Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: **Friday, 28th May, 2021**
Time: **3.00 pm**
Venue: **Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil**

To: All Members of the Avon Pension Fund Committee Investment Panel

Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch, Pauline Gordon and Shirley Marsh-Hughes

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. Broadcasting of Meetings
The Council will broadcast the images and sounds live via the internet
https://www.youtube.com/bathnescouncil

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 working days before the meeting.

Further details of the scheme can be found at:
https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

5. 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 Investment Panel - Friday, 28th May, 2021

at 3.00 pm in the Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil

A G E N D A

1. WELCOME & INTRODUCTIONS

2. 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 complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) 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 2, A and 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.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any declarations from Members of the Committee and Officers of personal/prejudicial interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interest declared.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, 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: 26TH FEBRUARY 2021 (Pages 7 - 10)

8. GOVERNANCE OF RISK MANAGEMENT STRATEGIES (Pages 11 - 24)

The purpose of this report is to set out a more robust and efficient governance framework for the Investment Risk Management Strategies which includes the Equity Protection, Liability Driven Investing, Low Risk Funding Strategy and Foreign Exchange hedging strategies.

9. LEGACY PORTFOLIOS (Pages 25 - 34)

The Fund has several legacy portfolios that need to either be managed down as a result of strategic asset allocation decisions or transitioned to Brunel portfolios.

10. INVESTMENT PERFORMANCE (Pages 35 - 128)

This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 31 March 2021.

11. FORWARD AGENDA (Pages 129 - 132)

This report sets out the forward agenda for the Panel for 2021. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

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

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

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**		
MEETING DATE:	**28 May 2021**	**AGENDA ITEM NUMBER**	**8**
TITLE:	**Governance Framework for the Risk Management Strategies**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 – Draft Committee Terms of Reference			

1 THE ISSUE

1.1 The purpose of this report is to set out a more robust and efficient governance framework for the Investment Risk Management Strategies which includes the Equity Protection, Liability Driven Investing, Low Risk Funding Strategy and Foreign Exchange hedging strategies. The governance has evolved as the strategies have developed and been implemented involving significant and ongoing Investment Panel engagement. The strategies are now at a point where the role of the Committee needs to focus on ongoing objective delivery and strategic effectiveness rather than broader detailed operational aspects. The proposed framework therefore addresses the following:

a) The role of the Committee and Panel in terms of strategic oversight of the Risk Management strategies

b) The operational arrangements to agree structures and implementation of the strategies

c) Timeliness of decision making given need to react to market environment

1.2 The Panel are asked to consider the proposal and provide feedback. Any changes to the Terms of Reference will be submitted to the Avon Pension Fund Committee for approval.

2 RECOMMENDATIONS

2.1 **The Panel notes the proposed changes to the governance arrangements of the Risk Management Strategies as set out in paragraphs 5.1 to 5.4. and proposed changes to the Committee Terms of Reference in Appendix 1.**

3 FINANCIAL IMPLICATIONS

3.1 The advisory costs of monitoring the Risk Management (RM) Strategies is included in the annual budget. The changes to the governance arrangements are not expected to significantly increase these costs.

4 CURRENT GOVERNANCE FRAMEWORK

4.1 Committee Terms of Reference

The Committee's Terms of Reference sets out the oversight and monitoring of the RM strategies as follows:

The key duty of the Committee is to determine the investment strategy and strategic asset allocation having taken appropriate advice. In addition, it has overriding responsibility to monitor the performance of the investment strategy, that is, whether the strategy at the total Fund level is delivering the investment objectives that have been determined by the Committee.

The Committee has delegated the following responsibilities to the Investment Panel:

a) Review the performance of the investment and risk management strategies; this entails the quarterly monitoring of performance at the portfolio level.

b) Report matters of strategic importance to the Committee; this ensures that any issue that is/could impact the strategy is reported to Committee for further consideration.

The Panel has delegated authority to make decisions on behalf of the Committee in specific areas (and report back to Committee about any decisions made). In particular, in respect of the Risk Management strategies, the Panel has responsibility to 'monitor the implementation of the structures, consider strategies for restructuring, and monitor collateral requirements.'

Finally, Officers have delegated authority to restructure the risk management strategies as required where sensitive to market prices/conditions or technical in nature, having taken expert advice.

4.2 Governance in practice

a) **Committee** – in the annual review of the RM strategies the Committee considers recommendations from the Panel whether any changes need to be made to meet the investment objectives i.e. should the equity protection be removed, or the LDI 'triggers' for locking in interest rates or inflation changed. Committee also receive reports as needed to alter the strategies in between annual reviews; these will normally be recommendations from Panel.

b) **Panel** - receive a detailed quarterly report covering performance, market environment, collateral management as well as any technical market related issues that could impact the strategies (for example the RPI reform in 2020). Panel then agree any recommendations for Committee to consider. Panel also consider the annual review before recommending to Committee

c) **Officers** – prior to any discussions with Panel/Committee, officers discuss material issues with Advisors, to agree appropriate action that is required. This includes:

- Technical changes that may affect the strategies (e.g. RPI reform)
- Rollover, recalibration or restructuring of any strategy
- Collateral issues (e.g. whether the collateral 'pot' needs to be replenished)
- Market driven issues (e.g. equity market levels breaching EPS upside cap)

4.3 Issues arising from current arrangements

a) **Operational rather than strategic focus** – as a bi-product of the significant workload in developing the RM Strategies the Investment Panel has continued to be involved in operational decision-making issues which has diverted attention from strategic outcomes and ongoing effectiveness of the strategy.

b) **Appropriate Delegation** – the Committee and Panel consider complex matters including technical aspects around structuring and implementation of the strategies; this duplicates the role of officers who work with advisors in developing all proposals and ensuring appropriate due diligence is undertaken.

c) Whilst the **Good Governance Recommendations** reinforces the need for members to have the appropriate level of knowledge and understanding to carry out their duties, members should not be expected to be 'a subject matter expert or act operationally'. The role involves 'receiving, filtering and analysing professional advice in order to make informed decisions.' It is therefore appropriate to reinforce the Officers role in implementation activities to avoid unnecessary duplication.

d) **Timing of decisions** - some decisions are market or time sensitive and the formal meeting schedule does not adequately allow for this, yet the decision making primarily rests with the Panel and Committee with very limited discretion for officer decisions.

5 PROPOSED GOVERNANCE FRAMEWORK

5.1 Having identified weaknesses in the current arrangements it is proposed that the governance framework is realigned to better reflect the spheres of responsibility and roles which should be undertaken both strategically and operationally between the Committee, Investment Panel, and Officers as follows:

a) **Committee**

- As part of strategic asset allocation, determine which Risk Management strategies meet the Fund's objectives
- Monitor impact of the Risk Management strategies on the overall performance of the Fund in respect of the investment objective

b) **Investment Panel**

- Agree the overall framework for the Risk Management strategies
- Ensure that the strategy is achieving the desired outcome to manage risk
- Review the ongoing rationale for the strategies to achieve strategic objectives

- Monitor the financial impact

c) **Officers**

- On the advice of experts, agree the operational structures to meet the strategic objectives determined by the Committee. Make changes to the structures as needed to ensure strategic outcomes continue to be achieved or to manage emerging risk.
- Implementation of the strategies including counterparty selection, trigger and collateral arrangements.

5.2 As the new framework gives more authority to officers, in order to give assurance to the Committee as to how this authority will be exercised, an Advisory Group will be created which will report back to Investment Panel.

5.3 A **Funding and Risk Management Group** (FRMG) will formalise the decision-making process. It will consist of Officers (including Head of Pensions), Investment & Risk Consultants and the Fund Actuary. This will ensure both the funding and investment aspects of each strategy are holistically considered.

5.4 There will be a Terms of Reference (ToR) for the group and minutes of each meeting will be provided to the Investment Panel. FRMG will meet at least quarterly to review in depth the strategies, with the ability to convene more frequent meetings as necessary depending on market conditions or whether action needed to control risk or change the structures (in order to ensure the strategic outcome is delivered). FRMG meetings will cover both strategic and operational matters. All actions and decisions of the FRMG will be reported to the next Panel meeting.

5.5 The Committee's current ToR have been revised to include the ToR for the FRMG and slight change to the Panel responsibilities and Officer Delegations to clarify the delegated powers. The draft ToR is in Appendix 1.

5.6 The main changes are as follows:

a) **Investment Panel section**:

Bullet 8 - changed to focus on strategic outcome rather than implementation / operational aspects.

Current wording:

For Risk Management Strategies, monitor the implementation of the structures, consider strategies for restructuring, and monitor collateral requirements.

Proposed:

For the Risk Management Strategies monitor the outcome versus strategic objectives and consider whether any strategic changes are required to manage emerging risks.

b) **Officer Delegations:**

Bullet 4 – gives responsibility for implementation to officers, with FRMG considering all issues.

Current wording:

Restructuring the risk management strategies as required where sensitive to market prices or technical in nature, having taken expert advice.

Proposed:

Implement the strategic risk management objectives of the Fund and take necessary action to ensure delivery of strategic outcomes. Ongoing consideration of these issues will be undertaken by the Funding and Risk Management Group (see section 6) who will report decisions and ongoing considerations to the Investment Panel.

c) **Funding and Risk Management Group** – new section

5.7 Panel members are asked to consider the proposed changes prior to the proposal being put before the Committee.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 EQUALITIES

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

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Bath & North East Somerset Council

AVON PENSION FUND

Appendix 1

DRAFT TERMS OF REFERENCE

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision-making body for the Fund.

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel Pension Partnership Ltd (BPP Ltd) will gradually become responsible for implementing the Fund's Investment Strategy. The Fund's assets will transfer to portfolios offered by Brunel from April 2018 with most of the quoted assets transferring within 3 years. Once Avon's assets are within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of BPP Ltd. The Terms of Reference reflects this transition.

Function and Duties

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. These include determination of all Fund specific policies concerning the administration of the Fund, the investment strategy and the investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Having taken appropriate advice determining the following:
    a. the investment strategy and strategic asset allocation
    b. the administration strategy
    c. the funding strategy.
2. Monitoring the performance of the investment strategy, scheme administration, and external advisors.
3. Ensuring that the investment strategy can be delivered by the portfolios offered by BPP Ltd. If not, agree alternative arrangements. In relation to Brunel Pension Partnership:
    a. Monitoring the performance of BPP Ltd in delivering investment services to the Fund. Make representations to the Brunel

Oversight Board on matters of concern regarding the service provided by BPP Ltd and the performance of its portfolios.

b. Monitoring the governance of Brunel Pension Partnership and making recommendations to the Brunel Oversight Board. Terminating the Service Agreement with BBP Ltd.

4. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
5. Approving the annual budget and 3-year Service Plan and resource requirements to deliver the work plan.
6. Approving variances to budget within a financial year.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's work plan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
9. Making representations to government and responding to consultations as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative (and named substitute) from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

Delegations

In discharging its role, the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out below.

Membership of the Committee

Voting members (14)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 3 independent members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated from the Academy bodies 1 nominated by the trades unions
Non-voting members (3)	1 nominated from the Parish Councils Up to 2 nominated from different Trades Unions

The Council will nominate the Chair and Vice Chair of the Committee. The Vice Chair will be the Chair of Investment Panel.

Meetings

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Quorum

The quorum of the Committee shall be 5 voting members who shall include at least 1 member from Bath and North East Somerset Council

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

The role of the Avon Pension Fund Committee Investment Panel shall be 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.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the performance of the investment and risk management strategies
3. Report matters of strategic importance to the Committee.

And have delegated authority for:

4. Monitoring the transition of assets to the Brunel portfolios and allocate assets to the relevant portfolio offered by Brunel
5. Approve and monitor tactical positions within strategic allocation ranges.
6. Approve allocations to emerging opportunities within the strategic allocations.
7. Approve commitments to Brunel's private market portfolios at each commitment cycle to maintain strategic allocations.
8. For the Risk Management Strategies monitor the outcome versus strategic objectives and consider whether any strategic changes are required to manage emerging risks.
9. For assets held outside Brunel:
    a) Implement investment management arrangements in line with strategic policy.
    b) Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.

10. Monitor the investment performance of the portfolios managed by BPP Ltd and report to Committee on investment matters with specific reference to strategy delivery.
11. Delegate specific decisions to Officers as appropriate.

Panel Membership

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

The Council will nominate the Chair of the Panel.

Panel Meetings

Though called a "Panel", it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

Panel Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Panel Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Panel Minutes

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

3 Brunel Oversight Board Representative

Brunel Oversight Board (the Board) is the primary governance body within the Brunel Pension Partnership. Each Fund within the partnership has a representative on the Board and this representative represents the Committee when discharging its duties.

Acting for the administering authorities in their capacity as shareholders in BPP Ltd., the Board has responsibility for ensuring that BPP Ltd delivers the

services required to achieve investment pooling across the Brunel Pension Partnership.

Subject to the terms of reference for the Board and the applicable shareholder documentation, the Board's role is to consider and address relevant matters on behalf of the administering authorities. These include the monitoring and strategic oversight functions necessary to its role, as well as acting as a conduit and focus of shareholder requirements and views.

Consistent with this role, the Board's duties include reviewing and discussing any matter which it considers appropriate in relation to BPP Ltd including BPP Ltd.'s services, performance, operations, governance, strategy, financing and management.

The main duties of the Board Representative are:

1. To represent the Committee and Shareholder on the Brunel Oversight Board.
2. To ensure that the Committee's views are communicated to the Board and BPP Ltd.
3. To ensure the Fund's and shareholder's interests are protected within Brunel in line with the legal framework within which Brunel operates.
4. To report back to the Committee and Shareholder all relevant issues discussed by the Board and recommendations to the Brunel Client Group and/or the Shareholders.
5. To seek the consensus view of the Committee for Shareholder and Board matters where necessary.
6. To raise issues with the Board at the request of Committee members, the shareholder representative or Head of Pensions.

4 Brunel Pension Partnership Working Group

This is a group of Committee members whose role is to consider in greater detail any issues arising from Brunel Pension Partnership with Officers, for example Reserve Matters, papers to be discussed at BOB. This will not include routine investment matters which are monitored by the Investment Panel.

This group will consist of:

a) the BOB Representative,

b) named BOB substitute

c) the Chair and/or Vice Chair if not the BOB representative /substitute

d) an independent committee member.

e) Head of Pensions

f) Group Manager, Funding, Investments and Risk

The Working Group shall be quorate if three members are in attendance, with at least 2 that are not fund officers. The Head of Pensions shall chair the Working Group.

The Working Group shall meet as and when required as determined by the Head of Pensions. Meetings may be via telephone conference.

Key discussions and action points from the Working Group will be recorded and the committee will be updated at the next committee meeting.

The responsibilities of the working group are as follows:

With regard to any matters arising from Brunel Pension Partnership where the Avon Pension Fund have an interest:

a) to consider each matter that will be brought to the Pension Committee and / or Shareholder representative for decisions in due course

b) to provide guidance to the Pension Committee and / or Shareholder Representative in relation to each matter when they are being considered

c) to provide guidance to the BOB representative as required

d) to make recommendations to the Pension Committee regarding general oversight of the pool, as considered appropriate.

5 Officer Delegations

In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee. These are set out in the Fund's Scheme of Delegation and include the following:

1. Implementation and day to day monitoring of the administration, investment and funding strategies and related policies.
2. Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
3. Implementing investment management arrangements in line with the strategic policy as follows:
    a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel.
    b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio.
4. Implement the strategic risk management objectives of the Fund and take necessary action to ensure delivery of strategic outcomes. Ongoing consideration of these issues will be undertaken by the Funding and Risk Management Group (see section 6) who will report decisions and ongoing considerations to the Investment Panel.
5. Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.

