gap analysis & action plan for new requirements	Mar-24	**In planning**
	Review disaster recovery / business continuity plan	Mar-24	**In planning**
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	Sep-23	**Complete**
Training Plan for Committee & Board members	Plan annual training programme for members	Mar-23	**Complete**
	Induction Training for new PC/PB members	Dec-23	**Complete**
Review of Committee Reports	Continue to review report content & Modern Gov Library	Dec-23	**On hold**
Contract Retenders	Investment Advisor Contract	Sep-23	**Complete**
Finance			
iConnect Project to improve process for reconciliationn of contributions	Set up new reconcilation process	Apr-24	**In progress**
	Plan requirements of moving more employers to simplified LGPS50 form dependent on iconnect project; 2023 project	Dec-23	**In progress**

Final Accounts	Prepare accounts to meet B&NES internal deadline; update regulatory requirements	May-23	**Complete**
Investments			
Review of Hedging Strategies including LDI	Assess how contributing to reduction in risk, and governance; IP review Mercer recommendation in July 23; any changes to strategy to Sept PC. Additional work relating to the equity protection strategy reviwed by Panel in Dec. Recommendations to full Committee in Dec.	Dec-23	**In progress**
Review Climate targets and set new targets	Using 2022 data analyse fund and set new targets; PC workshop in October; PC decision Dec 23	Dec-23	**In progress**
Funding Strategy			
Death in Service Insurance	Implement captive arrangement; include in FSS after consulting employers	Sep-23	**Complete**

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	**LOCAL PENSION BOARD - AVON PENSION FUND**	
MEETING DATE:	7th December 2023	**AGENDA ITEM NUMBER**
TITLE:	**Internal & External Audit Update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
Appendix 1 – Internal Audit Report - Pensions Investment Reporting Appendix 2 – Internal Audit Report - Cyber Security - APF Staff Training & Awareness Appendix 3 – Internal Audit Report - APF System Access Control Appendix 4 – External Audit – Findings Report for Avon Pension Fund		

1 THE ISSUE

1.1 The purpose of this report is to provide an update on Internal and External Audit activity since the last report to the Pension Board on 8th December 2022.

1.2 The report and its appendices are important for the Board to consider in the context of their understanding of the performance and management of the fund.

2 RECOMMENDATION

2.1 The Pension Board is asked to –

a) Note the report and the outcomes of the Internal & External Audit work carried out on behalf of the Avon Pension Fund.

b) Comment on any areas for potential inclusion in the 2024/25 Internal Audit Plan.

3 FINANCIAL IMPLICATIONS

3.1 There are direct implications related to the Pension Board in connection with this report, however these are all currently within the planned budget for the operation of the Board.

4 REPORT

2022-23 & 2023-24 Internal Audit Work

4.1 Internal Audit provides independent assurance that the Avon Pension Fund's (APF) risk management, governance and internal control processes are operating effectively. To do this, we schedule an annual programme of internal audits of APF governance and operations. The areas that we review are identified from our annual audit planning process used to assess risks to the Pension Fund.

4.2 Since the last Internal Audit update report presented to the Pension Board on 8th December 2022, we have issued 3 audit reports, and these are attached at Appendices 1-3. The table below summarises the Assurance Level assigned to each internal audit review:

Audit	Assurance Opinion	Appendix
Pensions Investment Reporting	Substantial (Level 4)	1
Cyber Security - APF Staff Training & Awareness	Reasonable (Level 3)	2
APF System Access Controls	Limited (Level 2)	3

4.3 The Pension Investment Reporting audit did not have any significant weaknesses reported and this resulted in the “Substantial” Assurance rating being assigned.

4.4 The Cyber Security – APF Staff Training & Awareness audit was assigned a “Reasonable” Assurance rating.

The Avon Pension Fund (APF) workforce is employed by Bath & North East Somerset Council (B&NES). Accordingly, the B&NES cyber security e-learning and policy frameworks for information security and data protection apply to APF.

We have therefore reported our findings and made recommendations to the Council’s Information Governance Manager and IT Service Delivery Manager, and they have agreed to implement all the Audit Review recommendations by the end of the 2023-24 financial year. We will update APF on progress in implementing these recommendations once the ’follow-up’ exercise has been completed. This is scheduled for Quarter 1 2024-25.

The APF Governance team oversee both cyber security and data protection training for APF. Their approach takes steps beyond those provided by the B&NES cyber security and data protection training programmes.

APF System Access Controls

4.5 It is adopted practice to report to Board if any Audit Reports are assigned a ‘Limited Assurance’ (Level 2) or ‘No Assurance’ (Level 1) rating. The 2022/23 Audit Review of APF System Access Controls was issued as a ‘Final Audit Report’ in February 2023 and a Level 2 ‘Limited Assurance’ rating was assigned. The full report is attached – Appendix 3.

4.6 This review covered the four fundamental systems used by the APF. These systems were Altair, Employer Self Service (ESS), Member Self Service (MSS) and i-Connect.

4.7 The majority of the recommendations in this report concerned i-Connect. A total of two ‘high’ and six ‘medium’ recommendations were made for i-Connect, placing it into the ‘Weak’ category. A further ‘high’ recommendation was made concerning employer data access for Employer Self Service (ESS), which was due to be replaced by i-Connect by the end of February 2023.

4.8 A follow up review was completed in July 2023, and we are pleased to report that all recommendations have been implemented.

4.9 Finally, our planning process will shortly commence for 2024/25 and the Board are asked for their comments on areas for potential review.

External Audit – Avon Pension Fund

4.10 The findings from the External Audit of the fund have been reported to the B&NES Corporate Audit Committee as part of their responsibilities for corporate governance. This report was therefore considered and noted as part of the process to approve the Council’s & Pension Fund Accounts on the 22nd of November.

4.11 An unqualified opinion was presented on the accounts with a small number of improvement recommendations along with a positive value for money opinion in relation to the Pension Fund.

4.12 The Audit Committee raised no significant issues of concern, however a request was made for a follow-up on the external auditor’s findings in May 2024.

4.13 Appendix 4 details the outcome of the External Auditor’s work in relation to the Fund and the board are asked to note its findings.

5 RISK MANAGEMENT

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

5.2 The role of the Internal Audit Service is to review high risk areas of the Pension Fund and provide independent assurance about systems of internal control. This report therefore provides the Pension Board with assurance on how risks are managed.

5.3 The Avon Pension Fund Committee is the formal decision-making body for the Fund and its uses the Pension Board to focus on ongoing risks to the operation of the Fund including internal and external audit work. As such it has responsibility to ensure adequate risk management processes are in place.

5.4 The Committee discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations using the assurances from the Board and Investment Panel meetings.

6 EQUALITIES

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

7 CLIMATE CHANGE

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

8 CONSULTATION

8.1 The Report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director – One West representing the administering authority.

Contact person	*Tariq Rahman - 01225 477256*
Please contact the report author if you need to access this report in an alternative format	

Audit West

Internal Audit Report
Confidential

Avon Pension Fund

Pension Investments Reporting

August 2023

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	**The systems of internal control are good with several strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.**
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives (To avoid following risks)
Substantial	1. To ensure that the Brunel Pension Partnership provides accurate and timely monitoring reports that give assurance all investment portfolios are being managed in line with the Portfolio Guidelines.
Substantial	2. To ensure that the Avon Pension Fund Committee/ Panel receive accurate and timely reports to enable robust oversight and decision-making on BPP investments.

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund – Pension Investments Reporting and assessed the framework of internal control at Level 4 – Substantial Assurance. A total of four audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed is shown in the Assurance Summary section above.

Context & Audit Comment

<u>Pension Fund Committee</u>

The role of the Avon Pension Fund Committee is to discharge the responsibilities of Bath and North East Somerset Council in its role as lead Authority for the administration of the Avon Pension Fund (APF). The Committee has sixteen members, including Councillors, Trade Union representatives, and independent members.

We confirmed that an up-to-date Terms of Reference was in place for both the Committee and the Panel (see Investment Panel section below), that contained clear responsibility for monitoring of Brunel Pension Partnership (BPP) managed assets. At the time of testing, however, we noted that the Terms of Reference version included within the published Constitution, was incorrectly dated June 2021 instead of June 2022, and missing a clause that had been agreed in the draft version sent to Democratic Services.

We reviewed a summary of investment training provided to the Committee members and discussed this with the Group Manager for Funding, Investment & Risk. In March 2023, the Committee approved a recommendation that should ensure all members complete the Hymans LOLA training modules, helping to ensure a consistent baseline level of understanding relating to investments. Due to the recent elections, and subsequent changes within the Committee, we recommend that all members complete this training as soon as is practicable, and at the very latest by the end of the twelve month period as agreed by the Committee.

