

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 28th June, 2024

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

Co-opted Voting Members: Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Councillor Fi Hance (Bristol City Council), William Liew (HFE Employers), John Finch (Independent Member), Jackie Peel (Independent Member) and Wendy Weston (Trade Unions – online via Teams)

Co-opted Non-voting Members: Councillor Kate Kelliher (Parish & Town Councils)

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), Julia Grace (Pensions Valuation Advisor), Jeff Wring (Director of One West & Avon Pension Fund) and Claire Newbery (Pensions Operations Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Chair welcomed Councillor Fi Hance (Bristol City Council) to her first meeting of the Committee.

The Chair drew attention to the emergency evacuation procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Shaun Stephenson-McGall, Councillor Joanna Wright, Pauline Gordon and Charles Gerrish had all sent their apologies to the Committee.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 22ND MARCH 2024 (PUBLIC & EXEMPT)

The Committee **RESOLVED** that the minutes of the meeting on 22nd March 2024 be confirmed as a correct record and signed by the Chair.

8 PENSION BOARD- DRAFT MINUTES: 12TH JUNE 2024

The Committee **RESOLVED** to note the minutes of the Board meeting held on 12th June 2024.

9 BRUNEL PRESENTATION - OVERVIEW OF STEWARDSHIP ACTIVITIES / CORPORATE UPDATE

Laura Chappell, CEO Brunel Pension Partnership and Vaishnavi Ravishankar, Head of Stewardship addressed the Committee. A summary of their presentation is set out below and a copy of it will be attached as an online appendix to these minutes.

Brunel update Q2 '24 - Part 1 – Laura Chappell

Brunel is a flagship organisation with an industry leading reputation that is 100% committed to the needs of its client pensions funds.

85% of assets have climate change targets and Brunel aims to align stewardship across all of our work areas. Brunel has implemented a new approach to Human Rights in terms of our investing and Artificial Intelligence (AI) has recently been introduced at Brunel.

A series of metrics and targets for our investment in Private Markets are in progress.

We are happy where the company is in totality, responsible investing is our focus and we have a long-term view towards investing.

2024-5: Priorities ahead

- Responsible Investment Performance
- Strategic Objectives
- Governance
- Pooling

Pooling – Likely to be no Government money in the pot. Discussions ongoing with representatives of both the Conservatives and Labour. Can we invest in the UK and align with our priorities? Our members remain our priority.

Jackie Peel asked for further details in relation to cost savings and how they benchmark against the aims set out when Brunel began.

Laura Chappel replied that when they submitted their business case 7 years ago they stated that they would seek to outperform what the Fund was already achieving

and that they have succeeded in doing so by saving £41m over this period. She added that over the past year a further £2m has been saved on investment fees.

Jackie Peel asked if they had any further targets in mind to achieve.

Laura Chappell replied that they have to be mindful to not squeeze managers too much, but said that there is a shift of funds investing passively as opposed to active. She said that they had actively embarked on an engagement process regarding fees that had led to the savings achieved.

Councillor Kate Kelliher asked if they could define what they see as long-term investing.

Laura Chappell replied that she sees this as a 25 – 50 year timeline and even performance over a 5 year period is not so relevant unless it can be sustained. She added that they obviously need to be aware of blips that may occur and how to manage them.

John Finch asked if during her recent discussions with the political groups she was able to gain what their views are on pooling.

Laura Chappell replied that Labour are not showing for much of a push on consolidation and are more interested in investment into the UK. She added that she acknowledges that the Fund will need to continue to grow, but are not able to accommodate this currently and will need to find a balance point to do so in the future.

Councillor Mike Drew asked what the set-up costs were for Brunel and would there be further if consolidation was to take place.

Laura Chappell replied that in terms of set-up costs they broke even around a couple of years ago and that all funds agreed to put in £1m to enable Brunel to begin their work. She added that if a new fund were to be added some costs may increase, but she felt that they would be able to manage this and that overall they should remain fairly stable.

Councillor Toby Simon said that he would be interested to hear more details about their approach to Human Rights.

Laura Chappell replied that this would be picked up in the second part of the presentation. She added that they do feel that a long-term view is required and to not make knee jerk decisions to disinvest. She said that they will also lobby when they feel that a company's behaviour is wrong.