6. Representing the Fund on the Brunel Client Group to develop Brunel investment strategies and policies which effectively support the interests of the Fund.
7. Commissioning Elective Services from BPP Ltd and issuing instructions as permitted by the Brunel Service Agreement to BPP Ltd.
8. The appointment of specialist advisors to support the Committee and Officers in discharging their functions.
9. Determining policies that support the investment and funding strategies having taken expert advice.
10. In consultation with the Chair of the Committee, the Head of Pensions will approve the draft Statement of Accounts and Annual Report for audit.
11. Authorising expenditure from the Fund in accordance with the annual budget.
12. Admitting new admitted bodies into the Fund subject to them meeting Fund policy.
13. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
14. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
15. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
16. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

6 Funding and Risk Management Group

The Funding and Risk Management Group (FRMG) is a group of Avon Pension Fund officers and specialist advisors whose role is to consider in greater detail all strategic and operational aspects of the Risk Management Strategies. In addition, it has specific delegated authority as follows:

1. Agree the operational structures to meet the strategic objectives determined by the Avon Pension Committee
2. Make changes to the structures as needed to ensure strategic outcomes continue to be achieved or to manage emerging risk
3. Implement the strategies including
    a. Counterparty selection
    b. Trigger frameworks

c. Collateral arrangements

d. Setting benchmarks

4. Determine the framework for monitoring the strategies and reporting to Panel & Committee

The Group will consist of the following:

From the Avon Pension Fund:

- Head of Pensions
- Group Manager, Funding, Investments and Risk
- Investment Manager
- Senior Investments Officer
- Other Fund Officers as required (for example Funding Manager, Governance & Risk Advisor)

Advisors

- Investment Consultant or deputy
- Risk Consultant or deputy
- Scheme Actuary or deputy
- Investment Manager as required

FRMG shall be quorate if the following are in attendance:

- 2 Pension Fund Officers one of which must be the Head of Pensions or Group Manager, Funding, Investments and Risk
- Risk Consultant or deputy
- Investment Consultant or Scheme Actuary

FRMG will meet as and when required as determined by the Head of Pensions/Group Manager, Funding, Investments and Risk, but at a minimum quarterly. Meetings will be virtual/ by telephone conference.

Meetings will be chaired by the Head of Pensions or Group Manager, Funding, Investments and Risk. Key discussion and action points will be recorded and the Investment Panel will be updated at the next Panel meeting.

Draft for consideration by the Avon Pension Fund Committee

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**		
MEETING DATE:	**28 May 2021**	**AGENDA ITEM NUMBER**	**9**
TITLE:	**Legacy Portfolio Plan**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Exempt Appendix 1 – Legacy Portfolio Plan			

1 THE ISSUE

1.1 The Fund has several legacy portfolios that need to either be managed down as a result of strategic asset allocation decisions or transitioned to Brunel portfolios.

1.2 A number of the legacy portfolios are illiquid or not easily sold, for example hedge funds, infrastructure, and therefore will have to be managed down over time.

1.3 For some of the legacy portfolios there is no comparable portfolio currently offered by Brunel therefore the Fund will seek suitability advice from Mercer to ensure strategic objectives are met from any allocation made to Brunel portfolios.

1.4 Officers will report back to Panel on an annual basis as to the progress made in winding down legacy portfolios.

2 RECOMMENDATION

2.1 **The Panel notes the legacy portfolio plan as outlined in Exempt Appendix 1.**

3 FINANCIAL IMPLICATIONS

3.1 The fees that Avon will pay to its investment managers including Brunel are provided for in the Fund's annual budget. Advice will be sought on any costs attached to the exit of legacy portfolios and reported back to Panel.

4 LEGACY PORTFOLIO PLAN

4.1 The transition plan is set out in Exempt Appendix 1.

4.2 Mercer are supportive of the plan outlined in Exempt Appendix 1 noting that further work will need to be undertaken on the suitability of the Brunel infrastructure and property portfolios.

4.3 Officers will report back to Panel on an annual basis as to the progress made in winding down legacy portfolios.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

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

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have 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	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 614/21

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 28 May 2021

Author: Nathan Rollinson
Report Title: Legacy Portfolio Plan List of attachments to this report: **Exempt Appendix 1 –** Legacy Portfolio Plan

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of

the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

This page is intentionally left blank

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**28 MAY 2021**
TITLE:	**Review of Investment Performance for Periods Ending 31 March 2021**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report EXEMPT Appendix 3 – Risk Management Framework Quarterly Monitoring Report **TO FOLLOW** Appendix 4 – Brunel Quarterly Performance Report Appendix 5 – Brunel Update	

1. THE ISSUE

1.1. This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 31 March 2021.

1.2. The Mercer Performance Monitoring Report at Appendix 2 has been revised this quarter. Feedback from Panel/Officers will be taken on board and the structure of the report will continue to evolve over time to focus on strategic issues.

1.3. The report also includes the Risk Monitoring report (exempt appendix 3) produced by Mercer which includes details of the Fund's liability driven investment strategy and equity protection strategy. **TO FOLLOW**

1.4. Appendix 4 is the quarterly performance report published by Brunel which focuses on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf over the quarter.

1.5. The update on Brunel investment activity is now included in this report (see Appendix 5) as the transition of our assets to Brunel is drawing to a close and the focus for the Panel is now the ongoing management and performance of the Brunel portfolios.

2. RECOMMENDATION

2.1. **Notes information as set out in the reports.**

2.2. **Identifies any issues to be notified to the Committee.**

3. FINANCIAL IMPLICATIONS

3.1. The returns achieved by the Fund for the three years commencing 1 April 2019 will impact the next triennial valuation which will be calculated as at 31 March 2022. The returns quoted are net of investment management fees.

4. INVESTMENTS UPDATE

A – Fund Performance

4.1. The Fund's assets increased by £132m in the quarter (2.7% net investment return) ending 31 March 2021 giving a value for the Fund of £5,301m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2. Positive risk sentiment drove returns over 1Q21 as upgraded global growth expectations coupled with the passing of the US Administrations stimulus package prompted growth assets to rally and defensive assets - such as government bonds - to sell off. Sterling appreciated against the US Dollar by 0.9%, by 5.1% against the Euro and 8.0% against the Japanese Yen. Further information on 1Q asset class performance can be found on pages 6-7 of Appendix 2 and pages 5 – 8 of Appendix 4.

B – Investment Manager Performance

4.3. Brunel reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found on pages 17-34 of Appendix 4.

4.4. The Mercer report provides total fund level performance, current funding level and an analysis of how the Fund's mandates are performing against expected strategic returns (see pages 22-24 of Appendix 2). This report will continue to evolve over time to ensure strategic risks and opportunities are highlighted.

4.5. Manager total returns over the quarter were mixed with equity mandates posting positive absolute returns and fixed income assets adversely impacted by the government bond sell off. On a relative basis the equity mandates underperformed their respective benchmarks due to the inherent quality and growth factor bias. The market rewarded value stocks over the quarter; particularly the financials and energy sectors. The MAC portfolio and Corporate Bond portfolio (held in the QIF for cashflow matching purposes) both posted negative absolute returns largely as a result of yield curve steepening. On a relative basis, the MAC portfolio underperformed its custom benchmark largely as a result of US Dollar strength which negatively impacted its Emerging Market positions. The Brunel DRF also posted a negative absolute return which is attributable to the portfolios underlying growth and quality equity biases and long exposures to sovereign bonds and the Japanese Yen. Elsewhere, the Hedge Fund mandate performed well in local currency terms noting that the Fund no longer has a strategic allocation to this asset class and the allocation is expected to wind down over time. The core infrastructure mandate posted positive absolute returns as revised valuations began to reflect a post-pandemic recovery. The Fund's LDI portfolio provided a tailwind to total fund returns over the quarter as inflation expectations rose and the Fund's inflation positions added value.

Of those mandates with a 1-year track record all posted positive absolute returns (except for the overseas property mandate). Notable outperformance came from the MAC, hedge fund and infrastructure portfolios. The global high alpha was the standout performer amongst the Fund's equity mandates, outperforming its

benchmark by nearly 8%. There have been significant downward revisions to the values of some underlying overseas property assets over the year, however it is worth noting that the manger has delivered significant value on a since inception basis.

C – Risk Management Framework Quarterly Monitoring Report

4.6. A detailed report of the performance of the Fund's risk management strategies including details of how the Fund's collateral position has changed over the quarter is presented in Exempt Appendix 3.

4.7. The Fund's equity protection strategy declined in value over the quarter, as markets rose further from the protection levels in place.

4.8. Post period-end Officers and Mercer concluded the legal review of all documentation attached to the dynamic equity protection strategy and issued instructions to BlackRock to implement the strategy with the appointed counterparty banks. Officers/Mercer will update the Panel at its next meeting once all trading is complete.

4.9. Over the quarter the Fund's LDI portfolio provided a positive return due to changes in inflation expectations. The Fund's inflation hedge ratio was increased to c.45% of assets, following the outcome of the RPI reform consultation. This means that no further inflation hedging will be implemented even if inflation triggers are hit as the hedge ratio is now at the maximum allowable under mandate guidelines. The suitability of the current mandate guidelines will be factored into the annual review of the risk management framework, which is reported to Panel and Committee in September.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. **Returns versus Strategic Assumptions:** Returns since the last valuation date (March 2019) for all equity mandates, the MAC portfolio and core infrastructure are ahead of the assumed strategic returns used during the 2019/20 investment review. The overseas property portfolio lags its assumed return due to the impact of COVID on the property market and the other mandates are either still in build-up phase or do not have a sufficient track record (e.g. Brunel DRF) to properly compare against strategic return assumptions.

5.2. **Rebalancing:** There was no rebalancing activity during the quarter.

5.3. **Private Markets Investments:** At 31 March 2021 39% of the Fund's Cycle 1 (2018-2020) £115m commitment to Brunel's Infrastructure portfolio had been deployed. Pace of deployment remained steady, which is reflective of the fact the Brunel portfolio focuses on high-quality, essential services assets which have been impacted by COVID to a lesser extent than discretionary infrastructure assets. At 31 March 2021 69% of the Fund's £345m commitment to the Secured Income portfolio had been deployed. A notable pickup in pace of deployment largely the result of one underlying manager completing on 4 separate asset purchases. Post period-end a further £58m was drawn down, leaving £48m of undrawn capital for the cycle 1 Secured Income portfolio.

5.4. Over the quarter Cycle 2 (2020-2022) commitments continued drawing down capital. 6% of the £120m renewable infrastructure and 33% of the £120m secured income commitments have been deployed. The Brunel private debt portfolio launched during the period and is expected to start drawing down in May on the Fund's £245m commitment.

The re-registration of the Fund's UK property assets (to be managed by Brunel) commenced in January. As part of the transition the Fund committed £10m to an affordable housing fund, which works with regional house builders to develop new-build housing for the underserved affordable rental sector. Redemptions in non-transferable funds held by the legacy UK property manager continued to progress as the Fund seeks to rebalance its allocation to the 3.75% strategic allocation. As at 30 April 2021 the legacy property manager had sold £65m of the funds retained. The remaining balance (c.£45m) is expected to be sold by the end 2Q 2021.

5.5. **Responsible Investment (RI) Activity**: A summary of RI activity undertaken by Brunel is included on pages 9 – 11 of Appendix 4.

5.6. Separately, the Fund published its annual carbon metrics report which showed that the Fund's listed equity portfolio was 30% more carbon efficient than the benchmark (on a Weighted Average Carbon Intensity basis). The relative efficiency was due to a combination of factors including decarbonisation of the underlying portfolios (driven by investment managers allocating capital to less carbon intensive sectors and/or companies) and the Fund's own strategic asset allocation; principally the replacement of the oil & gas heavy UK equity allocation (and reduction in global equities) with the allocation to the Brunel global sustainable equity portfolio, which has a nil exposure to future emissions from reserves. The results of this analysis will inform future strategy around climate change objectives.

5.7. **Voting and Engagement Activity:** Hermes engaged with 338 companies held by Avon in the Brunel segregated portfolios on a range of 1,175 ESG issues. Environmental topics featured in 24% of engagements, 78% of which related directly to climate change. Social topics featured in 22% of engagements, where human capital, human rights and diversity featured prominently. Of the 38% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 104 meetings (1,036 resolutions). At 36 meetings they recommended opposing one or more resolutions. 70% of the issues Hermes voted against management on comprised board structure and remuneration. Aggregate voting data across all the Fund's investment managers will be reported to Committee at their next meeting.

6. RISK MANAGEMENT

6.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7. EQUALITIES

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 Low Carbon 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 Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager (Tel. 01225 395357)
Background papers	Data supplied by Mercer, Brunel & State Street Performance Measurement
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

APPENDIX 1

AVON PENSION FUND VALUATION - 31 MARCH 2021

	Brunel Portfolios	Cash Management Strategy	QIF	Funds of Hedge Funds	MAC	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities												
UK											0.0	0.0%
Emerging Markets	286.8										286.8	5.4%
Global Developed Markets	403.3		249.8								653.1	12.3%
Global Sustainable Equities	541.1										541.1	10.2%
Global Low Carbon	691.5										691.5	13.0%
Equity Derivatives[1]			-186.3						33.5		-152.8	-2.9%
Total Overseas	***1922.7***		***63.5***								***1986.2***	**38.1%**
Total Equities	**1922.7**		**63.5**						**33.5**		***2019.7***	**38.1%**
Exchange-Traded Funds		**108.6**									***108.6***	**2.0%**
DGFs	**501.3**										***501.3***	**9.5%**
Hedge Funds				**276.4**							***276.4***	**5.2%**
MAC					**317.5**						***317.5***	**6.0%**
Property	**106.8**					**92.6**	**178.6**				***378.0***	**7.1%**
Infrastructure								**365.5**			***365.5***	**6.9%**
Renewable Infrastructure	**50.2**										***50.2***	**0.9%**
Secured Income	**280.3**										***280.3***	**5.3%**
LDI Assets & Bonds												
LDI Assets			748.5								748.5	14.1%
Corporate Bonds			130.8								130.8	2.5%
Total Bonds			**879.3**								***879.3***	**16.6%**
Cash										58.2	***65.5***	**1.2%**
FX Hedging									63.8		***63.8***	**1.2%**
TOTAL	**2861.3**	**108.6**	**942.8**	**276.4**	**317.5**	**92.6**	**178.6**	**365.5**	**97.3**	**58.2**	**5301.0**	**100%**

[1] Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

This page is intentionally left blank

Mercer

Avon Pension Fund

Panel Investment Report
Quarter to 31 March 2021

May 2021

Steve Turner
Joshua Caughey

Contents

Executive summary

1

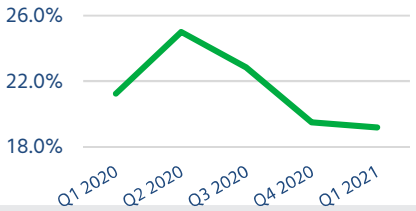
Executive summary

Market background	• Concerns around rising inflation has been the key macro theme to impact financial markets this quarter. • Economic data continued to point towards a global recovery but with wide regional dispersions. Markets looked beyond the temporary setbacks created by Covid-19 restrictions. This led to another quarter of positive returns for risk assets and weaker performance for defensive assets, in particular government bonds.
Mercer market views	• Our medium term views on the global economy (as at April 2021) are favourable, as we expect it to strengthen sharply as economies re-open more fully. Governments and central banks are likely to continue to support economic activity.

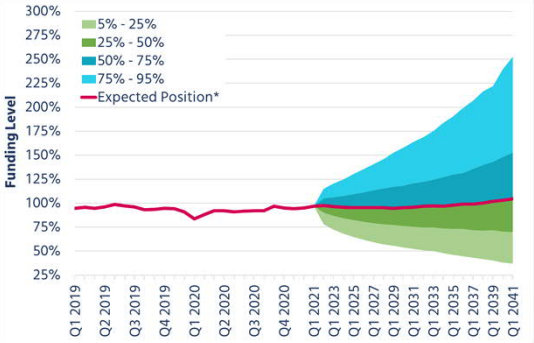
Funding level and risk

- The funding level is estimated to have improved from 95% to 97% over Q1 as asset growth outweighed the rise in the value of the liabilities.
- It is estimated to have increased of by 13% over the year to 31 March 2021 (as illustrated to the right).

- The Value-at-Risk fell over the quarter to £1,049m, or 19.2% of liabilities.
- Risk as a proportion of liabilities has reduced over the year, largely due to the decision to move towards a dynamic equity option strategy.
- Whilst this will be implemented in Q2 2021, its impact has been illustrated from Q4 2020.



- The projected deficit at 2022 has fallen from £245m to £132m since the valuation



Executive summary

Performance

- Fund returns over the quarter were driven mainly by the LDI portfolio as it protected against inflation increases.
- The equity portfolio continued to deliver positive returns.

- Underperformance relative to the strategic benchmark over the one year period to 31 March 2021 is mainly due to the impact of the equity protection strategy, but this has behaved in line with expectations given the increase in the underlying equity markets.
- Relative performance was otherwise strong at the mandate level, with the High Alpha Equity, Hedge Fund and MAC mandates standing out.
- Relative performance over three years has been more mixed, though the Overseas Property mandate was the only notable detractor over this period.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.7	17.3	4.9
Strategic Benchmark **(2)** (ex currency hedge)	4.1	20.5	6.8
Relative **(1 - 2)**	**-1.4**	**-3.2**	**-1.9**

- Absolute returns for most growth mandates are above the strategic returns modelled at the last investment strategy review in March 2019.