A review of Committee Papers verified that monitoring of BPP managed assets is regularly undertaken. All meetings examined appear to have been quorate, although we noted some instances where members had not attended three meetings in a row. The Group Manager for Funding, Investment & Risk has informed us that the members in question were now standing down. Furthermore, their absences would not have prevented the Committee's from undertaking its duties, as those absent were non-voting members.

Committee papers indicated that a representative from Mercer, the Pension Fund’s independent advisors, attended all Committee meetings. BPP representatives had attended less often however we did see some evidence of attendance, for example in the September 2022 Committee meeting which discussed Responsible Investment. In our discussion with the Investment Manager, it was indicated that the level of attendance by BPP was sufficient and that, if necessary, they could be asked to attend additional meetings.

Meeting minutes had captured discussion arising from the reports, including questions raised by Committee members.

To ensure consistent messaging, such as the overall level of investments was being delivered to both Committee and Panel, we compared some headline information within the covering officer reports to both Committee and Panel, as well as the Mercer Reports, and found no cause for concern.

Quarterly Investment reports from Mercer and APF that summarised BPP managed investments, and that were provided to the Committee for discussion, were timely.

Investment Panel

The Investment Panel is a subset of the Pension Fund Committee, whose primary role is to consider in detail, matters relating to the investment of the assets within the strategic investment framework, and performance of investment managers in achieving the Fund's investment objectives.

Panel meetings over the last twelve months had been quorate and well attended. The agenda for Panel meetings appeared more routine than that for the Committee, with every meeting having a review of investment performance that included the Quarterly Performance and Monitoring Reports from both BPP and Mercer.

All meetings were attended by a representative from Mercer, with BPP attending by exception, such as the May 2022 Panel meeting which included a presentation on the Multi Asset Credit Portfolio.

Investment reports from both BPP and Mercer were timely, and meeting minutes evidenced investment discussions taking place with queries being raised by the Panel members.

We spoke to one of the independent members of the Committee/Panel, to obtain a direct view of whether reporting is fit for purpose. The response was very positive, with the member indicating that reporting by Brunel is of a good standard and would serve as an example of best practice which other funds/pools could learn from. Some areas are still being actively enhanced however, for instance ensuring the right balance of performance information that is taken to the Committee.

Investment Strategy Statement (ISS)

The ISS is important for several reasons. It establishes the governance arrangements for investments, investment objectives and beliefs, specifies how the fund incorporates Responsible Investment (RI), and sets out the strategic asset allocation, benchmarks, and permitted ranges. Our review of recent performance reports from BPP confirmed that they followed the requirements as set out in the ISS.

Our testing confirmed that APF have a current ISS in place, having been approved by the Pension Fund Committee in March 2023. The previous ISS had been approved by the Committee in September 2020. Both versions were broadly similar in terms of format, with some changes to the content noted, such as rebalancing of target allocations of long-term assets.

Portfolio Options

The Brunel Pension Partnership has put together a range of portfolios designed to cater specifically for the needs of its Pension Fund members. A copy of the Portfolio Specifications document was provided and reviewed. The Specifications include information such as the 'absolute risk' for each of its portfolio options, enabling clients to take this into account when deciding where to allocate funds.

Reporting Requirements

From our initial discussions it was indicated that requirements for reporting would have been initially established within the Service Level Agreement between BPP and APF. A copy of this agreement was obtained and reviewed. We confirmed that key reporting requirements were included for example, the requirement to provide standard investment performance reports on a quarterly and annual basis, as well as portfolio performance information and total fund performance.

Reporting Format

The reporting format used by BPP has gone through a number of iterations and a working group is currently in place to determine whether additional investment information would provide added value, for example information related to responsible investing and private markets.

However, the Investments Manager confirmed that the core portfolio information provided to APF would remain unchanged.

Timeliness of Reporting

Our testing confirmed that both the quarterly performance reports and individual portfolio reports were received timely to enable investment decisions to be made. A secure portal is used for exchanging reports and queries, and notifications are sent to APF when new data is available.

Level of Information Provided within BPP Reports

We obtained copies of recent reports from BPP to consider independently the level of detail provided. This included the quarterly performance report to December 2022 (as presented to the Investment Panel in March 2023), as well as a sample of the individual portfolio reports and we concluded that the level of information provided is detailed and extensive. The quarterly performance report for instance is broken down into logical sections which, for example, start with a high-level summary of the fund, then it provides a breakdown by asset class, asset allocation including variance from the strategy, sections on responsible investment and risk and return, a commentary from the BPP Chief Investment Officer, and a longer section which provides a more detailed overview for each portfolio holding. The report makes good use of charts and graphs to display data which helps make the key information more accessible and easier to identify and read.

The individual portfolio reports, provided by BPP, are not taken to the Panel or Committee but are used by the APF Investment Team for their monitoring activities. From the sample provided, each of these reports also provides notably more information than would be possible in the quarterly performance report.

We also reviewed the report provided by Mercer for the period up to December 2022 (also presented to the Investment Panel in March 2023). This report was of a similar length to that provided by BPP and whilst it does mirror the information within the BPP reports, it also provided a higher level and broader independent perspective for example by providing their market analysis and views and current topics of interest.

Data Quality

To support effective monitoring and decision making, reported information must be reliable. APF Officers provided verbal assurance that when reports are received from BPP, these are reviewed and checked for reasonableness by the Investments Team and would be discussed during team/group meetings. These checks do not seek to verify individual figures, but rather ensure that the report appears reasonable and in line with expectations.

A monthly investment reconciliation spreadsheet is produced by the APF investment team, based on data obtained from State Street, who are the official Custodians of BPP managed investments. The purpose of the reconciliation is to review the movement in the value of assets compared with the prior period along with a comparison against the benchmark index. However, the spreadsheet does not include a corresponding figure from the latest BPP report, so it does not allow a direct correlation with BPP figures. The Investment Manager said that as both APF and BPP obtain the raw data from the custodian State Street, it is expected that the information contained will be the same. To prevent potential errors, we have recommended that the spreadsheet includes the total fund figure from BPP data and the checking officer details.

To ensure that reported data had been accurately reported, we selected two data points from the BPP performance report that were presented to the Investment Panel in March 2023, and a further two from the Investment Dashboard report prepared by APF and presented to the Pension Committee in June 2023. APF were able to provide supporting evidence for the reported figures, which agreed to the source information. BPP were likewise able to provide supporting spreadsheets which matched the figures included in their performance report. Financial data which is used within the BPP performance reports passes through a number of agencies before reaching BPP, including for instance Trucost, State Street, Opus Nebula and finally BPP. BPP have stated that State Street, being the custodian, is primarily responsible for cleansing, auditing, and assuring the integrity of all data before it makes its way into BPP reporting. BPP hold quarterly service review meetings with their suppliers, where they discuss any identified issues with data being provided.

BPP provided email assurance that QA is performed by their team via the Opus Nebula platform. The team are required to approve the data through a workflow system of sequential approvals before the final .pdf becomes available for distributing to client portals. Approval is not only sought from the Investment Team but also the Head of Listed Markets, Head of Communications, and Head of Client Relations.

We identified the following strengths:

- An Investment Strategy Statement is in place and up to date.
- Reporting requirements are formally established within a Service Level Agreement.
- BPP provide a Portfolio Specification document which includes a risk profile for each asset option.
- Performance and portfolio reports provided by BPP are timely and detailed.
- BPP teams perform QA checks which require approval prior to releasing data toto APF.
- APF produce their own informal reconciliation each month with data obtained directly from State Street.
- Terms of Reference for the Committee and Panel establish responsibility for monitoring BPP managed assets.
- A standard level of training for all Committee members has been approved.
- Committee and Panel meetings are well attended and regularly consider BPP managed investments.

We identified the following weaknesses:

- Not all members have completed the approved Hymans LOLA training programme.
- Information within the Constitution relating to the Committee Terms of Reference was not always reliable.
- The valuation/reconciliation document produced by APF each month would benefit from further development.
- Procedures to support the reconciliation produced by APF could be updated and version control information added.

Audit & Risk Personnel

Lead Auditor: Gary Spratley

Acknowledgements:

Sincere thanks to Liz Woodyard, Group Manager for Funding, Investment & Risk, and Nathan Rollinson, Investments Manager, for their help and assistance provided throughout the Audit review.

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	**Member Training** The Pension Fund Committee have recommended that all members complete the Hymans LOLA training, which includes relevant training on investments. Testing found that not all members have completed this training, however, in part due to the change in Committee membership following the May 2023 elections.	If Committee members are not sufficiently trained, this may impact their ability to understand investment reports and adversely impact their investment decisions.	Once the new Committee and Panel structures have been agreed, the Investments Manager should ensure that all members complete the training as soon as practicable.	**Agreed.** **Responsible Officer:** Carolyn Morgan, Governance & Risk Manager **Implementation Date:** 31 March 2024 **Management Comments:** We have a training policy and plan in place for Committee. It was agreed at Committee in Dec 2022 that all Committee members would study the Hymans modules within one year of becoming a Committee member and every three years after that.

