

BATH AND NORTH EAST SOMERSET

MINUTES OF AVON PENSION FUND COMMITTEE INVESTMENT PANEL MEETING

Friday, 26th February, 2021

Panel: Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Advisors: Steve Turner (Mercer), Josh Caughey (Mercer) and Hemal Popat (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk) and Nathan Rollinson (Investments Manager)

35 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

36 DECLARATIONS OF INTEREST

There were none.

37 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

38 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

40 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

41 MINUTES - 20TH NOVEMBER 2020 (PUBLIC) AND 20TH NOVEMBER 2020 (EXEMPT)

Pauline Gordon commented that on page 18 of the minutes the last sentence should read that she 'agreed that the concepts underpinning the Dynamic Strategy are the same as that under Static.'

With that amendment in mind the minutes of the meeting on 20th November 2020 were confirmed as a correct record.

42 PRIVATE MARKET PORTFOLIOS

The Group Manager for Funding, Investments & Risk introduced this report to the Panel. She explained that the investment cycles for the Brunel private markets are every two years. Where a client allocates to a cycle in year 1, they have the option to 'top-up' their committed amount in year 2.

She said that for Cycle 2 which began in April 2020, Avon allocated to the Secure Income, Renewable Infrastructure and Private Debt portfolios but did not commit the full allocation at that point; in March 2021 the Fund has an opportunity to increase the amount committed.

The Panel, 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.

The Panel **RESOLVED** to agree to top up the commitments to the private market portfolios as outlined in Exempt Appendix 1.

43 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She explained that the reporting process for this work was changing with Mercer moving to taking a more strategic role.

The Panel, 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.

The Panel **RESOLVED** to:

- (i) Note the progress made on pooling of assets.
- (ii) Note the project plan for the transition of assets.

44 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2020

The Investments Manager introduced this report to the Panel. He said that it should be noted that the Brunel Performance Report shows the portfolios that the Fund are invested in are tracking below their indices for carbon intensity.

He explained that the Fund is currently undertaking an analysis of its current disclosures to better understand what is required under the new FRC Stewardship

Code and the TCFD reporting requirements in order to meet compliance for the 2020/21 financial year.

He stated that officers and Mercer have reviewed counterparty banks shortlisted for the implementation of the dynamic equity protection strategy. He added that having assessed the banks across a broad set of criteria including cost, operational capability and client servicing, officers and Mercer, under delegated authority, agreed to appoint three banks to minimise concentration risk. He said that the final appointment of each bank will be subject to an independent legal review of key trade terms and documentation.

He said that the residual holding in the Ruffer DGF (c. £160m) was sold in December in anticipation of private markets drawdowns and to align the portfolio with the 10% strategic allocation. He added that the cash proceeds of the sale were subsequently invested in the Fund's liquidity strategy, managed by BlackRock.

Steve Turner, Mercer addressed the Panel and said that a number of political events as well as news of the vaccine rollout drove strong returns across most assets over Q4.

He said that there were a number of strong returns seen in Q4, in particular the Brunel Global High Alpha Equity portfolio outperformed its index by 1.2% over the quarter and by 13.6% over the year. He added that it was also pleasing to see in Q4 the performance of the Brunel Global Sustainable Equities and Emerging Markets portfolios, outperform their respective indices by 0.5%. He added that the newly launched Brunel Diversified Returns Fund was able to capture significant upside too, posting a return of 3% above its cash benchmark.

John Finch asked how the risk/reward number for property had been calculated, commenting that it seemed low relative to other real assets such as infrastructure.

Steve Turner replied that he would need to check before replying definitely. He added that he would like to say that it is based on the actual valuation of the assets contained within the portfolio, where property values have remained reasonably stable, compared to the wider sector.

Pauline Gordon asked whether the significant outperformance of the Global High Alpha portfolio was sustainable and whether it might reverse over the coming year and questioned the degree of risk taken to generate the returns within that particular portfolio.

Steve Turner replied that while Brunel have greater transparency on the risk drivers of the portfolio, based on what he knows about the portfolio and the balance of growth and value styles of the underlying managers he would expect a degree of consistency in returns, accepting that recent outperformance has been exceptional. He commented that the allocation to Baillie Gifford was a key contributor to the portfolios returns as they outperformed the benchmark by around 100% last year with a lot of their stocks doubling in value. He added that this was unlikely to be repeated on a regular basis.

The Chair asked, in terms of the currency market, if it was known why the Pound has strengthened recently more against the Dollar than the Euro.

Steve Turner replied that it was difficult to be precise but felt that sterling had strengthened on the market's perception of the vaccine rollout.

The Group Manager for Funding, Investment & Risk asked if the expectation regarding interest rates or bond yields were having an effect on the currency markets.

Steve Turner replied that he didn't think that this was a considerable factor at the present time.

The Panel, 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.

The Panel **RESOLVED** to note the information as set out in the reports.

45 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She informed them that a workshop was likely to take place prior to their meeting on May 28th 2021.

The Panel **RESOLVED** to note their forward agenda.

The meeting ended at 3.55 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services