Asset allocation and strategy

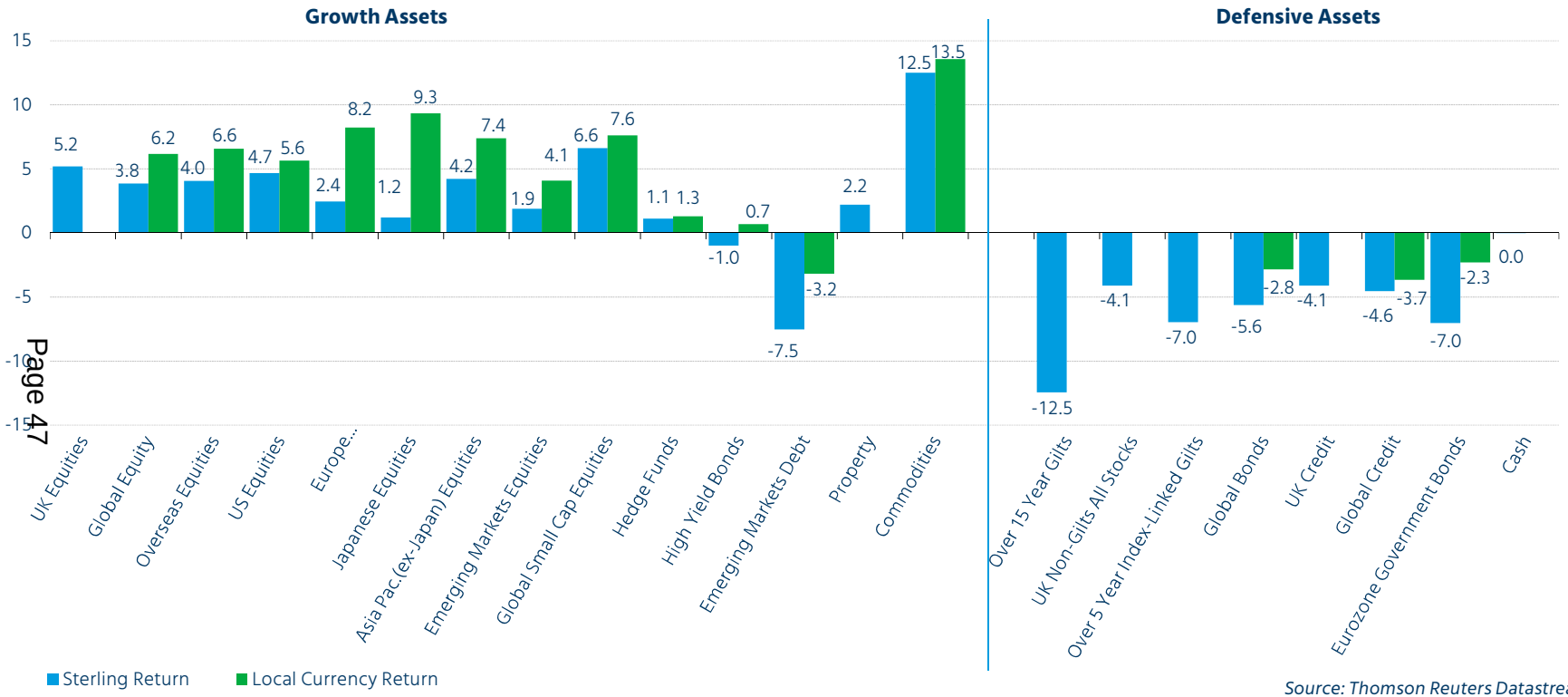
- In January, the Fund increased its inflation hedge ratio to c.45% of assets, the maximum level currently permitted.
- In the same month, the Fund made its first investment into the UK Property mandate with Brunel.
- At quarter end, all asset classes were within their ranges, except for the Renewable Infrastructure and Private Debt mandates which are still in the process of being drawn down.

Market background

2

Market background

Return Over 3 Months to 31 March 2021 (%)



Source: Thomson Reuters Datastream.

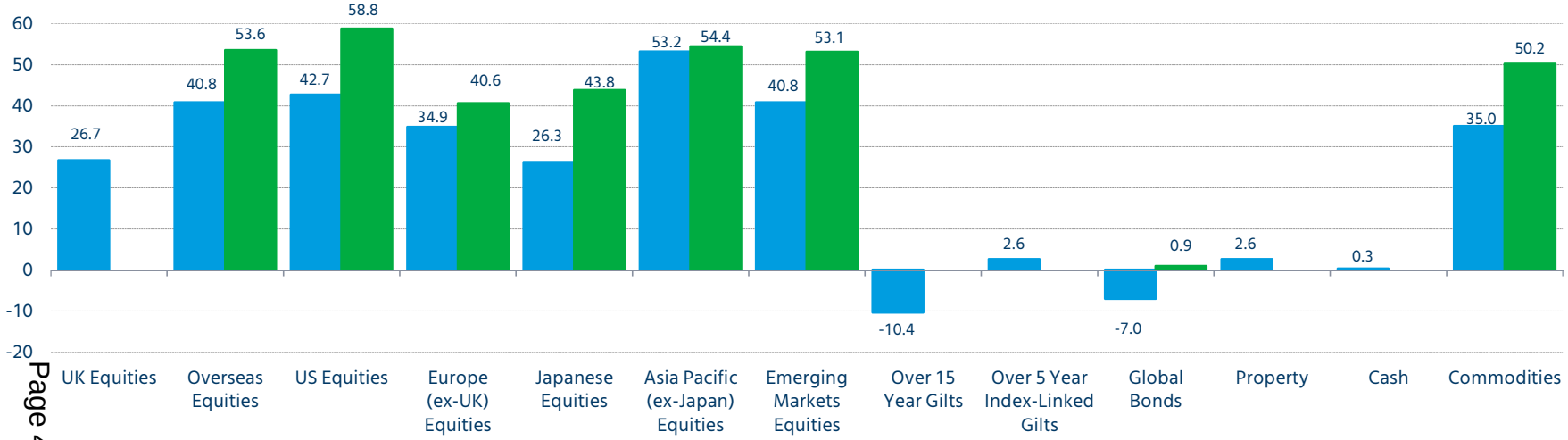
The first quarter of 2021 began with lockdowns in numerous countries as much of the world faced another wave of Covid-19. Nevertheless, gradual vaccine rollout in developed countries drove economic recovery optimism. Political risk declined as Joe Biden was sworn in as US President, despite the incident on Capitol Hill on 6 January, and the UK completed its transition out of the EU without major incidents.

Economic data continued to point towards a global recovery but with wide regional dispersions. Markets looked beyond the temporary setbacks created by Covid-19 restrictions. This led to another quarter of positive returns for risk assets and weaker performance for defensive assets, in particular government bonds.

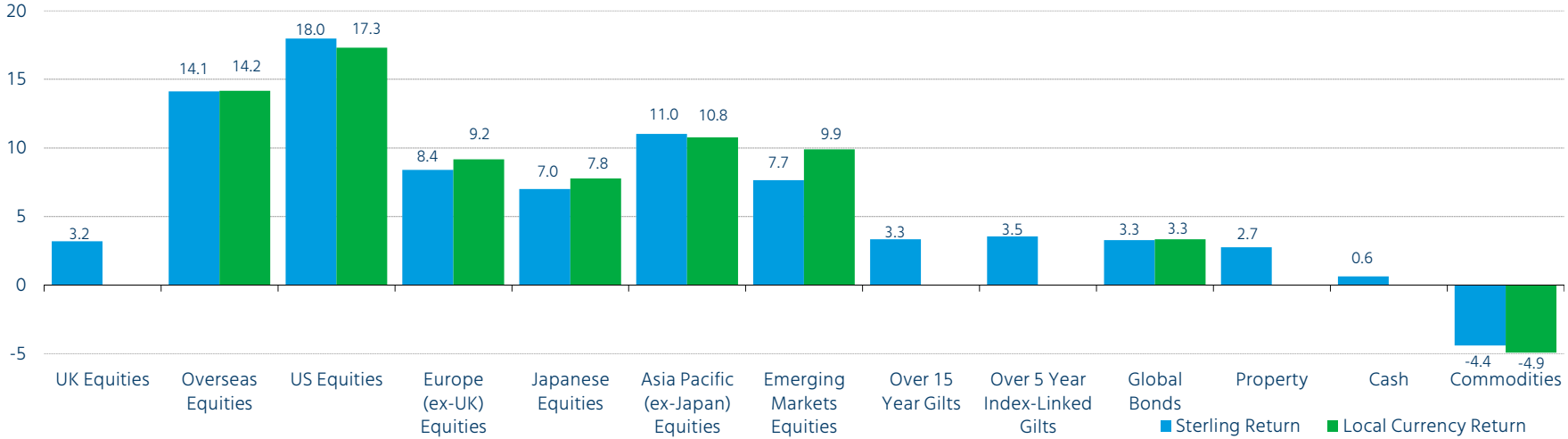
Source: Thomson Reuters Datastream.

Market background – longer term

Return Over 12 Months to 31 March 2021 (%)



Return Over 3 Years to 31 March 2021 (% p.a.)



Mercer

Source: Thomson Reuters Datastream.

Mercer market views (as at April 2021)

3

Market Outlook

Overweight Neutral weight Underweight

Mercer's current position/view

Position/view last time (if changed)

Global equities continued to rally aggressively , spurred on by hopes that the vaccine rollout would lead to an end to lockdown restrictions, unleashing a lot of pent up demand and causing a global economic boom. This boom would be led by consumers in those countries where mobility has been most restricted, such as those in the US and Europe and where consumers have been saving more and spending less than normal over the last 12 months.

COVID varied enormously by region and country and led to very different economic outturns in 2021Q1. In Europe, economic growth was negative as sharply rising cases in most countries led to renewed lockdowns. In the US, while rising COVID cases slowed growth somewhat, the stimulus bill passed at the end of 2020 helped keep overall economic growth strong. Elsewhere, activity was mixed and dependent on whether a country had COVID under control or not. Globally, manufacturing remained strong, with services more mixed.

We expect the global economy to strengthen sharply over the next quarters as economies re-open more fully, unleashing consumers, who are set to spend heavily, especially on those things that have been restricted over the last year. It is difficult to know how much of the excess savings that have been built up will be spent. While some will be saved permanently or used to pay down debt, it is inevitable that some will be spent over the next few quarters. Capex (business investment) has held up more strongly than expected and there is less pent-up demand than in the household sector. Nonetheless, the pick-up in overall economic activity and the low level of inventories should support stronger capex.

Governments and central banks are likely to continue to support economic activity. In the US, the new Biden administration has just passed a new large COVID support package and is planning to pass an infrastructure bill later in the year that will only partly be funded through higher taxes. In the EU, money from the Recovery Fund will start to become available soon. Central banks are likely to keep monetary policy exceptionally loose and will look through (central bank speak for ignore) any rise in inflation caused by re-opening over the next few months. Nonetheless, attention is likely to focus on reducing (or tapering) the amount of new quantitative easing being provided. While actual interest rate hikes remain some way off in developed countries, Russia, Turkey and Brazil all nudged their base rate higher for the first time in a while.

In terms of financial markets we think the outlook for risk assets such as equities and growth fixed income remains positive, although our concern about valuations have increased. Strong economic growth is likely to lead to strong corporate profit growth and this alongside still very supportive monetary policy provides a strong tailwind to equities and growth fixed income. However, with both equities and high yield bonds performing well at the start of 2021, valuations have become less attractive. High yield bond spreads are below normal levels and even though we expect defaults to remain low, these tight spreads provide little protection if our expectation of strong growth turns out to be too optimistic. We have thus pared back our categorization of growth fixed income from overweight to the overweight side of neutral. We also considered lowering our equity rating on valuation grounds as well. However, we decided against this, noting the strong tailwind from the macro environment and the fact that equities are not expensive relative to bonds. We have increased our cash position to offset the downgrade of growth fixed income.

Within equities we made no major changes, continuing to prefer emerging market equities and to a lesser extent small cap equities. Within growth fixed income, we revised the outlook for loans marginally higher at the expense of high yield following the recent high yield outperformance. Within defensive fixed income, we continue to like securitised bonds on a relative basis and remain on the underweight side of neutral in UK sovereign bonds and index- linked bonds. We think that government bonds yields will move higher on the back of strong economic growth and a pick-up in inflation. We expect inflation to rise sharply over the next few months as economies reopen , but we expect this will largely be temporary.

LISTED EQUITIES

GROWTH FIXED INCOME

DEFENSIVE FIXED INCOME

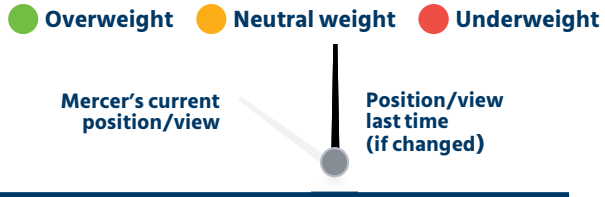
CASH*

*In lieu of cash, investors might consider liquid alpha-oriented strategies with low sensitivity to equity, credit and duration.

The views on these slides are as at April 2021, and the charts summarise Mercer's views on the medium term (1-3 years) outlook for returns .

These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

Listed equities



ASSET CLASS	COMMENTARY
 GLOBAL SUSTAINABLE EQUITY	**The MSCI World Index returned around 4% in GBP terms over 2021 Q1 and 39% over a one-year period, one of the strongest year-on-year performances ever following the Covid-19 driven market sell off in 2020Q1[1]. We have maintained our broad market equity sector position at the underweight side of neutral within the global equities portfolio.** At this time our concerns about valuations and frothy sentiment in equity markets are offset by the strong foundation for the economic recovery laid by successful vaccine roll-outs in the US and UK with Europe gradually catching up and robust fiscal and monetary policy support on a global level. While the current macro environment favours broad market equities in absolute terms, other sectors stand to benefit more strongly from expected positive developments for the rest of the year.
 GLOBAL SMALL CAP EQUITY	**Global small caps have once again seen the strongest rally of all equity subsectors, with the MSCI Small Cap index returning almost 9% in GBP terms over 2021 Q1 and 64% on a year-on-year basis[1]. We have maintained our small cap allocation at the overweight side of neutral.** The macro environment remains favorable for small caps, which are expected to benefit significantly from a vaccine enabled full domestic reopening, especially over the remainder of 2021. Small caps greater exposure to value sectors relative to broad market equities also makes them a good proxy to express our preference of value over growth in an environment which should benefit out of favour sectors and provide additional upside from valuation expansion. Strength from small caps over the last few quarters has prevented us from further upgrading our view.
 EMERGING MARKET EQUITY	**The MSCI Emerging Markets index returned around 1% in GBP terms over 2021 Q1 and 43% on a year-on-year basis[1]. Despite the weakness out of China, which was the primary reason emerging market equities to lagged during the quarter, we retain our overweight position within the global equities portfolio.** Valuations are still more inviting than for other equity sectors. The emerging Asia region continues to benefit from foreign goods demand, which is expected to continue, even if on a smaller scale than last year. 2021 is likely to be a bit less spectacular for emerging markets equities than the previous year, as China curbing credit growth might be a headwind this year. That said, we expect China's government to continue to prioritize growth and our conviction in the asset class over a three-year time horizon remains strong.