M2	**<u>Reconciliation</u>** The monthly valuation spreadsheet produced by the APF investments team, using data obtained directly from State Street, did not: - Record the name of the officer checking the spreadsheet or the date of the check. - The Investment Manager did not record the date of the review. Further, the document summary page shows the fund total, as calculated by APF, but it does not include a comparison total from the most recent BPP performance monitoring report.	Unable to demonstrate that checks are completed in a timely manner. Unable to reconcile the accuracy of the fund totals.	The Investments Manager should ensure that the valuation spreadsheet records: - Name of the checking officer and the date. of completion. - Date of review by the Investment Manager. - A comparison total from the most recent BPP performance report.	**Agreed** **Responsible Officer:** Nathan Rollinson, Investments Manager **Implementation Date:** 31 October 2023 **Management Comments:** Regarding the comparison with figures reported by BPP, we will add the quarterly figure from the latest Brunel performance report. This will need to be done retrospectively as the Brunel reports relate to the previous quarter whereas our own valuations are current.

LOW RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
L1	**<u>Terms of Reference Update</u>** The Terms of Reference version included within the published Constitution, as at the time of testing, was incorrectly dated June 2021, and missing a clause that had been agreed in the draft version submitted to Democratic Services for inclusion in the updated Constitution in July 2022. It was also noted that the version of the Constitution submitted to Full Council for ratification in 2022 also included the incorrect date and also omitted the same clause. The missing clause (17), was from the section relating to Officer Delegations.	Relevant changes within the Terms of Reference for the Avon Pension Fund Committee and Panel may be missed resulting in Members not being aware of the full scope and limitations of their duties.	The Investments Manager should ensure that any changes made to the Terms of Reference are updated fully within the constitution. The Investments Manager should confirm that the updated Terms of Reference have been endorsed by Full Council and take relevant corrective actions as necessary.	**Agreed**. **Responsible Officer:** Carolyn Morgan, Governance & Risk Manager **Implementation Date:** 31October 2023 **Management Comments:** We are confident that all changes had been notified to Democratic Services and have provided evidence of this to the auditors. We agree however that the item in question does appear to be missing and will take this up with Democratic Services. We will also endeavour to follow up on any future changes to ensure they have been correctly incorporated to the Constitution.

L2	**<u>Procedures</u>** The monthly valuation spreadsheet procedure document does not include version control information.	Outdated or redundant information could be distributed and used for decision making purposes.	The Investments Manager should ensure the monthly valuation spreadsheet procedure document includes version control.	**Agreed.** **Responsible Officer:** Nathan Rollinson, Investments Manager **Implementation Date:** 31 October 2023

This page is intentionally left blank

Audit West

Internal Audit Report
Confidential

Avon Pension Fund

Cyber Security - User Education and Awareness

September 2023

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	**The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.**
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Risks
Satisfactory	User awareness and understanding of cyber risks and security procedures are not enhanced or maintained at acceptable levels.
Satisfactory	Users see cyber security policies and procedures as conflicting with delivering their primary job role or function.

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to the Avon Pension Fund's (APF) cyber security user education and awareness processes. We have assessed the framework of internal control at Level 3, reasonable assurance.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context

The Pensions Regulator (PR) requires workplace pension trustees and scheme managers to protect pension scheme members and assets from cyber security threats. To help pension schemes build cyber resilience, the PR has published "Cyber security principles". One of these principles is that "all staff, and trustees, should receive training appropriate to their role at an appropriate frequency". The PR also references guidance from the National Cyber Security Centre (NCSC) including "10 Steps to Cyber Security". User engagement and training is the second of the 10 steps.

Cyber (or information) security training aims to give people the skills and knowledge they need to work securely. Training not only helps protect the organisation, but also demonstrates that staff are valued, and recognises their importance to the organisation.

This audit evaluated APF's security training and awareness raising arrangements against the criteria described in the national and pensions sector guidance:

- National Cyber Security Centre's (NCSC) "10 Steps to Cyber Security"
- Information Commissioner's Office (ICO) "Accountability Framework" and "A practical guide to IT security"
- Pensions Regulator's (PR) "Cyber security principles for pension schemes"
- ISO/IEC 27001 Information Security Management.

The Avon Pension Fund (APF) workforce is employed by Bath & North East Somerset Council (B&NES). Accordingly, the B&NES cyber security e-learning and policy frameworks for information security and data protection apply to APF.

We have therefore reported our findings and made recommendations to the Information Governance Manager and IT Service Delivery Manager, for B&NES, and they have agreed to implement all our recommendations by the end of the 2023-24 financial year. We will update APF on progress in implementing these recommendations once we have completed a follow up review as part of our 2024-25 audit plan.

Audit Comment

Our "Reasonable" assurance opinion is based on the evidence provided by the APF Governance Team and a review of the B&NES training course content and policies. We have considered the strengths and weaknesses in forming our opinion (see Appendix A).

The APF Governance team oversee both cyber security and data protection training for APF. Their approach takes steps beyond those provided by the B&NES cyber security and data protection training programmes. For example, APF track training delivery, arrange further training, and have an ongoing awareness raising email campaign. These additional measures offset some weaknesses in the B&NES training and awareness raising programme. Training and awareness raising for handling personal data are notably stronger than those for cyber security topics.

Appendix A sets out our assessment of the level of compliance with the guidance in 10 Steps. We have briefly described the strengths and weaknesses that support the assessment and summarised the action we have agreed with the Information Governance Manager. Items marked "PR" are from the Pensions Regulator's Cyber security principles.

Audit & Risk Personnel

Lead Auditor: Tariq Rahman and Neil Roper

Acknowledgements:

Sincere thanks to Geoff Cleak, Liz Woodyard, Carolyn Morgan, Charlotte Curtis and all service staff for all their help and assistance throughout the Audit Review.

Appendix A – Compliance with NCSC and Pensions Regulator guidance

1.	LEAD BY EXAMPLE				
	Requirement	APF Compliance	Compliance strengths	Non-compliance weakness	Action agreed with Information Governance
1.1	Senior leaders follow security policies and procedures e.g., use standard equipment, attend training etc.	Substantial	The Pensions and Investment managers use standard equipment and attended most of the recent cyber security and data protection training.		
1.2	Involve senior leadership in cyber security awareness campaigns.	Partial	Four security related articles have been published in the B&NES "Staff Briefing" newsletter.	B&NES senior leaders are not involved in promoting cyber security e-learning and awareness to the workforce. If senior leadership are not seen to be promoting and following cyber security messages, then this will undermine their effectiveness.	The Cyber Security Operational Group (CySOG) will ask the CEO and COO to promote the new cyber security training following the launch of the new MHR Ltd. Learning Management System.

2.	EFFECTIVE SECURITY DIALOGUE WITH USERS				
	Requirement	APF Compliance	Compliance strengths	Non-compliance weakness	Action agreed with Information Governance
2.1	Understand what may prevent users from following security procedures and practices.	Partial	APF track data breach incidents, implement containment and improvement actions, and look for process improvements.	There is no user engagement process to find barriers that hinder users in following security procedures and practices. Users see established security procedures and practices as hindering their work.	Users will be invited to give feedback on security policies and processes via the cyber security messages intranet page.

2.	EFFECTIVE SECURITY DIALOGUE WITH USERS				
	Requirement	**APF Compliance**	**Compliance strengths**	**Non-compliance weakness**	**Action agreed with Information Governance**
2.2	Security policies are fit for purpose and proportionate: - Include people with knowledge of local working environments in security policy making. - Provide routes to challenge security processes that do not work well in practice.	Substantial	The information security policy reflects best practice and is comparable to those used by other local authorities.	There is no mechanism to invite and capture feedback from users and teams about security processes and procedures that do not work well in practice. Users see established security procedures and practices as hindering their work.	As above.
PR	Implement a range of policies and processes around: - acceptable use of devices, email and internet - passwords and other authentication - home and mobile working - data access, protection (including encryption), use and transmission	Partial	The security policies are published on the intranet. The password policy is Appendix A to the Information Security Policy.	Key policies have not been updated recently: - Information security IGTEM 002-20 (2020) - Data breach management IGTEM 005-20 (2020) - Information sharing policy and guidelines (2018) - Mobile and remote working policy (2014). More recent homeworking guidance (from 2021 and 2022) on the intranet also refers to superseded Skype and Citrix technologies. Outdated policies may be seen as no longer relevant or give the impression that the organisation is not serious about cyber security.	CySOG will include the Information Security Policy in their schedule of policy reviews.
			APF delivered data protection and security training for working from home during the COVID pandemic response.	The mobile and remote working policy is not included in the "Policy" section of the Information Governance policies and guidelines intranet page.	Information Governance will schedule reviews of the Information Governance and data breach policies.