William Liew asked in terms of the balance of power what was not working well between the Pension Funds and the Brunel Board.

Laura Chappell replied overall things were working really well, but they are not so ready to handle the smaller issues, such as Local Investing and these matters are therefore handled outside of the pool. She said that as things progress some clarity

would be needed on who can make decisions, the Board or the funds, if not all the funds in the pool agree.

The Head of Pensions added that he felt that now Brunel was mature and up and running, that the governance could be simplified to enable a slicker decision-making process.

Councillor Fi Hance referred to the possible investment in Sizewell C and asked what governance measures would be needed for such a decision.

Laura Chappell replied that decisions such as this need to be clearly defined on their investment potential rather than a political stance. She added some Councils do have a policy that includes no nuclear investment and that would potentially be a barrier should Brunel feel that an investment is worth making.

Stewardship – Vaishnavi Ravishankar

Approach to Stewardship

- Asset Managers
- Service Provider
- Collaborative Initiatives
- Direct Engagement

We rely on our asset managers to be aware of risks associated with ongoing conflicts around the world. We will always ask if Human Rights due diligence has been carried out – this can be a difficult area to approach at times.

We are mindful that systemic risk can't always be avoided.

2023 – At a glance

- 805 companies engaged.
- 115 companies featured engagements with the CEO or Chair.
- 401 companies featured engagements with senior management or board members.
- 121 public policy interactions including consultation responses, letters, meetings and discussions.
- 1,331 meetings instructed.

Co-filed three resolutions:

- Charter Communications on diversity – New female director appointed.
- Barclays on financing new oil and gas infrastructure – Updated policy
- Shell on scope 3 emission reduction targets – Very defensive. Disappointed, but good basis for future discussions.

The Head of Pensions commented that Shell had recently seen a change in shareholder base from Europe to USA.

Vaishnavi Ravishankar said that some funds had taken the decision to disinvest which has made it more difficult to engage than previously. She stated that Brunel were committed to continuing their work with Hermes to pursue change.

Voting process

- Full voting rights in segregated active accounts – implemented by Hermes EOS
- Overrides of Hermes' recommendations part of the process
- Passive index tracked investments – Brunel can exercise split votes in some circumstances. For e.g. Exxon Mobil

Climate

- CA100+ companies
 - decarbonisation strategy (incl. ambition and targets)
 - TCFD or equivalent climate disclosure
- Companies scoring below TPI Level 4
 - select sectors
- Greater scrutiny on climate lobbying, capex and climate accounting disclosures

Voting guidelines – implementation on tax

- Engage with companies on tax transparency – aligned with Global Reporting Initiative (GRI) tax standard.
- Votes against Chair of the audit committee or other relevant directors in 2025.

Example on deforestation

- Engage on improving disclosure and management of deforestation risks.
- Votes against the re-election of the company chair where:
 - Companies score below 20 on the Forest 500 ranking
 - Financial institutions that score 0 on Forest 500 ranking

Next steps

Climate change

- Escalate climate alignment expectations with managers.
- Champion the disclosure of scope 3 emissions.

Human rights and social issues

- Develop our human rights strategy.
- Empower PMs with tools and frameworks to enable manager monitoring.

Biodiversity and Nature

- Data integration and assessment needed to progress TNFD reporting in 2026.
- Work with EOS to ensure that the topic remains a priority for policymakers.

Cyber and AI

- Continue to use AI to enhance stewardship.
- Participate in RLAM engagement on cyber security.

The Chair referred to the subject of Biodiversity and Nature and asked how they were looking at the impact of the health of our river systems and the health and welfare of the seas around our country.

Vaishnavi Ravishankar replied that they do not have specific measures for those areas currently, but could discuss that further with their asset managers and Hermes as part of their Biodiversity Strategy.

Laura Chappell added that it will help that they have the Environment Agency as a client as she was aware that they have been engaging extensively on the issues raised recently.

Councillor Mike Drew asked how successful the votes against the Chairs are.

Vaishnavi Ravishankar replied that they need to ask if they are being effective in the way they implement their stewardship and said that she believed that they are. She added that the votes send a clear message to the company that says we are not seeing the progress we would like to.