Mercer

[1] *Source: Bloomberg, DataStream as of end of 1Q2021*

Growth fixed income

Overweight | Neutral weight | Underweight

Mercer's current position/view

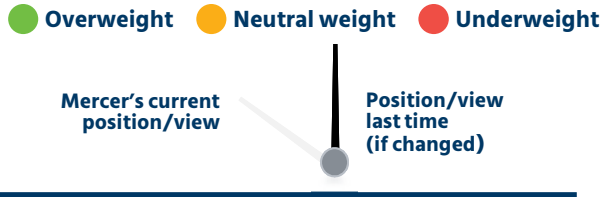
Position/view last time (if changed)

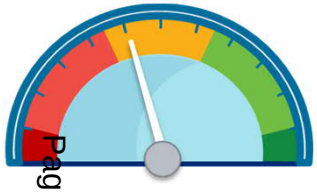
ASSET CLASS	COMMENTARY
 EM DEBT (LOCAL CURRENCY)	**EMD local currency markets struggled through Q1 2021, posting a negative GBP return of 7.5%[1]. We have maintained our position to a higher conviction neutral within the growth fixed income portfolio.** The recent rally in EMD local currency markets paused although EM FX continues to screen inexpensive relative to the USD with EM FX valuations remaining below their three-year average on a REER basis. Overall, the economic backdrop for emerging markets has improved with measures of global trade and manufacturing continuing to recover on both demand and supply factors along with strengthening in commodity prices. With the recent US elections out of the way, the arrival of COVID-19 vaccines and improving global growth should be particularly supportive of EM markets. We maintain a preference for local relative to hard currency given the rising US twin deficits, accommodative Fed policy, and improving growth, which should all help to ease the pressure of further US dollar strength.
 EM DEBT (HARD CURRENCY)	**EMD hard currency markets declined through Q1 2021, as at March 31 2021, the index was down 5.4% in GBP terms[1]. We have maintained our overall neutral allocation within the growth fixed income portfolio.** The recent sell-off has led to a continuation in spread dislocation between investment and non-investment grade with high yield spreads widening further. Higher quality spreads, however, have broadly returned to pre-COVID tights. Overall, the economic backdrop for emerging markets has improved with measures of global trade and manufacturing continuing to recover on both demand and supply factors along with further stability in commodity prices. With the recent US elections out of the way, the arrival of COVID-19 vaccines and improving global growth should be particularly supportive of EM markets.
 GLOBAL LOANS	**Over 2021 Q1, global loans returned 0.8% in GBP terms[1]. We have modestly upgraded our bank loans position to neutral within the growth fixed income portfolio.** With an average price below par and a yield over 4.5%, global loan valuations look relatively attractive given the general context of low to negative yields globally. Further, their floating rate nature and senior secured position makes them quite appealing in the current environment. Forward looking default rate expectations continue to trend lower, and we believe investors are seeing sufficient reward for the level of risk. Our outlook for strong growth and elevated rate volatility has us favoring the floating-rate nature of the loan asset class versus high yield.
 GLOBAL HIGH YIELD	**Over 2021 Q1, global high yield returned -1.9% on a GBP basis[1]. We have modestly downgraded our global high yield position to the negative side of neutral within the growth fixed income portfolio.** High yield valuations have become less attractive as spreads have continued to narrow and are now inside of where they entered 2020. As a result, further spread compression, particularly within the higher quality segment of the market, appears quite limited at this point. While the backdrop remains favorable for credit assets, we hold a slight preference for global loans over high yield given the floating rate nature and senior secured status of the loan asset class.

Mercer

[1]Source: Bloomberg, DataStream as of end of 1Q2021

Defensive fixed income



ASSET CLASS	COMMENTARY
 UK SOVEREIGN FIXED INCOME	**Over 2021Q1, UK sovereign fixed income returned -2.5% in GBP hedged terms[1]. We have maintained our negative side of neutral position in UK Sovereign Fixed Income within the defensive fixed income portfolio.** Following the sell-off in Q1, rates have become marginally more attractive on an absolute basis. However, we do not yet believe we are at the point where we would recommend a higher allocation to nominal bonds just yet, acknowledging the risk that yields may rise further off stronger growth prospects as the UK economy reopens.
 UK INFLATION-LINKED BONDS	**Over 2021 Q1, UK inflation linked bonds returned -6.4% in GBP terms[1]. We have maintained our position at the negative side of neutral for UK inflation-linked government bonds within the defensive fixed income portfolio.** Break-evens remain expensive relative to the BoE's target of 2%, and breakevens across the maturity spectrum are currently being priced above the long-run averages. Although due to a number of primarily technically-driven factors, as well as uncertainties around post-Brexit inflation risks, it demonstrates that investors are paying substantially for inflation protection in the current market.
 UK BUY AND MAINTAIN CREDIT	**Over 2021Q1, UK buy and maintain credit returned -4.0% in GBP hedged terms[1]. We have maintained UK Buy & Maintain Credit within the defensive fixed income portfolio at neutral as we see risk better rewarded in securitised credit at the current time.** Spreads were mostly unchanged from Q1, and we expect them to consolidate at current levels, offering carry but limited capital gain with very few areas offering value. Over the short term, the corporate bond market should continue to benefit from a stronger economy and technical tailwinds in the form of demand for spread products, and expected weaker supply than in 2020. Over the medium term we are becoming more cautious, with a lot of good news already priced in but with very little reward for tail risks.

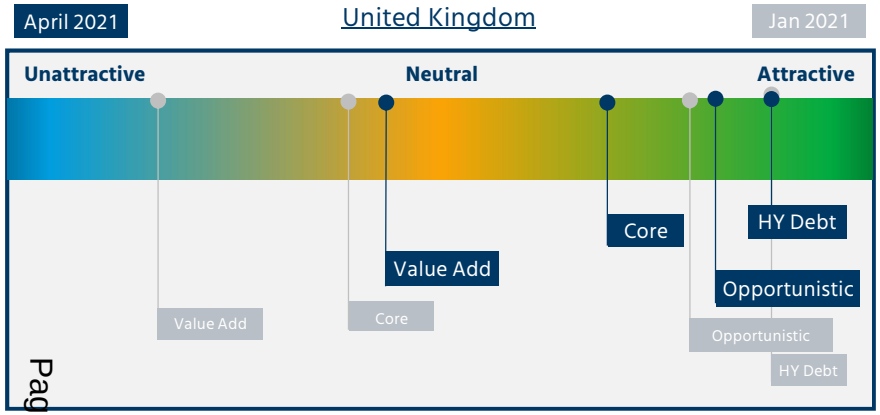
Mercer

[1]*Source: Bloomberg, DataStream as of end of 1Q2021*

[2]*Commerical Mortgage-Backed Securities (CMBS: Bloomberg Barclays US CMBS 2.0 AAA Index), Asset Backed Securities (ABS: Bloomberg Barclays US ABS Index), Collatarized Loan Obligations (CLOS: JP Morgan CLOIE Investment-Grade Index) & Mortgage-Backed Securities (MBS: Markit iBoxx US Non-Agency RMBS Index). Source: Bloomberg, DataStream, JP Morgan as of end of 1Q2021*

Real estate outlook and opportunities

Relative attractiveness by Fund Style



- **Core:** We have upgraded our view on core investment strategies as confidence grows in the economic recovery. We expect this positivity to arrest the decline in valuations and boost occupier demand, albeit from a low base. Investors will continue to focus on income security, such as that offered by long lease strategies, but pricing of mainstream core real estate has become increasingly attractive relative to other asset classes and we expect performance to recover to historic norms by year end.

- **Value Add:** Income risk strategies have become more attractive over the past quarter as the market has most likely moved through the depths of the economic downturn. As the vaccination programme gathers pace, optimism about the path to recovery is returning, but risks remain elevated for some sectors of real estate occupier demand.

- **Opportunistic:** Opportunistic strategies have become more attractive in our view as the probability of achieving asset acquisitions at discounted pricing increases the longer the pandemic continues. Special situations opportunities are most likely to emerge in the retail and leisure sectors. Increasing obsolescence due to the growth of ESG requirements may result in redevelopment opportunities.

- **High Yield Debt:** Real estate debt funds continue to look attractive for income seeking investors as traditional bank lenders reduce activity while underlying assets devalue. Together, these features mean higher margins can be achieved by non-bank lenders particularly outside of London and the most liquid sectors.

Market Outlook

- The UK leads among large developed countries in terms of the vaccination roll-out, feeding the optimism felt in spring 2021. However, concerns over the relentless spread of the pandemic elsewhere in the world and fears of vaccine resistant variants remain. Optimism over the unfolding recovery is also tempered by the continued rise in longer dated bonds yields and associated fear of tightening in financial conditions.

- Rising UK gilt yields are not expected to impact on property yields given the generous spread that remains in place, especially as industrial, residential and office assets remain in strong demand. Covid restrictions remaining in place to some extent until June will likely mean capital values for some sectors, particularly retail and leisure, remain under pressure. Overall returns are expected to return to historic norms by year end 2021.

- Our top three sector/geographic picks in terms of real estate fundamentals:

1. **Operational real estate:** Funds targeting assets where real estate performance is linked to an operating platform, including residential, self- storage, senior housing and leisure.

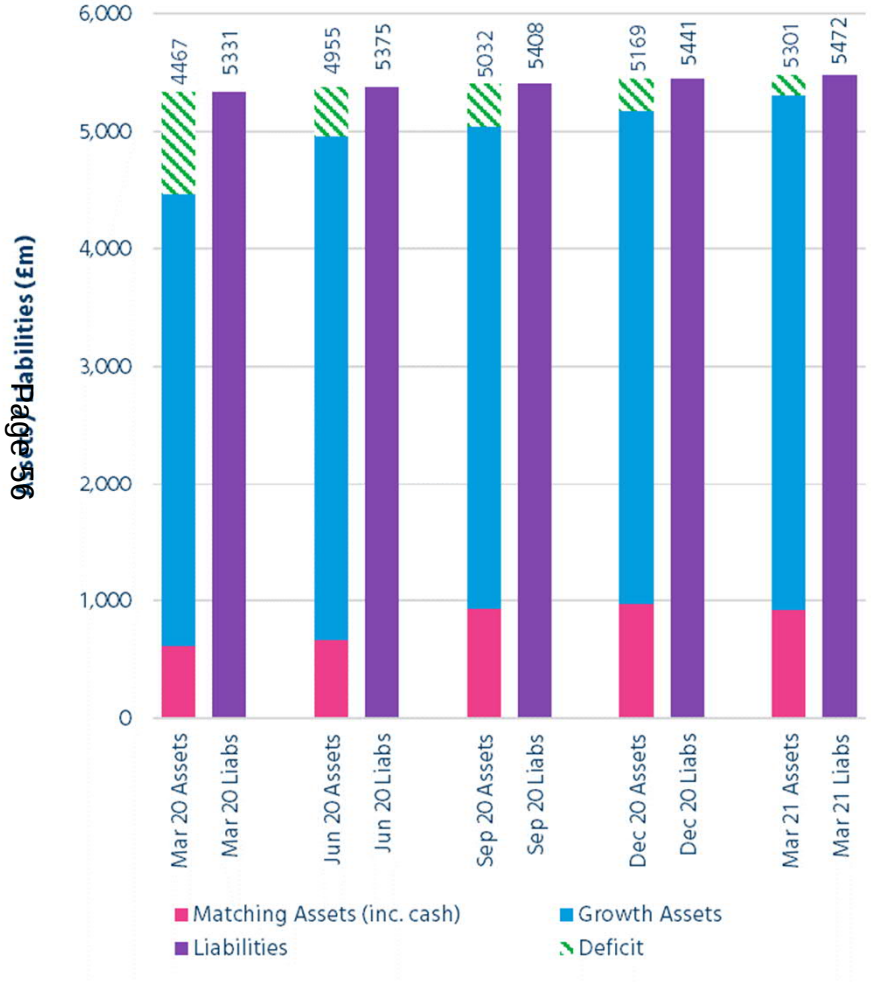
2. **Logistics:** Fundamentals remain strong for logistics sites in and around major urban areas, although attractive pricing is difficult to achieve for standing assets.

3. **Accessible non-fashion retail**: Retail Parks with rebased rents, sustainable income profiles and low fashion exposure have attractive risk return dynamics at current pricing levels.

Funding level and risk

4

Change in deficit

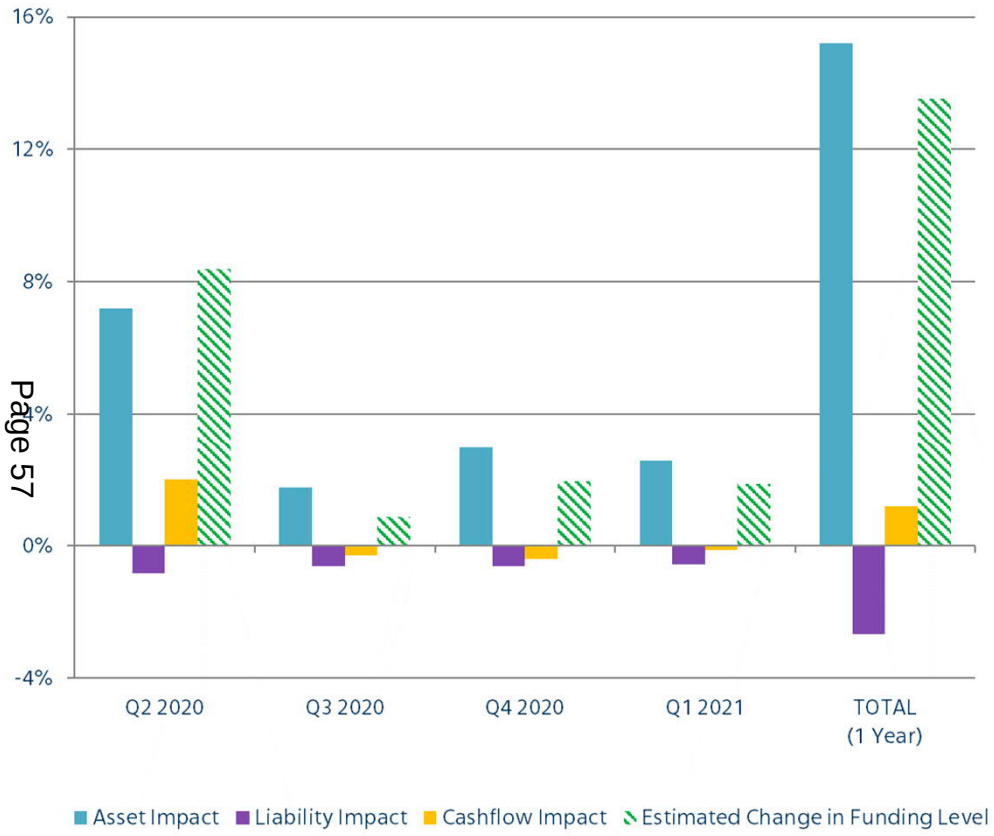


Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have reduced further over the first quarter of 2021, from £272m to £171m.

This occurred as the value of the assets rose by more than the present value of the liabilities over the period.

This is calculated using the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.

Funding level attribution



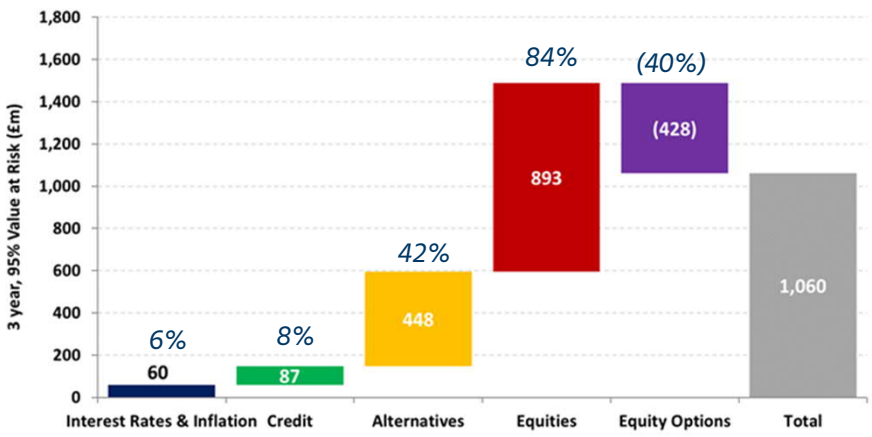
The Fund's assets returned 2.7% over the quarter, whilst the liabilities are expected to have increased by c. 0.6% due to the rise in inflation.

The combined effect of this, also allowing for cashflow over the period, saw the funding level improve from 95% to 97%.

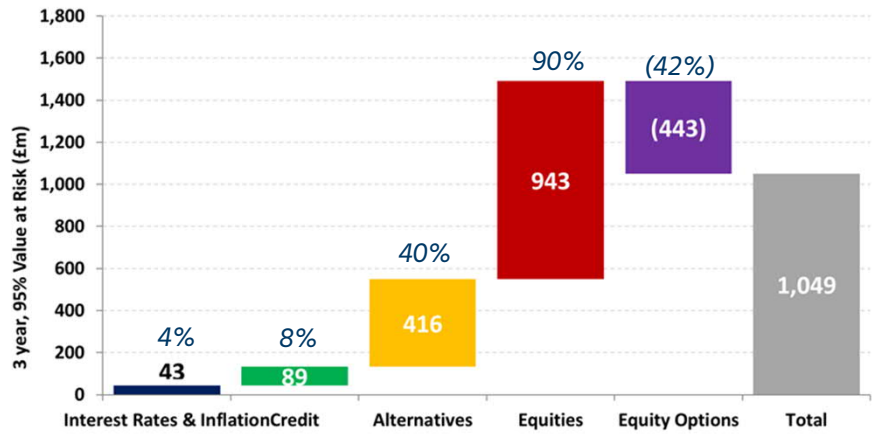
The funding level is estimated to have increased by c.13% over the year to 31 March 2021.