Page 306

2.	EFFECTIVE SECURITY DIALOGUE WITH USERS				
	Requirement	**APF Compliance**	**Compliance strengths**	**Non-compliance weakness**	**Action agreed with Information Governance**
				Users may overlook the remote working policy and hence be unaware of the Councils approach to minimising information risks when working outside the office environment.	
2.3	Encourage people to report cyber security issues and incidents: - establish reporting processes - publish and promote the reporting processes	Substantial	Cyber incident reporting uses the personal data breach reporting process (IGTEM 005-20). Suspicious and malicious email reporting is described on the "Cyber Security Messages" intranet page. APF have extended the incident reporting process to create their own record and capture regulatory breaches.	IGTEM 005-20 is personal data specific and does not cover reporting phishing or malware attacks. Users do not know how to respond to, or "call out", potential cyber threats they experience.	CySOG are developing a cyber security incident management policy and process, and this will be linked to the training materials in the new Learning Management System.
				IT Services are not routinely notified of incidents reported under IGTEM 005-20 data breach reporting process. IT Services may not be able to respond promptly to incidents reported via the data breach incident reporting form.	As above.
2.4	Regard security incidents as an opportunity for improvement for both the individuals involved and the organisation.	Substantial	APF review data and regulatory breach incidents to identify additional training needs and opportunities for process improvement.		

3. SECURITY AWARENESS CAMPAIGNS					
	Requirement	APF Compliance	Compliance strengths	Non-compliance weakness	Action agreed with Information Governance
3.1	Analyse the impact of security awareness raising campaigns and measures over time. Security awareness campaigns are unlikely to deliver immediate results, so it is important to measure effectiveness only over the medium and long term.	None		User cyber security awareness levels are not measured. APF track incidents and breaches, but it is not clear how these are used to monitor trends over time or how they are mapped against awareness raising campaigns e.g., the Friday bite size reminders. The level of cyber security awareness in the workforce is not known and APF cannot measure how effective any awareness campaigns are.	The new Learning Management System will supply information on course completion rates and achievement levels. Additional awareness raising techniques (see below) will be introduced and this will also facilitate some measurement of cyber security awareness levels in the Council.
3.2	Make cyber security messages relevant to the workforce and organisation.	Substantial	Friday bitesize data protection reminders are used to provide messages relevant to the pensions team.	The personal information and 'sensitive' personal information examples given in the bitesize reminders may not reflect the data processed in the Altair pensions administration system. Security messages that do not use information and terminology relevant to the workforce may not have the desired results. In some cases, they may have a negative impact as it shows a lack of appreciation of the workflows and data processed.	
3.3	Make cyber security messages positive. Focus on what people can do to help rather the consequence of them doing something they shouldn't.	Full	The Friday bitesize reminders gave positive security messages.		

3. SECURITY AWARENESS CAMPAIGNS					
	Requirement	**APF Compliance**	**Compliance strengths**	**Non-compliance weakness**	**Action agreed with Information Governance**
3.4	Use a range of approaches to build user engagement in cyber security.	Partial	Friday bite size briefing include polls and approximately 30% respond.	Other security activities are not used beyond the awareness raising briefings and training. Making people aware of security risks and what to do about them, does not necessarily mean that they will (or are able to) adopt those behaviours.	CySOG will be introducing other awareness raising techniques (e.g., simulations, and workshops) to engage with users.

4. CYBER SECURITY TRAINING					
	Requirement	**APF Compliance**	**Compliance strengths**	**Non-compliance weakness**	**Action agreed with Information Governance**
4.1	Develop cyber security training to deliver the knowledge and behaviours that users need.	Substantial	Training is delivered via e-learning: - currently, the NCSC "Stay Safe Online". - before this a bespoke training module developed for B&NES by Cylix. "Stay Safe Online" addresses what the NCSC consider to be the most important cyber security knowledge and behaviours for people in the UK.	The "Stay Safe Online" password guidance is not fully consistent with that in the B&NES Information Security Policy Appendix A and "Password for life" intranet page. Differences can be seen in the treatment of: - password length - password complexity - storing passwords in browsers and password managers Differences between the policy, published guidance, and cyber security e-learning may undermine user confidence and the training may become ineffective.	CySOG have created a new password policy, and this will be linked to the training materials in the Learning Management System.

4. CYBER SECURITY TRAINING					
	Requirement	APF Compliance	Compliance strengths	Non-compliance weakness	Action agreed with Information Governance
PR	All staff, and trustees, receive training appropriate to their role.	Substantial	APF monitor completion of cyber security and data protection training. All APF users completed the Cylix cyber security e-learning.		
PR	The training should include awareness of cyber risks and how to report incidents.	Partial	"Stay Safe Online" addresses key cyber risk areas and has a lesson on incident reporting.	"Stay Safe Online" does not include a link to the Council's incident reporting process.	CySOG are developing a cyber security incident management policy and process, and this will be linked to the training materials in the new Learning Management System.
4.2	Highlight the benefits of cyber security training to users.	None	Some benefits are implied in the "Stay Safe Online" introduction video.	The benefits of cyber security training are described on the Learning Pool cyber security page or in the "Stay Safe Online" lessons. Users do not feel personally invested in cyber security and are less likely to adopt good security behaviours.	The benefits of cyber security training will be included in the new Learning Management System content.
4.3	Deliver cyber security training in small, frequent chunks.	Partial	"Stay Safe Online" is a short, easily digested course.	"Stay Safe Online" is a single module, designed to be delivered in a single session and does not facilitate "small frequent chunks" delivery. Cyber security training is forgotten and rates of threat recognition decline. Research into recognition of malicious email found training improved response rates for only six months.	Periodic refresher training for cyber security will be included in the new Learning Management System training programme.

4. CYBER SECURITY TRAINING					
	Requirement	**APF Compliance**	**Compliance strengths**	**Non-compliance weakness**	**Action agreed with Information Governance**
PR	All staff, and trustees, receive training at an appropriate frequency. The ICO also expects staff complete refresher training at appropriate intervals.	Partial	APF staff must refresh their cyber security and data protection training every 3 years. This is tracked using the training completion spreadsheet.	Three years refresh frequency is too long for cyber security training. Cyber security training is forgotten and rates of threat recognition decline (see above). Cyber threats evolve rapidly and training from three years ago may not help users in identifying current attacks.	As above.
4.4	Revise cyber security training regularly to keep it fresh.	Partial	Cyber security e-learning was updated to “Stay Safe Online” in 2022. APF users will therefore see training content different from that at their previous training.	There is no process to regularly update the cyber training content. “Stay Safe Online” was the first update since 2018. Users may see repetitious and stale training as a sign that the organisation sees it as unimportant.	CySOG aim to update the cyber security e-learning more often however there is no timetable for future updates.
4.5	Use trainers who have sufficient knowledge of the subject and who can relate it to the trainee’s everyday work.	Not applicable	Training uses e-learning modules rather than face to face training.		

This page is intentionally left blank

Audit West

Final Internal Audit Report

Confidential

APF - System Access Controls

February 2023

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	**The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.**
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance (RAG) Summary

Key Control Objective:	Altair	ESS	MSS	i-Connect
1. Ensure that the level of system and data access granted to APF employees is commensurate with their roles.				
2. Ensure that APF employers, pension scheme members and third-party vendor access is based on the principle of least privilege and restricted.				
3. Ensure access is regularly reviewed and changes (joiners, movers and leavers) are actioned promptly.				
4. Ensure that the use of administrative (privileged) accounts is limited, restricted to authorised users only and subject to regular review.				
5. Ensure systems are monitored and logs are analysed for unauthorised access which may indicate abuse or a data breach.				
System Assurance Rating:	**Level 4**	**Level 3**	**Level 3**	**Level 2**

Detailed Report

Opinion

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund (APF) - System Access Controls and assessed the framework of internal control at Level 2 – Limited Assurance. A total of 10 audit recommendations are detailed in the Action Plan.

The majority of the recommendations in this report concern i-Connect as a fundamental APF system. A total of two 'high' and six 'medium' recommendations have been made for i-Connect, placing it into the 'Weak' category for the key control objectives reviewed. A further 'high' recommendation has been made concerning employer data access for Employer Self Service (ESS), which is due to be replaced by i-Connect by the end of February 2023. As a result of this, the overall management of the risks facing APF system access has been assessed as 'Level 2 – Limited Assurance'.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief. This review covers the review of the four fundamental systems used by the APF, which were highlighted to Internal Audit by the Financial Systems & Development Manager. These systems are Altair, Employer Self Service (ESS), Member Self Service (MSS) and i-Connect, and a summary of our opinion against each of these is illustrated in the Assurance (RAG) Summary section above. The functions of the systems reviewed are summarised under the 'Audit Summary of Findings' section below.

Context & Audit Comment

As part of the B&NES 2022/23 Annual Audit Plan, Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund (APF) System Access. This review draws on the guidance issued by the Pension Regulator's 'Cyber Security Principles' as well as the National Cyber Security Centre (NCSC) 10 Steps guidance – Step 6, Identity and Access Management.