She said that the votes do depend on who else might support them and that it is important to explain to the company why we have taken the decision to vote this way.

Laura Chappell added that this was hard to define, but said she believed that they do have a large voice and feel that their opinions are heard. She said that disinvestment was an option, but in doing so you lose the ability to influence real-world change.

Councillor Robert Payne commented on the poor engagement from Shell and asked at what point would any further action be considered.

Vaishnavi Ravishankar replied that a bit of a roadblock had been reached with Shell, but said they have been talking with them about how they can influence their clients regarding a transition to net-zero. She said that the focus remains on engagement to try to achieve decarbonisation.

Laura Chappell added that they recognise that the Fund has net-zero targets in place and so disinvestment may occur at some point, but that they will try to work for as long as possible to establish a real-world change.

The Chair commented that he would the Committee to receive a future report on Artificial Intelligence so that they can understand more about the risks and rewards that come from using it.

The Chair, on behalf of the Committee, thanked Laura Chappell and Vaishnavi Ravishankar for their presentation.

10 INVESTMENT STRATEGY (FOR PERIODS ENDING 31 MARCH 2024)

The Investments Manager introduced the report and highlighted these points from it.

- Over 1 year the Fund returned 7.8% in absolute terms and -2.0% in relative terms, where most portfolios underperformed their respective benchmarks.
- The Investment Panel met on 5 June 2024. The most substantive item discussed during the meeting was the proposal to appoint Octopus Real Estate as the manager of the Fund's £50m initial commitment to affordable housing. The £50m represents c.30% of the fund's overall allocation to local impact and will be split between a national pooled fund (£40m) and a purpose built co-investment vehicle (£10m), which will invest in affordable housing schemes in the Avon region.
- A key source of liquidity is the excess cash collateral in the BlackRock QIF that was released following the reduction in the equity hedge. Rather than use this excess collateral to reinstate the LDI trigger framework and increase the level of liability hedging, Panel agreed to keep the trigger framework on pause so as not to create pressure on the Fund's near-term liquidity position.

Steve Turner, Mercer addressed the Committee and highlighted the following points from Appendix 1.

- The Fund's assets returned 2.3% over the quarter, whilst the liabilities are estimated to have increased by c. 0.6%. The combined effect of this saw the estimated funding level increase to c. 98%. The funding level is estimated to be c. 4% higher over the year to 31 March 2024.
- Of the listed equity portfolios, underperformance was most pronounced in the Global Sustainable Equity Portfolio, with Global High Alpha also lagging its benchmark return.
- Underperformance over this period is attributed to underweight positions in the 'Magnificent 7' stocks.
- Our medium-term outlook favours growth fixed income and nominal UK government bonds, with a slight overweight to equities (Emerging Market and Japanese equities).

William Liew asked if any further comment could be given on the decision to keep the LDI trigger framework on pause.

Steve Turner replied that a comprehensive liquidity review had taken place and that the view was reached that flexibility regarding Private Markets commitments was

required, Local Impact / Natural Capital as an example. He added that the more hedging that is done, the more prudent we have to be on liquidity. He said that they are looking at the possibility of implementing further inflation hedging should inflation come down below the trigger levels.

William Liew referred to the appointment of Octopus and asked if they would be acting as a landlord for the new affordable housing.

Steve Turner replied that Octopus own a registered provider, New Arch, who will have the responsibility to build and run the homes.

Councillor Toby Simon asked if these homes would count towards the property asset allocation.

Steve Turner replied that it is primarily viewed as Local Impact and that some degree of Real Estate exposure is taken into account.

Councillor Toby Simon asked for confirmation that Partners Overseas Property was not managed by Brunel.

Steve Turner replied that it was not and that it was not viable to transfer. He added that the payback would be over 7-8 years and they would not be reinvesting. He said that a strategic decision had been taken to allocate 2% to Natural Capital and that this was very illiquid.

The Committee **RESOLVED** to:

- i) Note the information set out in the report and appendices.
- ii) Note the decisions made by the Investment Panel at its 5 June 2024 meeting, namely:
 - To appoint Octopus Real Estate to manage a £50m allocation to affordable housing.
 - To keep the LDI trigger framework on pause in light of the Fund's liquidity position over the next two years.