Risk decomposition – 3 year Value at Risk

31 December 2020



31 March 2021

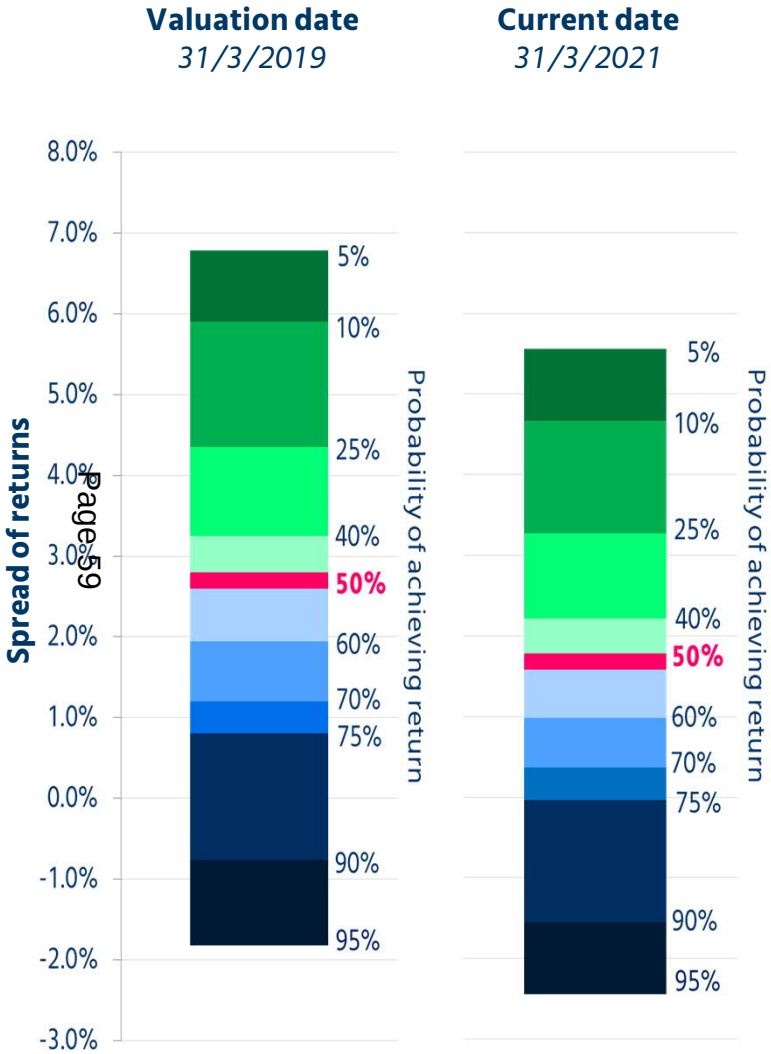


- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change 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 grey column on the right hand side of each chart shows 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.
- If we focus on the chart at 31 March 2021, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit could increase by at least an additional **£1.0bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall, **the VaR has fallen over the quarter**, which is largely attributable to the rise in gilt yields and lower volatility for fixed interest gilts. Both decompositions illustrate the use of a dynamic equity option strategy, which the Fund will be implementing during Q2 (as opposed to the previous static strategy). This significantly reduced the VaR via an increased offsetting amount from the equity options.

Mercer

The 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.

Investment returns – updated outlook



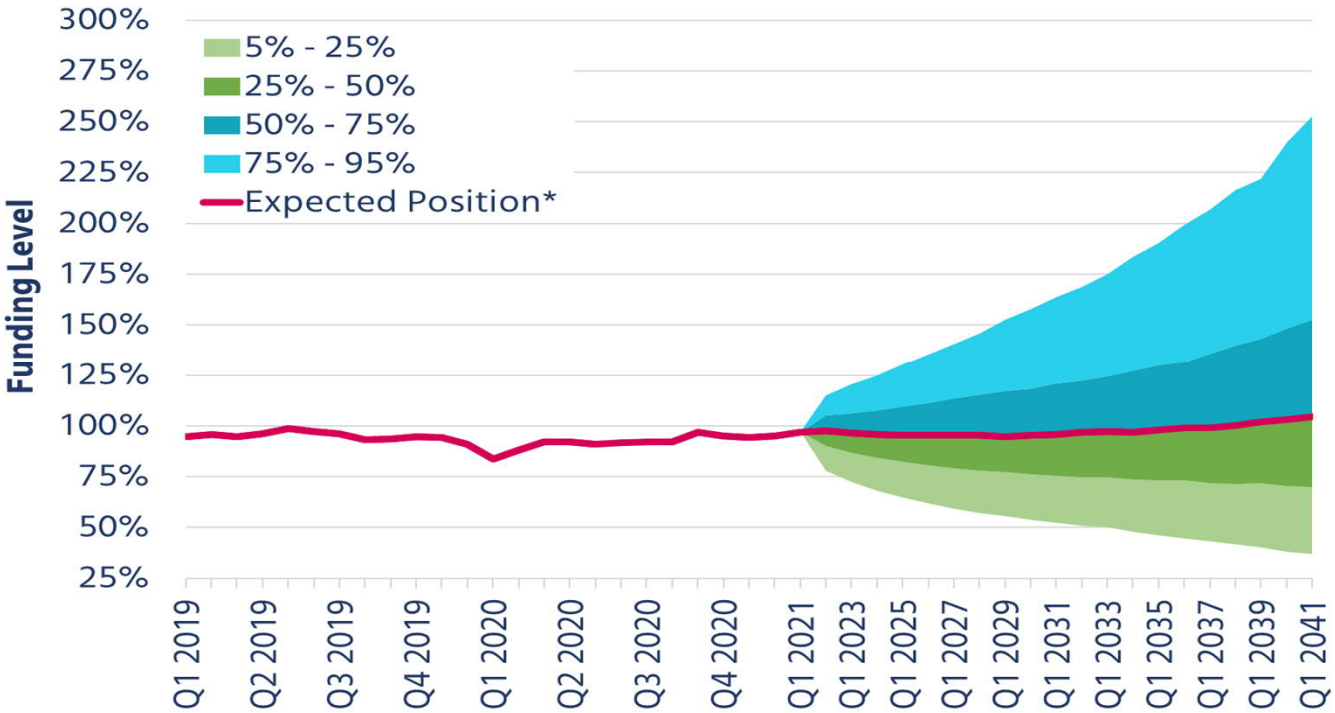
Return metrics (20 year)	31/3/19	31/3/21
Expected absolute return	5.0% p.a.	4.5% p.a.
Expected return over CPI	2.6% p.a.	1.6% p.a.
Probability of achieving past service discount rate of CPI + 1.75% p.a.	63%	47%
Probability of achieving future service discount rate of CPI + 2.25% p.a.	55%	39%

Key return percentiles	31/3/19	31/3/21
50% confidence	CPI + 2.6% p.a.	CPI + 1.6% p.a.
60% confidence	CPI +1.9% p.a.	CPI + 1.0% p.a.
70% confidence	CPI + 1.2% p.a.	CPI + 0.4% p.a.

The probability of returns outperforming the discount rate relative to CPI has fallen as real returns continue to be difficult to come by, particularly with long term implied inflation expectations rising but forward looking expected absolute returns falling versus the valuation date.

Funding and contributions

Projection of outcomes from 31 March 2021



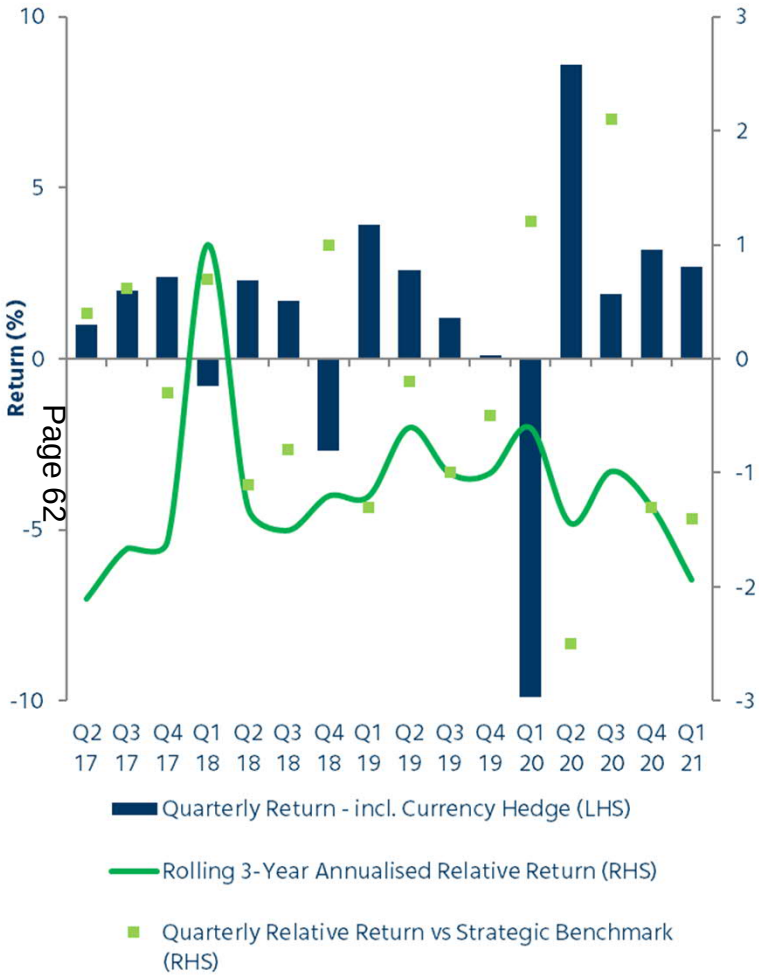
** actual funding level progression (as calculated by PFaroe) shown from 31 March 2019 to 31 March 2021*

- The chart above demonstrates the actual funding level progression to date, and the projection of outcomes over the next 20 years thereafter.
- The funnel of potential outcomes is very wide, representing the uncertainty in the future funding level. This is driven by the level of risk within the strategy.
- The Fund is a long term investor therefore the focus should be on the probability of being successful in the longer term.
- The funnel of potential outcomes is positively skewed with a greater potential for more positive outcomes versus negative outcomes. This is attributed to the strength of the downside protection strategies put in place to date.

Performance summary

5

Total Fund performance



	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.7	17.3	4.9
Total Fund (ex currency hedge)	2.2	14.9	5.0
Strategic Benchmark **(2)** (ex currency hedge)	4.1	20.5	6.8
Relative (1 - 2)	**-1.4**	**-3.2**	**-1.9**

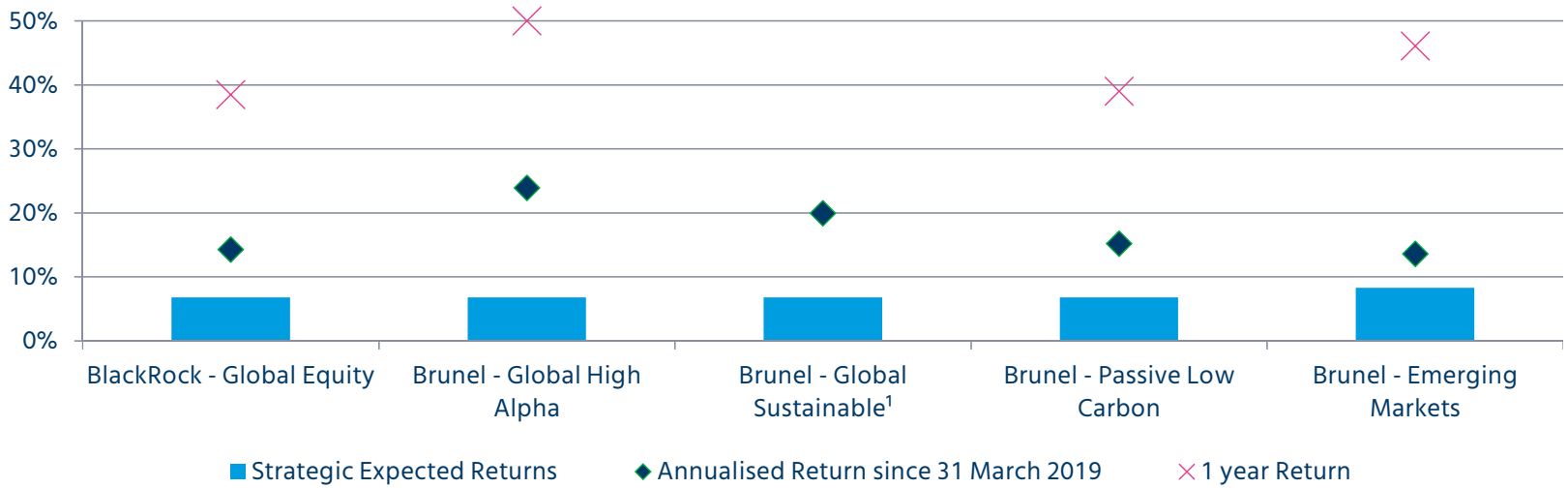
Commentary

- Fund returns over the quarter were driven by the rise in the value of the LDI portfolio as it protected against inflation increases. The equity portfolio also continued to deliver returns, and the currency hedging policy made a positive contribution as sterling strengthened.
- The equity portfolio underperformed relative to the benchmark, however. In particular the Sustainable Equities fund has struggled due to its strong bias away from "value" factors, which have done well over the last few months. The equity protection also detracted from relative performance at the total Fund level. Falls in the MAC and Renewable Infrastructure mandates meant they also underperformed their cash/inflation plus benchmarks.
- Relative performance at the mandate level has been stronger over the one year period to 31 March 2021, with the High Alpha Equity, Fund of Hedge Funds and MAC mandates standing out. Underperformance relative to the strategic benchmark over this period is mainly due to the impact of the equity protection strategy, but it is important to note that this has behaved in line with expectations given the increase in the underlying equity markets.
- Relative performance over three years was more mixed. The Overseas Property mandate detracted, and the impact of the equity protection will have had a negative impact. The underperformance from some of the terminated mandates are also reflected.

Mercer

Performance vs. expected strategic returns

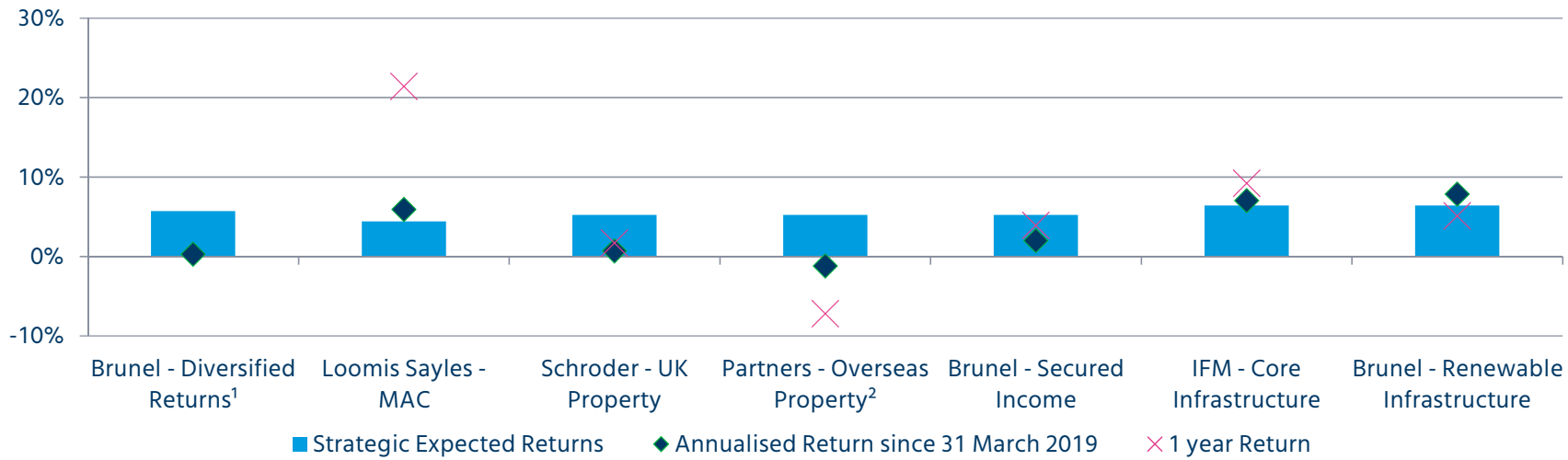
	BlackRock Global Equity	Brunel Global High Alpha	Brunel Global Sustainable	Brunel Passive Low Carbon	Brunel Emerging Markets
Benchmark allocation	12.0%	10.0%	10.0%	10.0%	5.5%
Commentary	Returns have been above expectations for all equity mandates, given the strength of equity markets since 2019.				
	Returns are above strategic expectations as the fund has tracked the underlying market	Strong manager outperformance adding to returns	Strong returns from equity markets, although the fund has underperformed the benchmark to date	Returns are above strategic expectations as the fund has tracked the underlying market	Returns are above strategic expectations as the fund has performed broadly in line with the underlying market



Notes:
We have illustrated the key mandates within the Fund's investment strategy.
The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.
Actual returns between 31 March 2019 to 31 March 2021, except if otherwise stated below.
[1] Returns are shown since the mandate's inception date and annualised.