The Pensions Regulator outlines cyber security guidance, controls, and principles for pension schemes on its website, (thepensionsregulator.gov.uk). The website guidance states: "trustees and scheme managers are required by law to establish and operate adequate internal controls to ensure their scheme is operated in accordance with scheme rules and the law. The regulator may intervene where trustees and scheme managers fail in their duties to operate adequate internal controls".

To supplement the guidance published by the Pensions Regulator, it is important to reference that the National Cyber Security Centre recognises managing user privileges and user access control as essential control themes in both the '10 Steps' guidance and 'Cyber Essentials' accreditation scheme. Access Control refers to the process that ensures only authorised individuals have systems user accounts, and that those accounts have only as much access as they need to perform their role – known as 'the concept of least privilege'. Every active user account in the Avon Pension Fund facilitates access to devices, applications, and sensitive business information.

'Administrative accounts' are especially highly privileged. Such accounts typically allow:

• Execution of software that can make significant security changes to the system/application.

• Changes to the system/application for some or all users.

• Creation of new accounts and allocation of their privileges.

Compromise of administrative accounts can allow the exploitation of system privileges to facilitate large-scale corruption of information, disruption to business processes and unauthorised access to other devices in the organisation. For example, malware typically executes with the privilege level of the account that the user is currently operating. It follows that the allocation and use of privileged accounts should be closely controlled.

Large quantities of valuable sensitive data and personal assets can make pension schemes a desirable target for cyber criminals. Trustees and scheme managers should take steps to protect their members and assets against cyber risk. 'Cyber risk' is broadly defined as the risk of loss, disruption or damage to a pension scheme or its members as a result of the failure of its information technology (IT) systems and processes. It includes risks to information (data security) as well as assets, and both internal risks (e.g., from staff) and external risks (e.g., hacking).

The purpose of this Internal Audit review was to provide assurance to management over the risks and controls operating for APF systems to ensure that access to data is restricted to authorised users. A review of key control objectives was performed at a high-level, focusing on the allocation, restriction, review, and monitoring of system access.

Audit Summary of Findings

This audit review was predominantly undertaken by using an auditee self-assessment process. A questionnaire document was provided to staff with key responsibilities for APF systems to complete with details of the current arrangements and controls and provide attached supporting evidence where applicable. The explanations and evidence provided were then reviewed and further evidence or clarification was obtained where needed via additional discussions and meetings.

The systems reviewed during this audit are listed under the 'Assurance Summary' above with a Red/Amber/Green (RAG) rating to reflect the level of assurance provided for each risk area. In addition to this, a brief summary of each system, together with any significant findings, is provided below:

Summary of Systems Reviewed

<u>Altair</u>

Altair is the pensions administration software used, by the APF, to provide pensions administration for local government pension schemes (LGPS). Altair is a role-based system with full auditability ensuring users are only able to access the appropriate parts of the system to do their work. Altair was previously reviewed from a system-access perspective as part of 'Altair – User Access', (20-010B), with a subsequent follow-up where a 'Substantial' assurance rating was given.

<u>Altair Member Self-Service (MSS)</u>

MSS is a web-based portal for APF Pension Members. The portal requires members to sign in using a username and password to enable them to access read-only data, update set personal information, perform projection calculations, and trigger workflow cases. No MSS issues have been identified as part of this review.

<u>Altair Employer Self-Service (ESS)</u>

Employers can access their pension information through Altair ESS. Once an employer has been granted access to ESS and they log in with a username and password, ESS enables employers to view and amend (subject to the level of access granted by APF Employer services) their staff data held on the pension administration system. Employers are granted access to pensions data by the Employer Support Team, during the account setup phase via a simple checkbox, however, it was noted that Employer data access is not regularly reviewed or monitored. Internal Audit were notified during this review that ESS is at the end of its life as of 28th Feb 2023 and will not be part of APF systems going forward.

<u>i-Connect</u>

i-Connect is a platform which automates the submission of pension data. LGPS Employers submit pension scheme data to Altair regularly using either the i-Connect pay data submission platform or as a .csv file upload to the B&NES secure file transfer solution, Globalscape. As a result of this review, i-Connect has been assigned the lowest assurance rating, due to a number of fundamental system access control weaknesses. Unlike Altair, i-Connect does not have a dedicated systems officer or specialist team responsible for the IT system access controls. The lack of a dedicated systems role is understood to be a contributing factor to the risks and weaknesses identified in this review.

Additional systems (excluded from assurance summary)

Scan Client 4

A physical Windows 10 workstation, connected to the B&NES network, is set up in the Civic Centre office. This standalone machine acts as the Pensions scanner PC, using a scanning software called 'Scan Client 4' which interfaces directly with Altair and is also supported by Heywood Technologies. IT Services confirmed that user access is limited to a small number of users in the pensions team. Access requires users to log on to the B&NES network and enter their existing login details. Scanned documents are automatically uploaded into the Altair pensions system.

GlobalScape

Globalscape is a B&NES system and as such, has not been included within this audit review. However, as GlobalScape is a system that is used by APF staff in the context of sensitive data, it is important to note that under a recent audit review of 'COP14 Maintaining Contributions & Member Information' (21-024B), a recommendation was made regarding user recertification.

APF Data Centre (Physical Access)

The APF data centre is located in the server-room at the Guildhall, Bath. Internal Audit were informed by IT Services that this server room has restricted access to a small number of people in IT Desktop and the Infrastructure team, along with the Buildings Facilities Manager. The room is alarmed and is only accessible by ID swipe access and key.

We identified the following strengths

- Employer and third-party database amendments are logged as part of the overnight audit reporting process.
- Automatic locks, after periods of inactivity, are in place for Council-controlled machines.
- A network access protocol contract between B&NES and the software vendor, Heywood, is signed and in place.
- Reminders to update employer system access are published in a quarterly newsletter.
- User accounts are automatically disabled if there is no login activity within 30 days.
- Access to the Guildhall Server Room is restricted.
- Access to the Pensions scanning system is appropriately restricted.

We identified the following weaknesses

- Periodic review of i-Connect user access rights is not performed.
- I-Connect and ESS do not have policies regarding data access, protection (including encryption), use and transmission, in line with data protection legislation.
- An authorisation process and a record of all privileges allocated is not maintained for i-Connect, ESS and MSS.
- APF systems ESS and i-Connect do not have documented registration and de-registration procedures in place.
- i-Connect generated logs are not periodically reviewed to detect anomalies and suspicious activity.
- i-Connect users are not required to sign/agree to a statement confirming to keep passwords confidential.
- Late reporting of leavers by line managers are not being tracked and reported.
- Inactive i-Connect user accounts are not periodically monitored, reported, and disabled.
- User account naming conventions are not applied across all APF systems, increasing the risk of duplicate accounts.
- Employer Access to datasets (i-Connect & ESS) is not periodically monitored to identify instances of inappropriate data access.
- There are several generic user accounts for i-Connect that require evaluation.

Audit & Risk Personnel

Lead Auditor: Pat Jenkins

Acknowledgements:

Sincere thanks to John Hewlett, Matt Williams, Claire Newbery, Claire Moon, Yolonda Dean and all service staff for all their help and assistance throughout the Audit Review.

Action Plan

HIGH RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
Page 320 **H1**	**i-Connect User Account Naming** i-Connect user accounts do not follow a naming convention, increasing the risk of duplicate accounts. Internal Audit reviewed the user list provided and identified 12 instances of duplicate email addresses and four duplicate user names.	Duplicate accounts could lead to inappropriate data access.	Establish account naming conventions for i-Connect accounts. • Review the username & email address duplicates detected by Internal Audit • Review existing accounts against the convention. • Where appropriate, rename the accounts and update any linked descriptions.	**Agreed** **Responsible Officers:** **Senior Financial Systems Control & Development Officer, Cassi Gough** **Financial Systems & Project Lead, Matt Williams** **Implementation Date:** **01/03/2023** **Management Comments:** Existing generic names in the process of being changed. CG will convert all current accounts to new naming convention (in progress – 1st March) New users we will use first name surname naming convention. (In place). MW will add this to access policy for naming convention. (In place). Target completion date by 1st

				March.
H2	**i-Connect Generic User Accounts** There are various generic user names on the i-Connect user listing. Internal Audit were advised that generic user accounts were being phased-out, however, it is important that a review of generic accounts is performed swiftly, in line with the recommendation made under M2 - User Account Naming.	Generic logins, if shared or not linked to an individual, present a risk of non-accountability given that the ability to audit and monitor a specific user's actions is lost. When account sharing is commonplace, there is an increased risk of unauthorised use and data breach through the loss of Generic Login credentials.	Carry out a formal review of all generic i-Connect user accounts and ensure: • Access is appropriately restricted. • Credentials are securely issued and stored. • Use of Generic logins is recorded to maintain an accountability trail. • An individually identified owner is assigned who is responsible and accountable for the use of Generic logins. • Disable any generic accounts that should not be in use.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** Need for reviewing & monitoring seems clear User Generic accounts are being removed. (In progress – 1st March) Internal Generic accounts only used for testing internally by APF staff, to be added to user access policy. (In place). Target completion date by 1st March.