11 FUND GOVERNANCE FRAMEWORK

The Governance & Risk Advisor introduced the report and highlighted the following areas.

She explained that the report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

She outlined the elements within the report that required the Committee to approve, note and agree.

Jackie Peel referred to the Representation Policy and noted that the new logo of the Fund should be put in place.

The Governance & Risk Advisor replied that this would be amended.

Councillor Toby Simon referred to the Scheme of Delegations and commented that he would like the roles in two areas to be more defined. He said that for the 'Early release of Benefits' it should be 'an appropriate officer of the Administering Authority' that has this delegation.

He added that on the matter of 'Internal Dispute Resolution Procedure – Stage 2 – Fund decision' this should be delegated to a specified senior officer.

The Head of Pensions replied that he would undertake this role.

The Committee **RESOLVED** to:

- i) Approves the Scheme of Delegation.
- ii) Approves the Governance Compliance Statement, including draft Representation Policy.
- iii) Approves the Conflict of Interest Policy
- iv) Notes the Decision Making Matrix.
- v) Notes the roles and responsibilities of the members, advisors and officers.
- vi) Agrees independent member representation of the Brunel Working Group – Pauline Gordon to continue in her role.
- vii) Agrees substitute of Brunel Oversight Board – Councillor Stephenson-McGall (Chair of the Investment Panel)
- viii) Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum – Councillor Paul Crossley, Councillor Toby Simon, Councillor Shaun Stephenson-McGall and Councillor Mike Drew (up to two member representatives from the Fund attending any meeting).
- ix) Agrees to delegate the drafting of the Annual Report to Council to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

12 PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT

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

- Recruitment for the two key posts of Employer Services Manager and Member Service Manager are under way.
- McCloud: Awaiting guidance from the Scheme Advisory Board (SAB) with respect to the application of the McCloud remedy. This is now expected to be issued following the General Election (4th July). Early reporting suggests the fund has c1,000 members that will require the remedy.
- GMP: The fund is in the final stages of reviewing the Mercer closure report for member reconciliation. 5,150 remain outstanding as "stalemate cases" out of a population of 91,369 members, (a reduction of 8,916 previously reported to the Board in February 2024). The review will aim to be completed in July and we plan to bring recommendations to Board & Committee in September.

- Process Controls: The fund is working with an external consultancy company to carry out a piece of work to map and review existing processes and relevant controls. The initial project will review the top 15 processes based on risk. The review is due to complete at the end of June and a full report will be brought to Board in September.
- The budget outturn for the 2023-24 year was an underspend of £503k.
- From 30 May 2024 APF entered a 45-day consultation period with all staff for an organisational re-structure which will take effect on 1 August. The new structure will increase overall FTE's from 83 to 94.

Councillor Mike Drew asked if anything unexpected had been raised as part of the consultation so far.

The Pensions Operations Manager replied that there had not yet been anything of significance. She said that some posts were likely receive a two grade increase and that some roles may change to allow the formation of the new Digital Team. She added that promotion opportunities would be more possible within the new structure.

Councillor Fi Hance asked if there would be a role for all of the 28 staff who have been ring-fenced.

The Pensions Operations Manager replied that there would and that the appropriate Trade Unions have been involved in these discussions.

McCloud – Pensions in-to payment from 1st October 2023 to 31st May 2024

- From 925 normal (from active or deferred) pensions 18 (2%) have had the underpin applied resulting in an annual uplift of £6,735 which equates to £561 monthly.
- From 204 dependant pensions there has been no need to apply the underpin.

The Chair asked if further work was required of officers with regard to McCloud.

The Pensions Operations Manager replied that there was and that they had around another 20,000 member details to work through. She said that it was likely that around 1,000 members could receive the underpin.

SLA – Performance average June 23 to May 2024

- Figures are not improving much which is still due to the backlog of cases.

KPI's - cases outstanding under 31 days

- 1,601 as at 2nd June 2024

KPI's - cases outstanding over 31 days

- 734 as at 2nd June 2024

The Pensions Manager commented that staff continue to support members whilst also promoting the digital route to self-service.