Performance vs. expected strategic returns

	Brunel Diversified Returns	Loomis Sayles MAC	Schroder UK Property	Partners Overseas Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra
Benchmark allocation	10.0%	6.0%	3.75%	3.75%	10.0%	5.0%	5.0%
Commentary	Mandate incepted in July 2020; too early to draw conclusions	Returns above expectations due to narrowing of spreads on sub-investment grade debt since March 2021	Returns below expectations due to the impact of Covid on the property market	Returns below expectations due to the impact of Covid on the property market. Focus should be on long-term performance as the mandate is still in the drawdown phase	Returns below expectations but mandate is still in the drawdown phase	Returns above expectations as real assets have continued to deliver	Returns above expectations but mandate is still in the drawdown phase



Notes:
We have illustrated the key mandates within the Fund's investment strategy.
The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.
Actual returns between 31 March 2019 to 31 March 2021, except if otherwise stated below.
[1] Returns are shown since the mandate's inception date and annualised.
[2] Returns are shown up to 31 December 2020, as this is the latest data available.

Manager performance to 31 March 2021

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Global Equity	3.7	4.0	-0.3	38.5	38.4	+0.1	13.9	13.4	+0.4	-	Target met
Brunel Global High Alpha Equity	3.2	4.1	-0.9	50.0	39.1	+7.8	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equities	0.4	3.7	-3.2	N/A	N/A	N/A	N/A	N/A	N/A	+2	N/A
Brunel Global Low Carbon Equity	3.8	3.9	-0.1	39.0	39.2	-0.1	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	2.1	1.4	+0.7	46.1	42.8	+2.3	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	-1.3	0.0	-1.3	N/A	N/A	N/A	N/A	N/A	N/A	+4-5	N/A
JP Morgan FoHF	2.8	0.8	+2.0	23.0	3.6	+18.6	9.0	4.8	+4.0	-	Target met
Loomis Sayles MAC	-1.3	1.0	-2.3	21.4	4.2	+16.5	4.2	4.6	-0.4	-	Target not met
Schroder UK Property	0.6	2.2	-1.6	1.7	2.5	-0.8	2.0	2.4	-0.4	+1	Target not met
Partners Overseas Property*	-0.6	2.5	-3.0	-7.2	10.0	-15.7	1.4	10.0	-7.8	-	Target not met
Brunel Secured Income	1.9	0.2	+1.7	3.9	0.7	+3.2	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure**	1.6	0.7	+0.9	9.2	3.4	+5.7	9.6	4.6	+4.8	-	Target met
Brunel Renewable Infrastructure	-3.0	0.2	-3.2	5.1	0.7	+4.4	N/A	N/A	N/A	+4	N/A
BlackRock Corporate Bonds	-6.8	-6.8	0.0	12.9	12.9	0.0	5.6	5.6	0.0	-	Target met
BlackRock LDI	21.0	21.0	0.0	30.5	30.5	0.0	3.4	3.4	0.0	-	Target met

Since inception performance for Partners, which was the largest underperformer over the three year period, has been more favourable at 5.4% p.a. *

- Source: Investment Managers, Custodian, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan and Partners , whose performance is shown in local currency terms.**
- **Returns are net of fees.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.
- *Partners performance is to 31 December 2020 as this is the latest date that this is available. The mandate's inception was in 2009.
- **IFM returns are in GBP terms after the manager switched to GBP reporting in January 2020. Historical USD performance has been converted to GBP.

Asset allocation

6

Valuations by asset class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Difference (%)
Global Equity	657,218	688,410	12.7	13.0	12.0	7 - 17	1.0
Global Sustainable Equity	538,779	541,101	10.4	10.2	10.0	5 - 15	0.2
Global Low Carbon Equity	665,924	691,544	12.9	13.0	10.0	5 - 15	3.0
Emerging Market Equity	280,823	286,760	5.4	5.4	5.5	3 - 9	-0.1
Diversified Growth Funds	508,027	501,330	9.8	9.5	10.0	5 - 15	-0.5
Fund of Hedge Funds*	265,097	276,402	5.1	5.2	-	No set range	0.2
Multi-Asset Credit	321,648	317,539	6.2	6.0	6.0	3 - 9	0.0
Property	415,310	377,969	8.0	7.1	7.5	5 - 10	-0.4
Secured Income**	133,870	280,324	2.6	5.3	10.0	5 - 15	-4.7
Core Infrastructure	359,670	365,544	7.0	6.9	5.0	2.5 - 7.5	1.9
Renewable Infrastructure**	48,089	50,205	0.9	0.9	5.0	2.5 - 7.5	-4.1
Private Debt	-	-	-	-	5.0	0 - 7.5	-
Corporate Bonds	140,422	130,825	2.7	2.5	2.0	No set range	0.5
LDI & Equity Protection	496,882	562,219	9.6	10.6	12.0	No set range	-1.4
Cash***	337,490	220,797	6.5	4.4	-	0 - 5	4.4
Total	**5,169,488**	**5,301,031**	**100.0**	**100.0**	**100.0**		

Source: Custodian, Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.
Totals may not sum due to rounding.
*Mandate due to be terminated.
**Valuations include both funding cycle allocations.
***Valuation includes the ETF and currency instruments

Renewable Infrastructure and Private Debt mandates are still being drawn down so allocations are below target ranges.

Valuations by manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	240,876		249,770	4.7	4.7
Schroder	Global Equities	7,135	-5,548	1,515	0.1	0.0
Brunel	Global High Alpha Equity	390,871		403,274	7.6	7.6
Brunel	Global Sustainable Equity	538,779		541,101	10.4	10.2
Brunel	Global Low Carbon Equity	665,924		691,544	12.9	13.0
Brunel	Emerging Market Equity	280,823		286,760	5.4	5.4
Brunel	Diversified Returns Fund	508,027		501,330	9.8	9.5
JP Morgan	Fund of Hedge Funds	265,097		276,402	5.1	5.2
Loomis Sayles	Multi-Asset Credit	321,648		317,539	6.2	6.0
Brunel	UK Property	-	102,561	106,841	0.0	2.0
Schroder	UK Property	225,963	-135,027	92,565	4.4	1.7
Partners	Overseas Property	189,346	-779	178,563	3.7	3.4
Brunel**	Secured Income	133.870	143,400	280,324	2.6	5.3
IFM	Core Infrastructure	359,670		365,544	7.0	6.9
Brunel**	Renewable Infrastructure	48,089	3,366	50,205	0.9	0.9
BlackRock	Corporate Bonds	140,422		130,825	2.7	2.5
BlackRock	LDI & Equity Protection	496,882		562,219	9.6	10.6
Record	Currency Hedging	71,968		97,316	1.4	1.8
BlackRock	ETF	48,603	60,000	108,631	0.9	2.0
Internal Cash	Cash	234,945	-175,135	58,223	4.5	1.1
Total		5,169,488	-7,196	5,301,031	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.
*Valuation includes the collateral holdings for the currency overlay.
**Valuations include both funding cycle allocations.

Current topics

7

Current topics

Aiming for a net-zero target

The draft UK Regulatory guidance on "Governance and Reporting of Climate Change Risk" impacts schemes >£5bn from October 2021, and schemes >£1bn from 2022.

The draft regulations required that trustees of schemes in scope must:

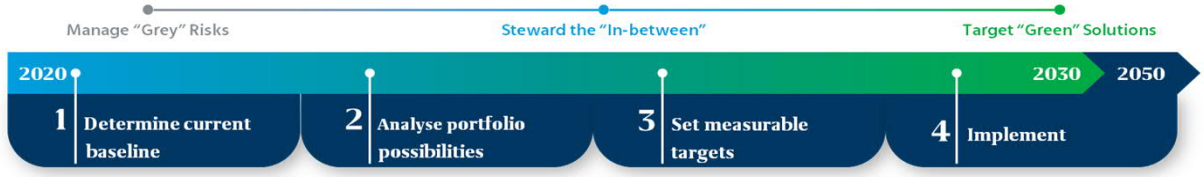
- Set **at least one absolute Greenhouse Gas emissions** based metric;
- Set **at least one emissions intensity** based metric;
- Set **at least one additional (non-emissions based)** metric (for example, green revenues, process based);
- Set an **annual target** to manage climate related risks using one of the metrics;
- **Report annually** on the value of the metric and progress against target.

*Understanding the carbon intensity and carbon footprint in your scheme's asset classes will help you understand **where your carbon exposures lie** and enable you to start the conversation on **how to transition the portfolio** and ultimately lead to the implementation of a decarbonisation path to net-zero with measurable targets and milestones.*

Relevance to the Fund

The Fund has committed to net zero by 2050. Part two of the equity portfolio review will help develop a plan to implement and monitor this.

Mercer's climate transition advice, supported by our **Analytics for Climate Transition (ACT)**, follows a **step-by-step approach** to align to a net zero outcome by 2050.



Is credit really a free lunch?

- European and US investment grade and high yield credit spreads narrowed further in Q1 2021 back to historically low levels seen in early 2020 and 2017-2018
- Subject to the efficacy of the vaccines and their take-up rate, our base scenario is that the global economy will return to something close to normal by end 2021 with growth in Q3 extremely strong as pent-up spending power is released
- At face value, this is favourable environment for credit as an asset class. Central banks are also buying corporate bonds and supporting markets, most notably the ECB. ***But is credit really a free lunch?***

Should we worry about the Zombies?

Zombie firms are companies that cannot cover debt servicing costs from current profits and are dependent on creditors to survive. Downgrade of investment grade zombies' debt may pose significant risk. Default risk is higher than the favourable environment suggests.

What should investors do?

Governance

- Review your allocation to credit
- Assess the downgrade and default risk of your credit portfolio

Risk Management

- Understand your managers exposure to Zombie companies, if any, and the risk to broad market indices

Strategy

- Is your credit allocation strategic or tactical?
- Is mark-to-market risk a concern given your triennial valuation cycle?
- Assess the mix of credit assets held, e.g. investment grade vs high-yield, listed vs private etc.
- Rebalancing activity may provide an opportunity to adjust asset allocations.

Relevance to the Fund

It is worth asking Brunel and BlackRock to see if they have considered "zombie" company risks.

Appendix

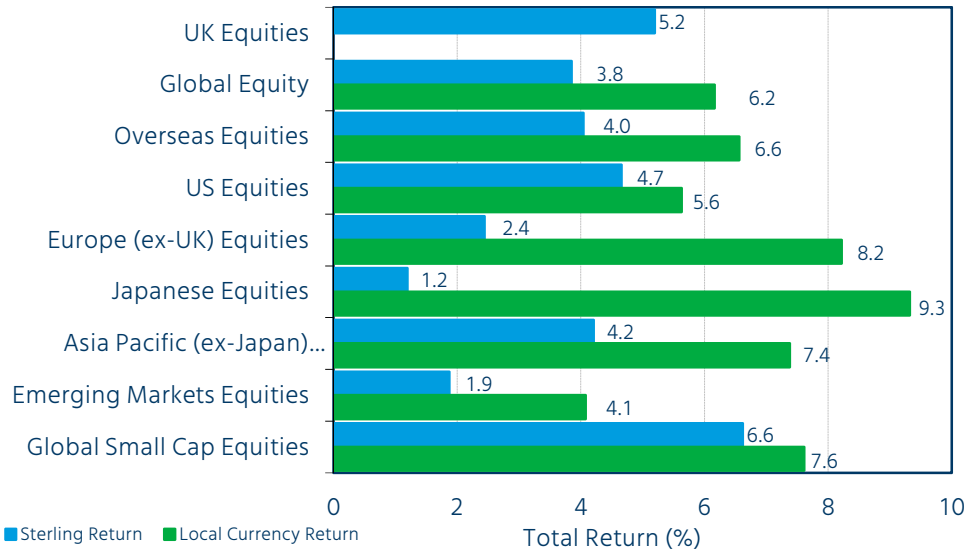
Q1 2021 equity market review

Global equity markets rallied over the quarter, returning 6.2% in local currency terms. Returns in sterling terms were 3.8% as the sharp sterling appreciation detracting from returns for unhedged UK investors. Volatility in equity markets was high over the quarter; enthusiasm from retail investors triggered short squeezes in January, and then volatility increased again amid concerns over rising bond yields during February and March.

US equities returned 5.6% in local currency terms whilst European (ex UK) equities returned 8.2%. With a heavier weight in value than in growth and heavy export exposure, European stocks are expected to benefit more from the recovery even if Europe's economic fundamentals are weaker than for the US.

Emerging markets equities returned 4.1% in local terms. Returns were positive for India and Russia amid a highly expansionary budget for the former and commodity exposure for the latter.

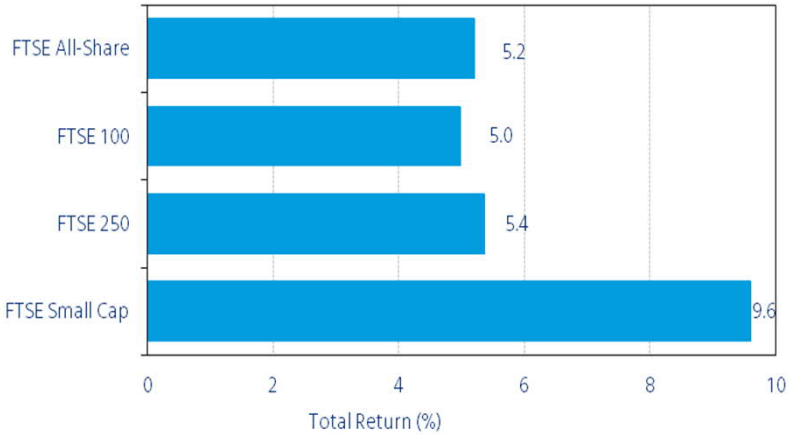
Equity Performance - Three Months to 31 March 2021



Global small cap stocks returned 7.6% in local terms. Small caps continued to outperform global equities in local currency terms, as investors saw room for small caps to expand in a full reopening.

The **FTSE All Share index** returned 5.2% over the quarter. The large exposure to financials, oil & gas, and basic materials helped as these sectors benefitted from a strong cyclical value recovery over the quarter.

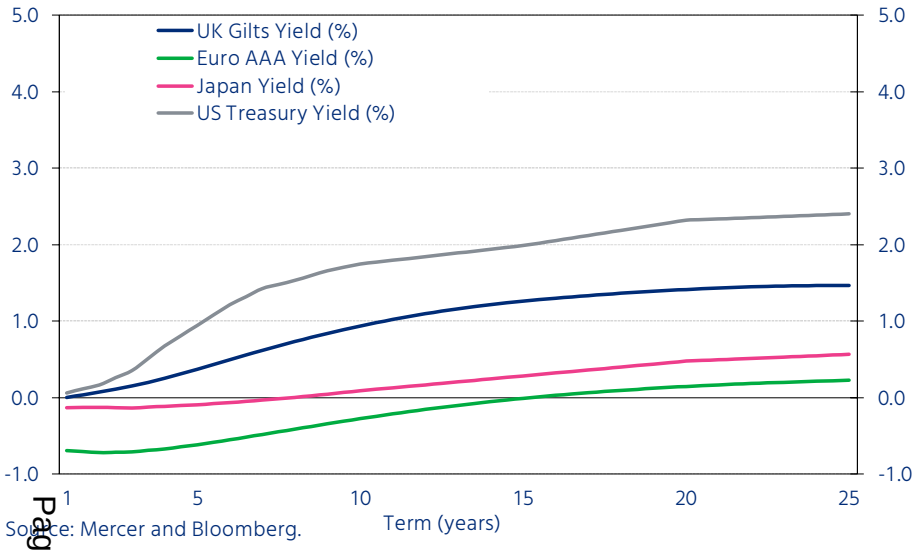
FTSE Performance by Market Cap (FTSE) - Three Months to 31 March 2021



Mercer

Source: Thomson Reuters Datastream.

Q1 2021 bond market review (1)



Source: Mercer and Bloomberg.