H3 Page 322	**ESS/i-Connect - Employer Data Access** Employer access to datasets is not periodically monitored to identify potential instances of inappropriate data access. Access to relevant pensions data is granted to users by the Employer Support Team during the account setup phase via a simple checkbox. Periodic reviews of APF Employer data access are not performed. Without review, access to data that may have been inappropriately granted (checking the wrong box) may go undetected, leading to potential data breaches.	Access to pensions data that may have been inappropriately granted could go undetected, leading to data breaches. Potential for ICO action and fines	Implement a monitoring schedule to periodically review that the data access granted to employers is appropriate. Note: i-Connect will be used in place of ESS from mid-February 2023, however, this recommendation will still apply to i-Connect.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** Monthly housekeeping, new process to review user access to payroll and data. (In progress – 1st March) File to be stored in shared drive. Report now available in Insights reporting tool. To be written in a monthly schedule run by Financial Systems (FS). Immediate effect. Target completion date by 1st March.

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	**i-Connect User access reviews** i-Connect application users are not subject to periodic review and reapproval.	Risk of unauthorised or inappropriate access, leading to compromise of sensitive data and leaving the system open to abuse	Establish a process to periodically review and re-approve i-Connect user access rights to verify that user access is appropriate for business needs. Users' access rights should be reviewed at regular intervals, e.g., annually.	**Agreed** **Responsible Officer:** **Senior Financial Systems Control & Development Officer, Cassi Gough** **Implementation Date: 01/03/2023** **Management Comments:** As per H3 above. Monthly and quarterly housekeeping checks. Target completion date by 1st March.
M2	**i-Connect Access Policies** i-Connect and ESS do not have system access policies. It is acknowledged that supplementary information is available via wider Council policy documentation, for example, the B&NES Acceptable Use Policy.	Users could be set up on APF systems with incorrect levels of access, compromising the protection of sensitive data. Higher level privileged user access may be granted without appropriate authorisations. Risk of system abuse and fraud with an elevated level of permissions.	The Financial Systems & Development Manager should ensure that system access policies are created for i-Connect and ESS. An overarching policy that covers all APF systems should be considered in order to streamline documentation. System access policies should include the following: • User access control procedures (for starters, leavers, and employment changes). • Password control (user responsibilities and system parameters). • Outline of system role profiles.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** Would be easy to replicate similar policy to Altair access policy but subject to the above recommendations being incorporated.

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
			Where relevant system access policies already exist, ensure that they are appropriately disseminated to staff. A record of staff, together with the date, and distribution list should be retained	FS to write systems access policy for APF (in place). MW has written report with Macros to ID users that have either not set up the account or not logged in for 3 months. (In place). Target completion date by 1st March.
M3	**i-Connect & ESS Registration & De-Registration Procedures** i-Connect and ESS do not have documented registration and de-registration procedures in place.	Incorrect user permissions could be applied on initial setup which could lead to inappropriate data access. System accounts could remain active after the user has left the Council, or their role, resulting in potential data breaches and ICO action.	The System Administrators for i-Connect and ESS should produce procedures for the creation of users, amending users' access rights, and deactivation of users. Ensure that the procedures include: 1. How users are created and deleted. 2. Assigning each User a unique user ID (to enable Users to be linked to and accountable for their actions). 3. Checks are undertaken to ensure that the level of access is appropriate for business purpose (It should not compromise segregation of duties). 4. Users are given a written statement of their access rights. 5. Users are required to sign statements indicating that they understand the conditions of access. 6. A formal record is maintained of all Users registered to user the system.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** ESS is end of life 28 Feb 2023. Being decommissioned early March by Heywood/BANESIT (in place). New user procedure to be written (MW/CM). Target completion date 1st March 2023 (in progress – 1st March) (1) (2) Detailed in Procedure Guide (in progress – 1st March)

Page 324

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
Page 325			7. Immediately removing or blocking access rights of Users who have changed roles or jobs 8. Periodically checking for and removing or blocking redundant user IDs and accounts. 9. Ensuring that redundant User IDs are not issued to other Users.	(3) As part on new monthly housekeeping (in place). (4) Access policy to be distributed to existing users and all new users on sign up (in progress – 1st March) (5) Users must sign an end user licence on first log in (box tick) (in place). (6) Recorded in ERM and part of the monthly housekeeping (in place). (7) Reliant on employers advising us of changes and inactivity is monitored via disabling housekeeping (in place). (8) Monthly housekeeping (in place). (9) Record of usernames to be kept and checked. (in place).
M4	**i-Connect Inactive Users** Periodic checking for inactive i-Connect user IDs and accounts is not performed.	Exploit of inactive i-Connect user accounts in a cyber-attack.	Set up automated reports of i-Connect user accounts that are inactive for 30 days or more and disable the inactive accounts. A record of these checks should be retained.	**Agreed** **Responsible Officer:** **Senior Financial Systems Control & Development Officer, Cassi Gough** **Implementation Date: 01/03/2023** **Management Comments:** Report could be run & reviewed monthly. Policy to be set up to disable after 90

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
				days. 30 days is too short due to the nature of the work with monthly uploads. (In place).
M5	**i-Connect Review of System Logs** i-Connect generated logs are not periodically reviewed to detect anomalies and suspicious activity. Unsuccessful attempts should be reported and identify the time, terminal, logo and file or data element for which access was attempted.	Security issues, including attempts to exceed access authority or gain system access, for example, during unusual hours, may go undetected that could compromise the IT infrastructure.	Periodically review i-Connect system-generated logs to detect anomalies and suspicious activity. Unsuccessful access attempts should be reported and the time, terminal and file or data element for which access was attempted should be recorded. Note: The frequency of review of access reports should be commensurate with the sensitivity of the information being protected. Consideration should also be given to reviewing the frequency (for example on an annual basis) to ensure that it remains operationally relevant.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** i-Connect is a 3rd party cloud-based software, APF/FS do not have access to audit reporting within i-Connect. Unable to report on unsuccessful log ins etc. All updates to the Altair database via i-connect are recorded as part the nightly Altair audit and can be investigated if required on an individual member cases by case basis.

MEDIUM RISK EXPOSURE

	Weakness Found	Implication of Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M6	**i-Connect, ESS and MSS Authorisation of 'Privileged' accounts** An authorisation process and a record of all privileges allocated to staff is not maintained for all the APF systems reviewed. Note: Access approval for privileged Altair user accounts was found to be appropriate, however, no assurance could be provided over the adequacy of privileged account approval for other APF systems.	There may be users with inappropriate privileged levels of user access without proper authorisation.	Implement an authorisation process that applies to all privileged system users across APF systems. Maintain a record of all users and their allocated privileges (this could be via a system-generated report). Ensure that: • Authorisations for special privileged access rights are reviewed regularly e.g., quarterly. • Privilege allocations are checked at regular intervals to ensure that unauthorised privileges have not been obtained. • Changes to privileged accounts are logged for periodic review.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** Regular review needed of access – this should be doable but need to ensure audit trail available. ESS is end of life 28 Feb 2023. Being decommissioned early March by Heywood/BANESIT (in place). Will review process for existing users and delete where appropriate. Process for new users for Admin Authority sign off needed. This will be Detailed in Procedure Guide, (in progress – 1st March)

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M7	**Track & Report Late Leaver Notifications** Line managers of APF system users have a responsibility to notify APF systems administrators of leavers, however, this is not always carried out in a timely manner. To mitigate the risk of past users remaining active on systems, there is a 30 day auto-disable in place, however, late notifications of leavers are not tracked and reported.	System users and employers may be left active or gain inappropriate access levels to systems or data.	Monitor inactive user accounts for follow up with line management. A record of all inactive user accounts should be retained.	**Agreed** **Responsible Officer:** **Financial Systems & Project Lead, Matt Williams** **Implementation Date: 01/03/2023** **Management Comments:** Financial Systems Team should be able to undertake this via information from iTrent A policy already exists to monitor existing user activity (in place). New automated report in place detail any APF staff leavers, runs every Monday. All APF leavers will now be picked up with 7 days of their leaving date. (In place).

Grant Thornton

The Audit Findings Report for Avon Pension Fund

Year ended 31 March 2023

13 November 2023

Contents

Your key Grant Thornton team members are:

Peter Barber

Key Audit Partner

T 0117 305 7897

E Peter.A.Barber@uk.gt.com

Beth Bowers

Senior Manager

T 0117 305 7726

E Beth.AC.Garner@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Name: Peter Barber

For Grant Thornton UK LLP

13 November 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Avon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We commenced our post-statements audit in June and as at 8 November 2023 our audit is substantially complete. This year we undertook the audit remotely utilising a pooled pension team across our 5 LGPS audits in the South West.