Nick Weaver, Chair of the Pension Board, said that it was clear that the direction of travel is good and that the priority remains to clear the backlog of cases. He added that the Board was encouraged by this report when they received it earlier in the month.

Service performance – plan v's actual

- Good progress being made – deliver sooner if possible.

The Technical and Compliance Manager addressed the Board and provided them with an update on the Pensions Increase.

Phase 1 is complete

- Remediated 801 members using Retro PI process:
- 696 members paid arrears/interest and corrected their monthly pensions going forward (645 LGPS and 51 Teachers).
- 105 members fixed in readiness for 2024 PI.

Lessons learned - Phase 1

- We have improved our knowledge of the PI annual process. Heywood support has been invaluable and effective.
- Communication with the APF Committee, Pension Board, Council and within the APF project team has been constructive.
- We achieved the Phase 1 timeline within the hard deadline imposed by the 2024 PI run.

Future Phases plan

- Population
 - Cases are more complex than Phase 1 and require deeper analysis.
 - Not all of population will require remediation.
- Approach
 - Technical Manager to lead project and will form part of teams BAU project work.
 - Likely to be more resource intensive for manual calculations.
 - Use full end-to-end bulk remediation process where possible – run smaller batches with similar profiles once analysis and any correction work complete.
- Aiming to address all cases by end 2024.

The Committee **RESOLVED** to note the service performance for the period ending 31st March 2024.

13 LEGISLATION UPDATE

The Technical and Compliance Manager introduced the report and highlighted the following points to the Board.

McCloud Judgement

A closed consultation on the draft McCloud Statutory guidance ran between March 2024 and April 2024. Generally, across the sector, a number of concerns have been raised on the issues of administrative burden, communication challenges, and consistency of treatment both within the LGPS and across the public sector. A response to the latest consultation is awaited, now expected to be delayed due to the General Election.

The administration team are processing business as usual cases to be compliant with the McCloud regulations although they still are having to be vigilant as subsequent issues have been found with calculations following the release of further software versions.

Systems and Quality Assurance are still working through the system issues which were identified by the software provider since switching on the McCloud functionality in October 2023. These are being fixed in bulk and will ensure that the scope of the McCloud Remedy is accurate, in terms of population and cost.

Pensions Taxation

The Lifetime Allowance (LTA) was formally abolished with effect from 6 April 2024 via the Finance Act 2024. Two new limits – the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA) are now in force.

Whilst the removal of the LTA is beneficial to members, there are a number of practical considerations that the administration team are having to take into account when implementing the changes. The member website and other documents need to be redrafted for the changes to the LTA, so that communications to members are clear and accurate.

Levelling Up / Pooling

On 15 May 2024, the local government minister Simon Hoare MP wrote to all Pension Committee Chairs and administering authority S151 officers in England setting out questions in relation to pooling progress and LGPS efficiencies, including governance.

A response to the letter will be considered accordingly by the Fund and if still required (due to the General election) it will be submitted prior to the 19 July deadline.

John Finch asked if the Committee could see the draft response letter prior to its submission.

The Chair agreed and asked officers to circulate it to the Committee when ready.

Nick Weaver, Chair of the Pension Board asked for clarification on the progress of the supplementary PI issue for lump sums.

The Technical and Compliance Manager replied that they were still awaiting confirmation from Heywood on a system fix, for it was an issue that affected all Heywood users. She confirmed that the system fix was in the latest software release and was in the process of being tested.

14 EMPLOYER EXIT

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.

15 GOVERNANCE UPDATE

The Governance & Risk Advisor introduced the report to the Committee and highlighted the following areas from it.

Risk Register

No changes to risks or scores.

Workshops

26th September – Code of Practice (Hymans)

24th October – Interim Valuation (Mercer)

Hymans Learning Academy

All modules should be completed by the end of July. New schedule to commence in September.

The Group Manager for Funding, Investment & Risk informed the Committee that they had all been invited to the Brunel Investor Day on 18th September at the Wiltshire Council offices in Trowbridge.

The Committee **RESOLVED** to:

- i) Note the risk register
- ii) Note the Committee workplan & training programme
- iii) Note the service plan monitoring.

The meeting ended at 12.51 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services