Government Bond Yields

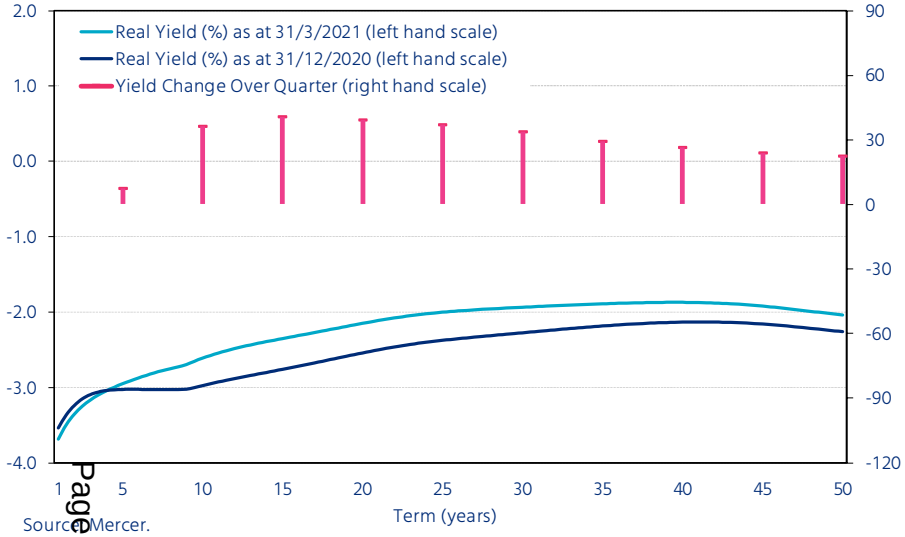
Government bond yields rose globally over the quarter. In the US, the 10-year government bond yield rose by almost 85 basis points due to increased confidence in an economic recovery, fueled by an additional $1.9 trillion stimulus package leading to inflation concerns. There were similar moves in the UK and Germany with the 10-year benchmark bonds rising almost 65 and 25 basis points. The move in the Japanese yield curve was relatively muted.

Source: Mercer.

UK Nominal Gilt Yields

The UK yield curve shifted up considerably over the quarter as inflation expectations spiked in anticipation of a strong recovery later in the year whilst fiscal and monetary policy are set to remain loose.

Q1 2021 bond market review (2)



Source: Mercer.

Source: Thomson Reuters Datastream.

UK Index-Linked Gilt Yields

UK real yields rose over the quarter, in line with nominal yields. The rise in nominal yields offset the increase in inflation expectations with markets pricing in higher growth.

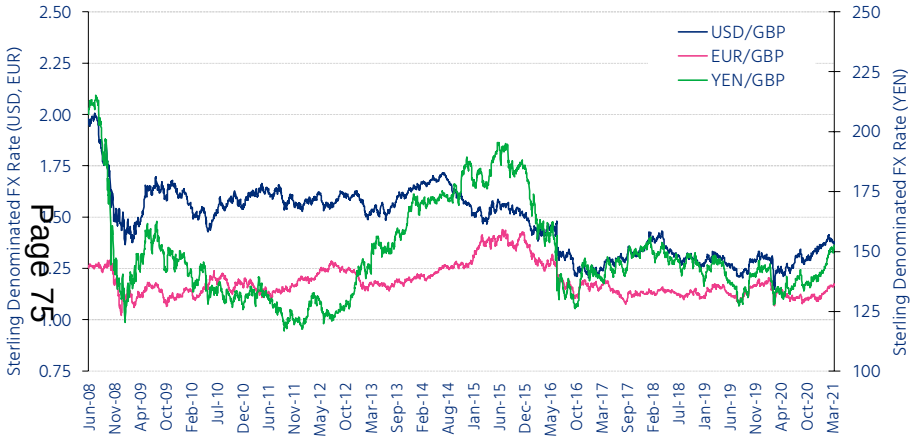
Corporate bonds

UK investment grade credit spreads tightened over the quarter, as demand for spread assets remained strong. Investment grade spreads for the All Stocks Index have now retraced all of the spread widening experienced in 2020 and ended the quarter just below their late-2019 level.

Q1 2021 currency market review

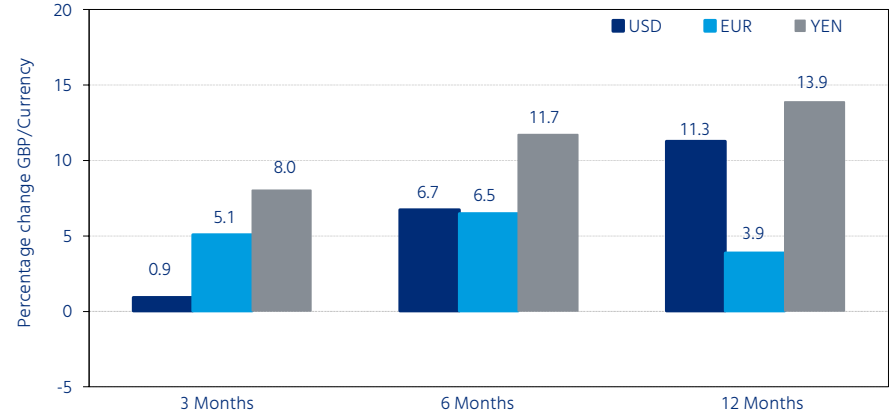
Sterling strengthened against all major developed currencies over the quarter. The currency enjoyed a post Brexit rally after the relatively seamless final transition out of the EU. There was also optimism over Britain's vaccination program that is among the most successful ones in the world. The US dollar strengthened against other major developed market currencies over the quarter due to the better economic outlook for the US and the more pronounced rise in US bond yields.

Sterling Denominated FX Rate



Source: Thomson Reuters Datastream.

Change in sterling against foreign currencies



Source: Thomson Reuters Datastream.

Q1 2021 property

UK property as measured by the MSCI Index increased by 2.2% over the quarter to 31 March 2021.

Summary of mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)
BlackRock	Global Equity (passive)	MSCI World	-
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Global Sustainable Equity	MSCI AC World	+2%
Brunel	Global Low Carbon Equity (passive)	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Brunel	Diversified Returns Fund	SONIA	+4-5%
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Brunel	UK Property	MSCI/AREF UK Quarterly Property Fund Index	-
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
Brunel	Secured Income	CPI	+2%
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI	+4%
Brunel	Private Debt	3 Month LIBOR + 4% p.a.	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Record	Passive Currency Hedging	N/A	-
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-
Cash	Internally Managed	7 Day LIBID	-

Market statistics indices

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Global Developed Equity	FTSE AW Developed
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

Modelling assumptions as at 31 March 2021

Absolute forward looking arithmetic mean returns over 10 years

Asset class	Return (p.a.)
Global equities	5.7%*
Emerging market equities	7.5%
DGF	4.8%
Hedge funds	3.5%
Infrastructure	5.3%
Property	4.3%
HLV Property	3.0%
MAC	4.6%
Corporate Bonds	1.6%

Best estimate 10 year CPI assumption of 2.8% assuming flat wedge of 0.6% p.a. as at 31 March 2021.
* Equity return makes no allowance for the equity protection strategy and assumes currency hedging in place.

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 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 the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

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

The analysis contained in this paper is subject to and compliant with TAS 100 regulations.

Unless otherwise stated, we have relied on the information and data supplied to us in preparing the advice and from published sources, without independent verification. We will not be responsible for any inaccuracy in the advice that is a result of any incorrect information provided to us.

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.

Market conditions used to model asset projections are based as at 31 March 2021.

This report is correct as at May 2021. It will not be updated unless requested.

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 662/21

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 28th May 2021

Author: Nathan Rollinson
Report Title: Review of Investment Performance for Periods Ending 31 March 2021 Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report **Exempt Appendix 3 –** Risk Management Framework Quarterly Monitoring Report Appendix 4 – Brunel Quarterly Performance Report Appendix 5 – Brunel Update

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

BRUNEL
Pension Partnership

Performance Report for Quarter Ending 31 March 2021

Contents

Brunel News

BRUNEL
Pension Partnership

The first quarter was marked by a growing divergence globally in how different countries are managing the crisis – and in the resulting outlook for lockdowns easing. For Brunel, we continued working from home, making it more than a year since we enjoyed normal office life. Despite this, there were several developments in terms of funds, RI engagement and recruitment, although the situation also led us to think more deeply about lockdown-related issues, such as mental health.

At the end of January, Brunel added the PGIM Real Estate UK Affordable Housing Fund to the tailored portfolios of five of our clients. The open-ended Alternative Investment Fund invests in and develops new affordable housing for working families across the UK, while targeting acceptable net returns for investors. It therefore meets the twin aspirations of the partnership.

David Vickers, our CIO, says: "*We were delighted to add PGIM Real Estate to our fund suite because it fits so well with our priorities as a partnership. The fund is determined to encourage better practices, both environmentally and socially, and PGIM has a strong track record in raising standards in affordable renting, while also ensuring an appropriate return.*"

Responsible Investment remained a driving force throughout the quarter. With Faith Ward newly installed as Chair of the Institutional Investors Group on Climate Change, the partnership was closely involved in the launch, in March, of the Net Zero Investment Framework, the first framework to provide investors with the tools they need to follow through on the ambition to be Paris-aligned. The announcement was a timely one, coming at the start of the year of COP 26 in Glasgow. It was also the culmination of years of work by the IIGCC and its closest partners, including our partnership, which provided data for early road-testing, among other contributions. This was the main reason for the press attention we received for RI through the quarter, although not the only one.

Another reason was advocacy and engagement. In January, Brunel participated in a shareholder engagement at HSBC, Europe's largest bank, as one of a coalition of investors representing £2.4 trillion in assets. In March, as a result of the engagement, the bank made a number of significant commitments around climate impact reporting and ambitions – a clear step in the right direction. The Special Resolution will be put to a vote at HSBC's AGM on 28 May, with a 75% threshold required for the resolution to make it binding.

The first quarter saw the implementation of some significant developments in Brunel's governance structure, with the completion of changes in structure of the Board. Primary among these is the addition of a fifth Non Executive Director. We are delighted to welcome Liz Mckenzie as our new Shareholder Non-Executive Director. Liz spent 19 years at Toyota before making the switch to senior roles in financial services. We also appointed two highly-experienced Investment Non-Executive Directors. Miles Geldard has more than 35 years' experience in the asset management industry, including several years at Jupiter Asset Management. Roelie van Wijk brings experience from the Dutch pension fund industry, including two years as Chair of the Dutch Fund and Asset Management Association. These three bring significant and varied experience to our Board and will undoubtedly be a major asset in the years ahead.

We also strengthened our governance through hosting the inaugural Shareholder Forum, which will be a semi-annual meeting designed to strengthen communication across all levels of the partnership.

Covid and lockdown have inevitably made us think very carefully about our culture at Brunel and across the partnership, and this was reflected in how we looked at our own priorities through the first quarter. Laura Chappell blogged on our website about both International Women's day and mental health – and an Op-Ed by her on the latter, in Professional Pensions, placed the onus on CEOs to take mental health seriously.

At quarter-end, we published our Annual Report & Accounts in time for our AGM. The report emphasised our work as a broader partnership, our RI focus, and our progress on cost savings – and received external coverage. It showed that Brunel had already transitioned more than £20 billion of assets by the end of 2020 and made more than £30 million in cost savings.

Executive Summary

BRUNEL Pension Partnership

High Level Performance of Pension Fund

The total fund performance in the quarter was 2.7%, against 4.1% recorded by the strategic benchmark. On a 12-month view, the return was a rise of 17.2%, as asset markets recovered from the trough in early 2020, when the impact of the pandemic was most pronounced. During that period, the strategic benchmark return was 20.5%.

The Brunel Emerging Markets Equity sub-fund benefited from the moderate rise in emerging markets equities over the quarter, as worries over Covid in major constituent countries such as Brazil, capped gains led by favoured sectors such as semiconductors. However, the sub-fund outperformed its benchmark, benefiting from stock selection – there was almost no impact from allocations to country, sector, market cap or style.

The Brunel Global High Alpha sub-fund delivered healthy returns over the quarter, benefiting from the exposure to Consumer Staples and Utilities in particular. However, the sub-fund underperformed the benchmark due to the fund's underweighting to both energy and financial stocks. The portfolio's overweight to China also detracted.

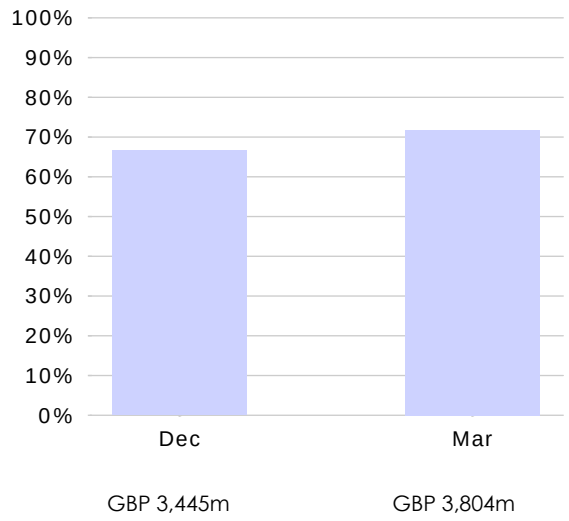
The Brunel Sustainable Equities sub-fund gained in absolute terms over the quarter, as it has since inception in October 2020, but underperformed the benchmark. The lag was driven by underweights to Energy and banks, which were the main drivers of broader market returns. Furthermore, some exposure to renewable energy securities such as Orsted and Neste contributed to underperformance.

The Brunel Diversifying Returns sub-fund posted negative returns over the first quarter, but has offered positive returns since inception in July 2020. William Blair delivered strong returns from its mandate, thanks in part to equity beta exposure, and Lombard Odier benefited from its equity exposure. Negative returns were primarily driven by J. P. Morgan's equity quality, Lombard's exposure to sovereign bonds, UBS's long exposure to the yen and William Blair's Growth bias.
The Brunel Passive Low Carbon sub-fund performed well through the quarter, in line with the benchmark, and very well over the year, again close to the benchmark. Very marginal underperformance relative to benchmark reflected the product's lower exposure to the Energy sector, which enjoyed strong performance.

Total Fund Valuation

	Total (GBPm)
31 Dec 2020	5,169
31 Mar 2021	5,301
Net cash inflow (outflow)	-7

Assets Transitioned to Brunel



Market Summary – Listed Markets

A review of the last twelve months illustrates the importance of the starting point when analysing investment returns. Fifty-three weeks before quarter-end, governments unveiled support packages as Covid-19 enforced lockdowns came into effect. Central banks provided stimulus to combat the ensuing economic contraction and markets began to recover from an aggressive sell off.

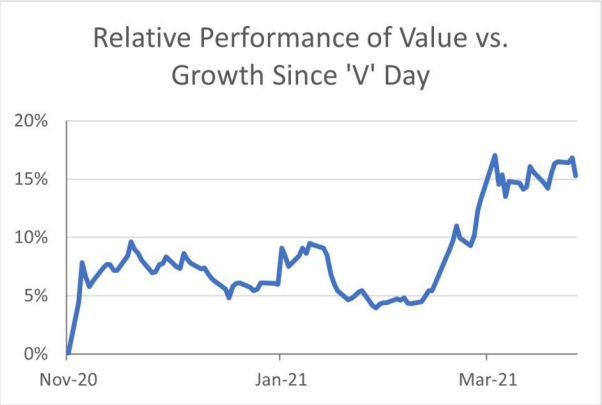
Infection rates, vaccine efficacy and virus variants dominated news flows over the period but there were several notable non-Covid developments. An acrimonious election saw Democrat Joe Biden become the 46th US President. Already holding a majority in the House of Representatives, the Democrats also took control of the Senate and have recently passed a $1.9 trillion stimulus package that includes a $1,400 payment to any American earning less than $75,000 a year.

The UK and EU signed a trade deal on goods, averting the spectre of a no-deal Brexit but still leaving terms of trade on services to be agreed; while Japan's longest serving Prime Minister, Shinzo Abe, stepped down.

Equity market leadership can be somewhat characterised falling into a year of two halves. By Autumn 2020, equity markets had reclaimed pre-Covid levels, driven by large index constituents such as Microsoft and Amazon, which were well-placed to serve the swathes of the world's population confined to their homes. Unsurprisingly, there were also 'Covid losers' in the earlier part of the reporting period, notably in the Consumer Discretionary sector, which includes the travel and hospitality industries.

Positive test results for the Pfizer/BioNTech vaccine in November signalled the beginning of a period of stronger relative performance for more cyclically exposed companies. Combined with subsequent vaccine approvals, an increase in global growth expectations and a steepening of yield curves, this resulted in a period of outperformance for Value stocks.

The MSCI All-Country World Index returned 3.7% in GBP terms over Q1 2021 and 39.6% for the twelve months ending 31 March 2021, highlighting the relevance of starting the twelve-month period from a relatively low base. The Consumer Discretionary and Materials sectors were the strongest-performing over the year, returning 60% and 59.5% respectively. Again, this was in part because these sectors had been hit relatively hard by the outbreak of Covid-19, but they also benefitted from increasing expectations for growth.