Our findings are summarised on pages 5 to 18.

We have identified no material errors or adjustments to the financial statements and there are no matters arising to date that would require modification of our audit opinion. We have recommended a number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work.

This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2022/23 as set out in Appendix E.

Subject to a small number of audit procedures being completed, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council audit.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report, subject to final review processes.

Our anticipated opinion on the financial statements will be unmodified.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. Although the Avon Pension Fund 2022/23 audit is nearing completion, we are unable to issue our opinion until we have issued our opinion for the administering body, in Avon Pension Fund's case, Bath and North East Somerset Council, which is anticipated in November 2023.

We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us to resolve delays and complexities to complete the audit in a timely manner.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Mercer, and the overall funding position improved. The results of the latest triennial valuation are reflected in note 15 to the accounts to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 51 individuals and found the source data to be complete and accurate, despite challenges faced with one sample item. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management prior to presentation to the Corporate Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For Avon Pension Fund, the Corporate Audit Committee fulfil the role of those charged with governance. The Pension Committee considers the draft financial statements and is part of the overall member oversight process.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of the Bath and North East Somerset Council.

These outstanding items include:

- review of the Annual report;
- Testing of purchases and sales;
- Final review processes;
- receipt of management representation letter see appendix H; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As part of our audit procedures, we identified several issues in relation to the reconciliation of several populations, discussions about prior period adjustments and difficulty obtaining IT evidence.

This resulted in us having to carry out additional audit procedures, as summarised on page 13 to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in July 2023. We have determined both materiality over the financial statements and set a lower materiality over the fund account transactions.

We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	61.9m	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2022.
Performance materiality	43.3m	We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. In addition, the management and finance team remain stable.
Trivial matters	3.1m	This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Corporate Audit Committee as 'Those Charged with Governance'.
Materiality for fund account	23.8m	Due to the sensitivity of the fund account disclosures to those stakeholders who are admitted members of the Fund, we have determined a lower materiality threshold over the relevant fund account disclosures.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. We have raised one control recommendation in Appendix B relating to our journals work.
Improper revenue recognition (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We rebutted this risk in our Audit Plan. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund. Our audit work has not identified any issues in respect of improper revenue recognition.
Expenditure recorded includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud elated expenditure may be greater than the risk of material misstatements due to fraud related revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.	We rebutted this risk in our Audit Plan. We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Avon Pension Fund. Our audit work has not identified any issues in respect of improper expenditure recognition.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk.	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers and custodians • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period • in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Our audit work has not identified any significant issues in relation to the risk identified. As highlighted above, our audit focuses on looking at external confirmations from both investments managers and the custodian, and as a result there will always be differences in when information is received compared to the information available when management are estimating the values for the accounts. This year, one individual differences identified were above our trivial threshold (£6m underestimated) and these are detailed on page 9. The total aggregate difference identified for Level 3 investments was £14.5m.

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £1.226bn	The Pension Fund has investments in pooled property funds, pooled infrastructure funds, a long-term investment and hedge funds that in total are valued on the balance sheet as at 31 March 2023 at £1,226m. These investments are not traded on an open exchange/market and the valuation of the investments is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has decreased by £85m in year, and level 3 investments and now account for 22.8% of the fund.	As outlined in our testing of the valuation of level 3 investments we have; - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. Our findings in relation to the testing of Level 3 investments identified small estimation differences. The total aggregate difference identified for Level 3 investments was a potential understatement of the estimates by £14.572m. This is due to timing differences and is not indicative of a deliberate cautious approach to estimation. Included within the overall difference of £14.572m was one difference which was individually greater than our trivial threshold: A difference of £6.0m in the investment: PRIVATE DEBT PORT CYCLE II	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Page 337

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £3.902bn	The Pension Fund investments in level 2 on the balance sheet as at 31 March 2023 total £3,902m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investments has decreased by £315m compared to the prior year.	Similar to our approach for level 3 investments, we have; - Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, - Considered the valuation techniques used against industry practice, and - Reviewed the adequacy of disclosures of estimate in the financial statements. Our findings in relation to the testing of Level 2 investments identified some estimation differences. None of the individual differences identified were above our trivial threshold, nor were they above that threshold cumulatively.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of Pension Fund Liability	The fund has elected to take 'option B' from IAS 26 when considering the actuarial present value of promised retirement benefits, and as such presents this as a note to the accounts. Management have obtained this information from the actuary for the fund. The actuary has been provided with all of the necessary information using the annual returns required, which results in the actuary producing the valuation and required reporting paragraphs. The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities. The Council's Group Manager, Funding, Investment & Risk communicates with the externally appointed actuary throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.	We have; Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, Considered the data upon which the valuation has been based Considered the reasonableness of the assumptions used, and Reviewed the adequacy of disclosures of estimate in the financial statements.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external and independent Management advisors and Investment Fund Managers. Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts. Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks . Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.	We have; Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, Considered the valuation techniques used against industry practice, and Reviewed the adequacy of disclosures of estimate in the financial statements.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Page 339

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Agresso	Roll-forward ITGC assessment (design effectiveness only)	🟠	🟠	🟢	🟢	N/A	N/A
Active Directory	Roll-forward ITGC assessment (design effectiveness only)	🟢	🟢	⚫	⚫	Access controls have been taken into account as part of our strategy for testing of journals to address the risk of management override of controls	

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟠 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
The draft financial statements were presented for audit in accordance with the agreed timetable. Whilst in the main, good quality working papers were provided to support entries, we did encounter issues that resulted in additional, unplanned audit work. This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty. This additional time has resulted in a proposed further increase in audit fees for 2022/23 as set out in Appendix D.	Additional work was required due to the following issues: - The Purchases and Sales populations did not reconcile to the draft financial statements - We encountered reconciliation issues with the Contributions population provided to us, which resulted in delays in being able to select our sample of contributions. - One triennial valuation sample provided difficult to evidence, requiring additional discussions with management to verify the appropriateness of the source data.

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund and all banking institutions that management. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We experienced a number of difficulties in obtaining a population for purchases and sales testing. We also identified a few differences in reconciliations between notes in the financial statements.

2. Financial Statements: other communication requirements

Page 343

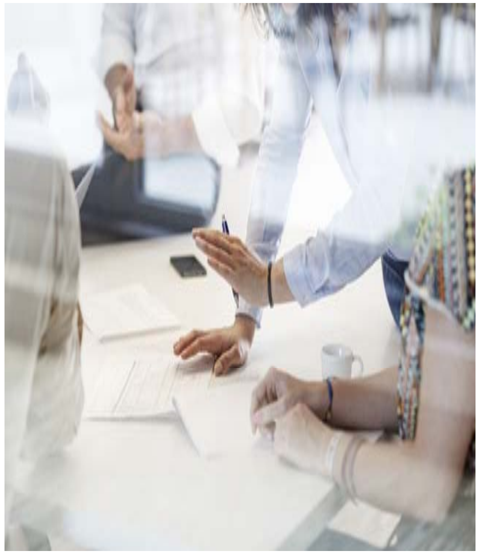
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund is administered by Bath & North East Somerset Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. Our work is still in progress but will be completed prior to issuing the audit opinion. We plan to issue an unmodified opinion in this respect – refer to Appendix H
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report at the same time as the financial statements opinion. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to September 2023, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for future non-audit services and we confirm there were no fees for the provision of audit-related or non-audit services.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Reconciliations of the Contributions population we identified a £1.18m difference between the listing provided and the ledger balance. It is understood that these differences arise when employers send insufficient or incorrect data and primarily relate to discounts and adjustments between months.	While the difference is not significant, we would recommend that management undertakes a reconciliation exercise to ensure the contributions populations reconcile to the financial statements. **Management response** £1.32m of the difference relates to FSR contributions paid in advance. Actual difference, relating to insufficient/incorrect data is therefore is £0.14m. FSR contributions in advance are reconciled separately and, by their nature, employer contributions reported on the spreadsheet are more than the actual contributions (i.e. equal the discount received).
Medium	Our testing of benefits identified one individual within the dependents population who had passed away in 2019. While the fund had ceased all benefit payments, the individual was still included in the total benefit cost for the year. We assessed the potential impact of this error and identified that there could be an overstatement of benefits in the range of £700k to £1.6m.	While the projected error is not significant, we recommend that management seeks to review dependent benefit recipients to confirm that those they are no longer making payments to are removed from the system. Undertaking regular reconciliations between the system and actual benefit payments will also help to identify differences for follow-up. **Management response** The members benefits were suspended in their record at the time the death was reported. The status hadn't been updated but was immediately updated as soon as it was picked up by the audit. The report used for the sample lists all pensioners from Altair and their expected benefits for the year. The Final Accounts use the actual pensions paid in year.

Page 349

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	Our journals testing identified that journals posted by David Richards were not formally reviewed.	We recommend implementing a process for formal review of journals posted by David to ensure that the postings are free from error. Management response Agreed - a new process needs to be implemented whereby David Richards journals are reviewed on a monthly basis.
	Our related parties testing identified that neither the Fund, nor the administering authority was able to produce a declaration of interest for one of the independent members of the pension fund committees.	We recommend that all members, even where independent are asked to complete a declaration of independence. Management response Agreed - will follow up with the individual at the next committee meeting

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Avon Pension Fund Pension Fund's 2021/22 financial statements, which resulted in 10 recommendations being reported in our 2021/22 Audit Findings Report. We are pleased to report that management have implemented most of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially addressed	As part of our risk assessment procedures around Journals, we identified that the fund were reviewing all journals at year end rather than throughout the year. We also identified that user reviews are scheduled to take place quarterly. Both findings leave the fund open to significant time passing before issues are identified.	Management has confirmed that journals were reviewed monthly from November onwards. The Fund's aim is to complete user reviews monthly, five were carried out in 22/23 following this recommendation.
✓	Our reconciliation of the current year comparative figures to last year's Avon pension Fund Annual Report identified two immaterial differences in the figures published to those included in the 2021-22 draft financial statements. We identified that the fund had included the correct figures in the B&NES Signed accounts for 2020-21, but that the Pension Fund Annual Report had not been updated.	Management have now confirmed that part of Year end preparation process now involves checking that the published annual report matches the audited accounts.
✓	Our journals testing identified one off ledger adjustment. While this year the adjustment is trivial in value, there is a risk that off ledger adjustments are incorrectly processed or accidentally excluded.	Management have confirmed that this should have been followed up. However, it relates to a long-term debtor arising from the Life Time Tax Allowance, which has been removed from effect from 6th April 2023, so will always be trivial in value. We are satisfied given the triviality of the issue no further action is required.
✓	Our contributions testing identified that one Pension Fund officer altered the contributions reconciliation to reflect a value different to one of the admitted bodies LGPS 50 forms. The amendment was made to reflect the fact that the admitted body was suggesting their return was incorrect.	We did not identify any such issues in 2022-23 audit work.
✓	We identified that management are not updating cyber security policies	Management have confirmed that this is a responsibility of the B&NES IT Service as we use the same network as B&NES Council. We understand they have a dedicated Cysog team who have a focussed action plan on managing Cyber Risk including policies and procedures.
✓	We identified that management are not reporting their derivative assets and liabilities gross, but are accounting for them net.	Derivative assets and liabilities were reported gross this year.

Page 351

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially	Inadequate oversight around generic user in Agresso application During the audit, we obtained and inspected the evidence relating to the administration of generic accounts with privileged access within the Agresso application and observed that the access to a generic account [Administrator] is shared between the multiple administrators from Finance systems department. The Council has no controls in place to monitor the appropriateness of the activities performed by the account. Risk: The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual. Also, without appropriate audit logging and monitoring, unauthorised activities may not be detected in a timely manner, can go unnoticed, and evidence of whether the attack led to a breach can be inconclusive.	Management have confirmed that this is a responsibility of the B&NES Financial Systems Team. Action is part of their overall Financial Systems Improvement Programme and is in progress.
Partially	Lack of controls over granting new user access within Altair application Altair For a sample user, we noted that the new user access to be mirrored with appropriate user was not mentioned clearly in the new user creation form to verify appropriateness of roles granted against roles approved and had incorrect permissions to be granted within Altair. This lack of information made it difficult to verify whether the permissions requested versus the permissions granted were aligned, or whether the permissions requested were appropriate for the user's role. Risk User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	Management have confirmed that this is a responsibility of the B&NES Financial Systems Team. Action is part of their overall Financial Systems Improvement Programme and is in progress.

Page 352

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially	Lack of controls over user access amendments within Altair and Agresso application Altair: For a sample user, we noted that the existing user access request via email does not define the specific access rights that should be assigned to the user. This lack of information made it difficult to verify the appropriateness of user's access to the new access role. Agresso: For a sample user, we noted that the existing user access new request was not approved by appropriate Line manager as described in the Agresso user form. However, we noted that the existing user access request was approved by an appropriate user from the Budget team and access was provided by Financial Systems Team. Additionally, it was noted that there was system limitation to obtain the access modification date from the Agresso system which made it difficult to identify the date when the access was modified within the system to verify that the access was granted in the Agresso system after the access requested was approved. Risk User access may not be appropriately aligned to job role requirements and may lead to inappropriate access being gained to the application and/or inappropriate changes being made to underlying data.	Management have confirmed that this is a responsibility of the B&NES Financial Systems Team. Action is part of their overall Financial Systems Improvement Programme and is in progress.
Partially	Lack of review of security/audit logs in Agresso It was noted that whilst security/audit logs are enabled in Agresso, they are not proactively monitored or reviewed. Risks Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.	Management have confirmed that this is a responsibility of the B&NES Financial Systems Team. Action is part of their overall Financial Systems Improvement Programme and is in progress.

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

No adjusted misstatements have been identified for the year ending 31 March 2023.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
General amendments to presentation, grammar, rounding and typographical errors were made in various areas of the accounts.	We brought these to the attention of management, who adjusted most of these errors.	✓
Management's first presentation of the financial instruments notes and investment notes 9 and 10 included discrepancies between the pension fund accounts and the amounts disclosed in the B&NES draft accounts.	Management confirmed that the Avon accounts were correct and adjusted the amounts disclosed in the B&NES draft accounts.	✓
The value of cash purchases and sales originally disclosed in Note 9 were adjusted as they did not agree to the State Street reports. Cash purchases were originally stated as £14.7m and adjusted to £2.9bn and receivables for sale were originally stated as £5.6m and were adjusted to £3.0bn.	We discussed these with management, who adjusted for the differences.	✓

D. Audit Adjustments (continued)

Impact of unadjusted estimation differences

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Corporate Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Estimation differences identified in the valuation of L3 Investments. Investments are estimated to be understated.		£14,572		Relates to estimation difference based on the timing of the audit compared to the timing of management's preparation of the financial statements. Management used the best available information at the time to produce financial statements.
Overall impact		£14,572		

Impact of prior year unadjusted misstatements

No prior year unadjusted misstatements were identified.

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee per Audit Plan	Final fee
Scale Fee	£25,305	£25,305
Impact of ISA 540 & increased focus on Level 2 & 3 Investments	£6,000	£6,000
Impact of ISA 315	£3,000	£3,000
Journals testing	£2,000	£2,000
Impact of additional FRC challenge	£3,750	£3,750
Reconciliation issues with contributions (see page 13)		£2,000
Reconciliation issues – purchases and sales (see page 13)		£5,000
Pension Fund Audit	40,055	47.055
IAS 19 letters for employer body auditors, including testing of 31 March 2022 triennial review *	£2,000	£2,000
IAS 19 assurance work for 31 March 2023	£13,700	£13,700
Work on triennial valuation member data *	£5,000	£6,000
Total audit fees (excluding VAT)	£60,755	£68,755

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

E. Fees and non-audit services

Audit and non-audit services

The proposed fees of £60,775 do not reconcile to the financial statements total fee disclosure of £68,000. Once the following reconciliation items are taken into account the amounts agree within a reconciling difference:

- £20,000 Internal Audit Cost added
- £11,092 PSAA rebate deducted.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. Please see below for details of the fees for this work in 2021/22 and the safeguards in place.

As set out above, fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23.

The fee for this work in 2021/22, as reported in that year's Audit Findings Report, was £12,000 and this was invoiced in November 2022.

We set out below the threat to our independence and safeguard that has been applied to mitigate this threat.

Service	Fees £	Threat identified	Safeguard
Non-audit Related			
IAS19 Assurance letters for Admitted Bodies	12,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,000 in comparison to the expected fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

Page 358

G. Management Letter of Representation

See separate item included within the Corporate Audit Committee Agenda.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Bath & North East Somerset Council on the pension fund financial statements of Avon Pension Fund

Opinion on financial statements

We have audited the financial statements of Avon Pension Fund (the 'Pension Fund') administered by Bath & North East Somerset Council (the 'Authority') for the year ended 31 March 2023, which comprise the Fund Account, the Net Assets Statement and notes to the pension fund accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report

Other information

The other information comprises the information included in the Statement of Accounts , other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. The Chief Financial Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority and the Chief Financial Officer

As explained more fully in the Statement of Responsibilities for the accounts [set out on page x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Financial Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of management and the Corporate Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Corporate Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to the valuation of level 3 investments. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large and unusual entries,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and level 3 Investments and IAS 26 pensions liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the risk of management override. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

Grant Thornton

grantthornton.co.uk