Relative performance of MSCI AC World Value TR Index to MSCI AC World Growth TR Index since Pfizer/BioNTech vaccine announcement 9th November 2021. Source: FactSet

Market Summary – Listed Markets

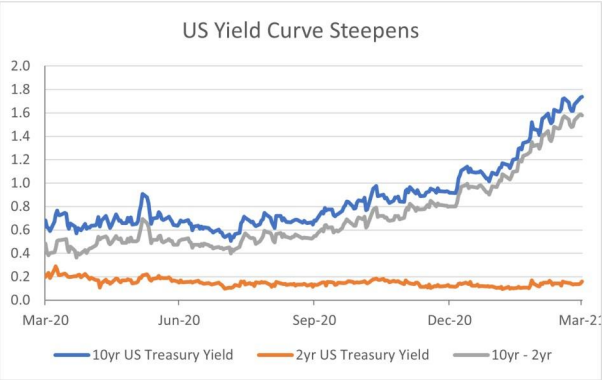
Regional performance varied widely, although, at the aggregate level, returns for developed and emerging markets were similar. The MSCI World Index returned 39.1% for sterling investors over the period and the MSCI Emerging Markets Index 42.8%. Despite the continuation of US-China disagreement into the Biden administration, both regions outperformed the global equity market over the year, with China returning 50.9% in GBP terms and the US 43.3%.

The make-up of the UK market, with more exposure to cyclical industries, resulted in standout performance in Q1 2021, as the FTSE All-Share Index returned 5.2%. Over the quarter, the energy sector returned 11% and the materials sector 10.7%. However, sectoral composition held back the UK market over the twelve-month period. The energy and healthcare sectors, accounting for more than 18% of the index, were essentially flat, with the FTSE All-Share returning 27.1%.

Aforementioned fiscal stimulus packages, in conjunction with loose monetary policy and high levels of household savings, contributed not only to the positive growth story but also to the prospect of higher inflation. Yield curves steepened significantly in Q1 2021, which will have provided a headwind for fixed income investors.

Predicting the path of inflation, policy withdrawal and eventual rate tightening is difficult at the best of times, and still more so in the current environment. From a global perspective, the lack of guidance around the Federal Reserve's Flexible Average Inflation Targeting policy only makes the task more challenging. We can say that the eventual withdrawal of central bank support, when it does happen, will result in increased bond market volatility.

A final comment is due on sterling, which appreciated 11% against the US dollar, and 3.9% against the euro over the year, marking a slight reversal of weakness in previous periods. At the end of March 2021, a pound bought $1.38 and €1.17. Though unhedged overseas returns will depend on specific currency cross rates, in general terms, sterling's strength will have dampened returns from unhedged overseas assets.



US Yield Curve Source: FactSet

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

Overview
The first quarter of 2021 brought a new US administration with a new fiscal stimulus, as well as the start of the global vaccination programme that should accelerate the re-opening of worldwide economies. This progress should improve economic data worldwide and has already led to outperformance from commodities and from small-cap, value and cyclical stocks, together with a sell-off in US Treasuries. The global economy is continuing to reflate, with GDP peaking in China, accelerating in the US and bottoming out in emerging markets.
While the balance of risks is to the upside, there are undoubtedly still downside risks, including the potential for the spread of Covid mutations which might undermine existing vaccines and the possibility of greater longer-term economic scarring than has been observed while the vast range of financial support measures are in place.

Infrastructure
Covid continues to dominate each of the managers' market agendas, and is expected to do so for the majority of 2021, until vaccine programmes have been fully rolled out. Managers continue to actively engage with suppliers, contractors and the communities surrounding projects to mitigate risks still arising from pandemic uncertainty. The Brunel portfolio is focused on essential infrastructure across both Cycle 1 and Cycle 2, meaning that, in most cases, assets have not been negatively impacted.
On a positive note, the UK government has confirmed new onshore wind projects will be eligible to compete in the next 'Contracts for Difference' round, which will take place in Q3/Q4 2021. Following the UK-EU Brexit terms agreement, sterling continued to fluctuate against the euro throughout Q1. Managers of European funds are introducing measures to ensure further investments in the UK are either capped or hedged in line with their investment strategies.
In Europe, onshore wind power purchase agreements (PPAs) increased in five markets last year, most significantly in the Netherlands (up 9.8%) and Germany (+7.9%). Price offers for solar PV PPAs rose in almost all markets in 2020, but only 2.1% on average. In markets where the future value of power is more sensitive to carbon pricing, rises were higher (e.g. Germany +4.6%, Poland +2.8%).
The most significant market events took place in the US, where the new Biden administration and a democratic-majority Senate have increased the chances of legal incentives for renewables. The administration looks likely to consider both energy transition and climate impact in all major decisions, in line with the US re-joining the Paris Agreement in January.

Photo by John Cameron on Unsplash

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

Private Equity
Investment sentiment and activity remained strong in Q1 2021. The valuation of assets remained high. Hence, GPs focused more on operational improvements to create value in their portfolio companies. In addition, some GPs are executing more add-on acquisitions at lower prices to bring down the acquisition multiple. The interest in technology companies remained strong and there is a trend towards GPs digitising their portfolio companies in order to improve efficiency and to achieve higher multiples as they position for exit.
The fundraising market is bifurcated between the "haves" and "have nots". Fundraising for established platforms is moving quickly, while less proven GPs are struggling to gain investor attention. In addition, sector expertise has become increasingly important for GPs.

Private Debt
Private equity sponsors have had a buoyant start to the year. Confidence is running high and initial signs indicate a strong pace of activity in Q1, following record-breaking activity in Q4. Private debt participants have resumed lending activity in support of private equity sponsors, albeit more cautiously for sectors sensitive to Covid. Lenders continue to like defensive industries, like software and healthcare, where pricing on loans has therefore been tight. Broadly syndicated market (high yield bonds and leveraged loans) spreads hover close to 300bps in both the US and Europe. The expected wave of credit defaults has not occurred and large amounts of capital, raised in anticipation of a spike in distressed debt opportunities, remain on the sidelines.

Property
The first quarter of 2021 saw a return to optimism in UK property. Although only £57.5bn of transactions took place in Q1, pricing was relatively stable and international investors continued to account for 50% of investment activity. 24 deals took place in unit shops at under 7% yields and the industrial sector retained its pricing strength, with 44 deals transacting in distribution warehouses at sub-4% yield levels and multi-let trading at around 5% initial yields. Industrial rents are still increasing (+2.4% p.a. in UK regions and +3.7% p.a. in London). Fashion retail and leisure have suffered from protracted lockdowns, with rebasing of leases and lower rental levels ubiquitous. In the office sector, there has been a considerable uplift in availability, as tenant and secondary space has come onto the market, particularly in London, where overall vacancy rates have risen to 10%. However, prime Grade A office space remains in short supply and most of the development pipeline is pre-let. Though rent falls of over 10% may affect some offices in 2021, this year is expected to mark the peak in office vacancy levels. In the meantime, residential market activity remains strong, with private rental growth currently up 1.4% over the last year.

iStock.com/fokkebok

Responsible Investment & Stewardship Review

For this report, we wanted to provide reflections by Laura Chappell (pictured right), CEO at Brunel Pension Partnership, on our Responsible Investment progress across the last year. A version of these thoughts also appeared in our recent 'Responsible Investment and Stewardship Outcomes Report', which covered 2020 and is now available on our website. As Laura explains, the self-analysis involved in scoring our RI outcomes has been more important than ever in light of recent events. Some of the highlights from the Outcomes Report are captured in the graphic overleaf.

It was a year unlike any of us at Brunel have known, and one that none of us could have anticipated. Amid the changes, all companies have needed to respond nimbly to the crisis and to review their practices and performance. In short, from 2020 right through to the end of the first quarter of 2021, we have has seen the value of going back to first principles and assessing ourselves across several key metrics. As a result, even a global pandemic and lockdown has not prevented us from ensuring that our stewardship activities live up to our own high expectations. We set our goals and make our decisions as a partnership, an approach that equips us to engage effectively not just with clients and shareholders, but also with managers and the broader asset management industry. These interactions and collaborations are crucial in enabling us to meet the long-term fiduciary and responsible goals set by our partnership.

Our Responsible Investment (RI) approach is built on three pillars: to integrate sustainability criteria into our operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in our activities. These three pillars underpin our operations, providing a bedrock for our team, our clients and our managers.

Despite the global disruption of 2020, Brunel was able to deliver widely on our plans through the year. By year-end, we had transitioned most of our clients' assets into Brunel funds. We also launched a number of new funds, including a Sustainable Equities Fund that positively targets sustainable investments, a Diversifying Returns fund, and a Global Small Cap fund. We completed Cycle 1 of Private Market investments (35% of which are in renewables) and embarked on Cycle 2, which has a dedicated sub-mandate for renewable energy opportunities.

We have worked closely with managers to ensure they embed our RI principles across our portfolios, in line with how we designed those portfolios. Manager selection is a central part of our RI, Stewardship and Climate policies. We examine how managers embed ESG principles into their investment process. We also look at their company culture, not least in the area of diversity and inclusion. We have continued to work with the Diversity Project and the 30% club to encourage a more inclusive culture – broader social movements in 2020 have offered a timely reminder of how much work remains to be

done in this area. Although Brunel has too few employees to be obliged to report on diversity, we report on this area voluntarily.

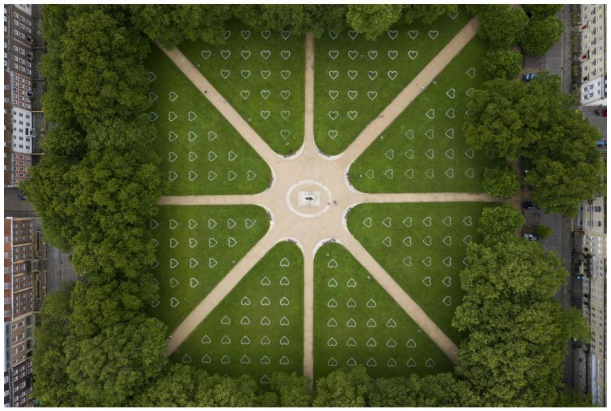
Our climate ambitions were expressed in our work with the Institutional Investors Group on Climate Change, when we copiloted the Net Zero Investment Framework ahead of an industry consultation. Faith Ward, our Chief Responsible Investment Officer, was named Chair of the IIGCC at the end of 2020. Having ensured Brunel's commitment to achieving Net Zero before 2050, Faith was closely involved in outreach to asset owners ahead of the formal launch of the framework in 2021. That outreach continues to mobilise asset owners and managers ahead of COP26 in the autumn. We have also been closely involved in work with both the TPI and TCFD in developing good practice in climate investing.

I am delighted to see how our determination to change the industry in this area is already bearing fruit, ahead of Brunel's own Climate Stocktake in 2022. To this end, we have begun work on Net Zero benchmarks, a major gap in the industry at present and one that prevents wholesale change. We have also been active in both shareholder engagement and voting, and our broader cooperation in this area has enabled significant climate policy changes at both HSBC and Barclays.

Responsible Stewardship and Responsible Investment cover many areas, among them water, biodiversity, cyber risk, cost transparency and supply chain risk. We review each of these in this report, since abuses or laxity in these areas can have grave consequences, and often severe social impacts. Focusing on climate risk to the exclusion of social factors is insufficient, and we are committed to integrating social risk and impacts into how we operate and invest. Our role as a pension pool makes it imperative for us to address these issues holistically, in line with client needs, so that the interests of pensioners, planet and people are considered together. We believe this is the right approach, but we also believe it will enable us to reduce investment risk and deliver strong investment returns over the years ahead.

A year of disruption has given us an exceptional opportunity to ensure we are doing all we can to invest for a world worth living in.

Heart prints decorate Queen Square, Bristol, in aid of social distancing



BRUNEL Pension Partnership

Highlights from the 2021 Responsible Investment and Stewardship Outcomes Report

Leaders
Recognised as leaders in RI, Climate and ESG in Europe and globally

Net-zero
by 2050, 50% carbon emission intensity reduction by by 2030

22%
greater carbon efficiency than benchmark for the Brunel Aggregate Portfolio – up from 15% a year earlier

35%
Females on board in UK Active and 28% in Global High Alpha – improvement in all active equities

75%
Carbon saving & **480 Jobs** from Secured Income Portfolio greenhouse project

20%
Reduction in water intensity (38% below investment benchmark) by Robeco (Brunel Low Volatility)

78
world's largest mining companies asked to review their relationships with First Nations communities and indigenous peoples

3,101
issues engaged on at 881 companies achieving 1,050 milestones

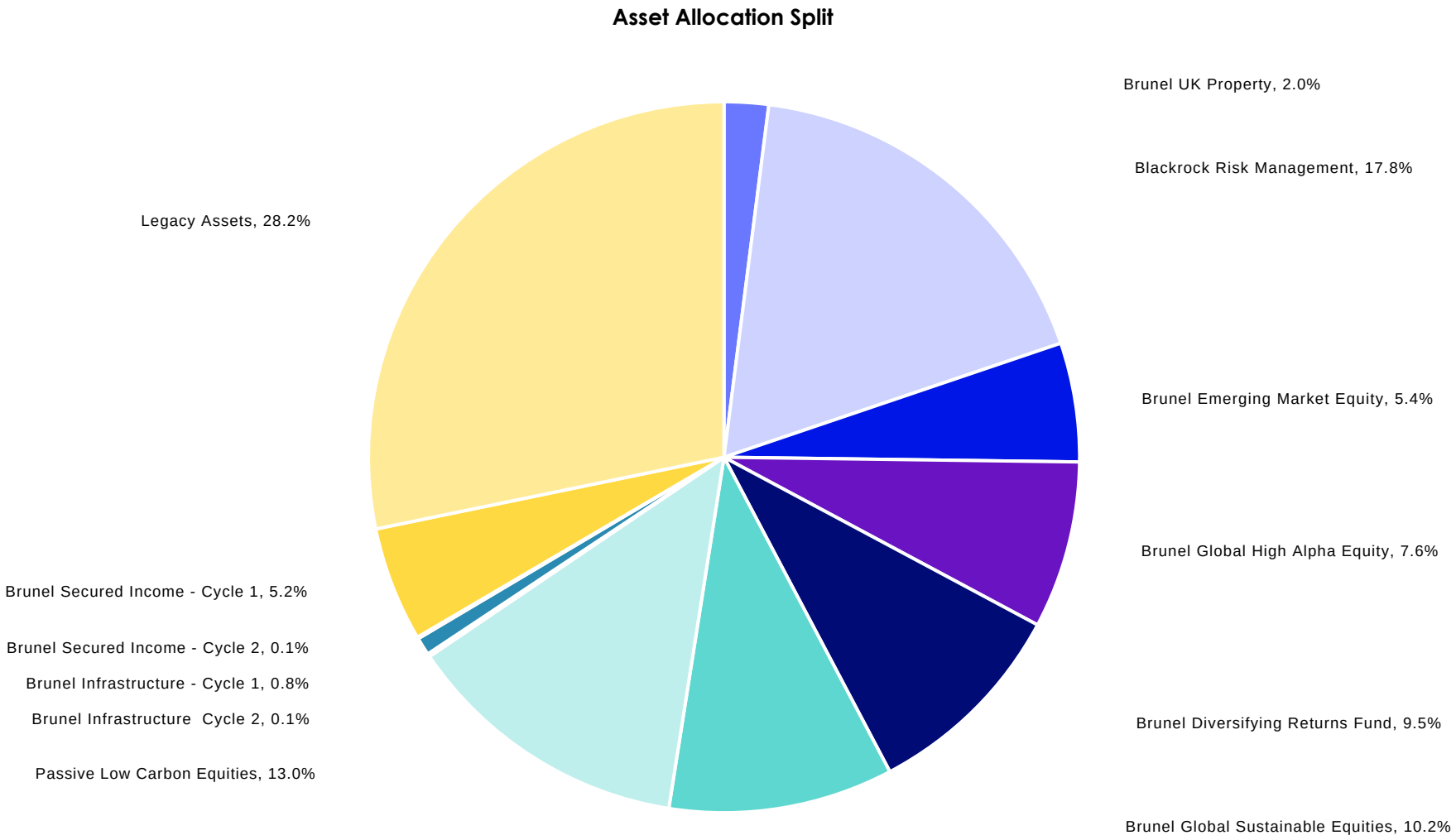
1,046
company meeting voted at, 1,666 votes against or abstain

Cybersecurity
Coalition of investors focuses on 25 companies

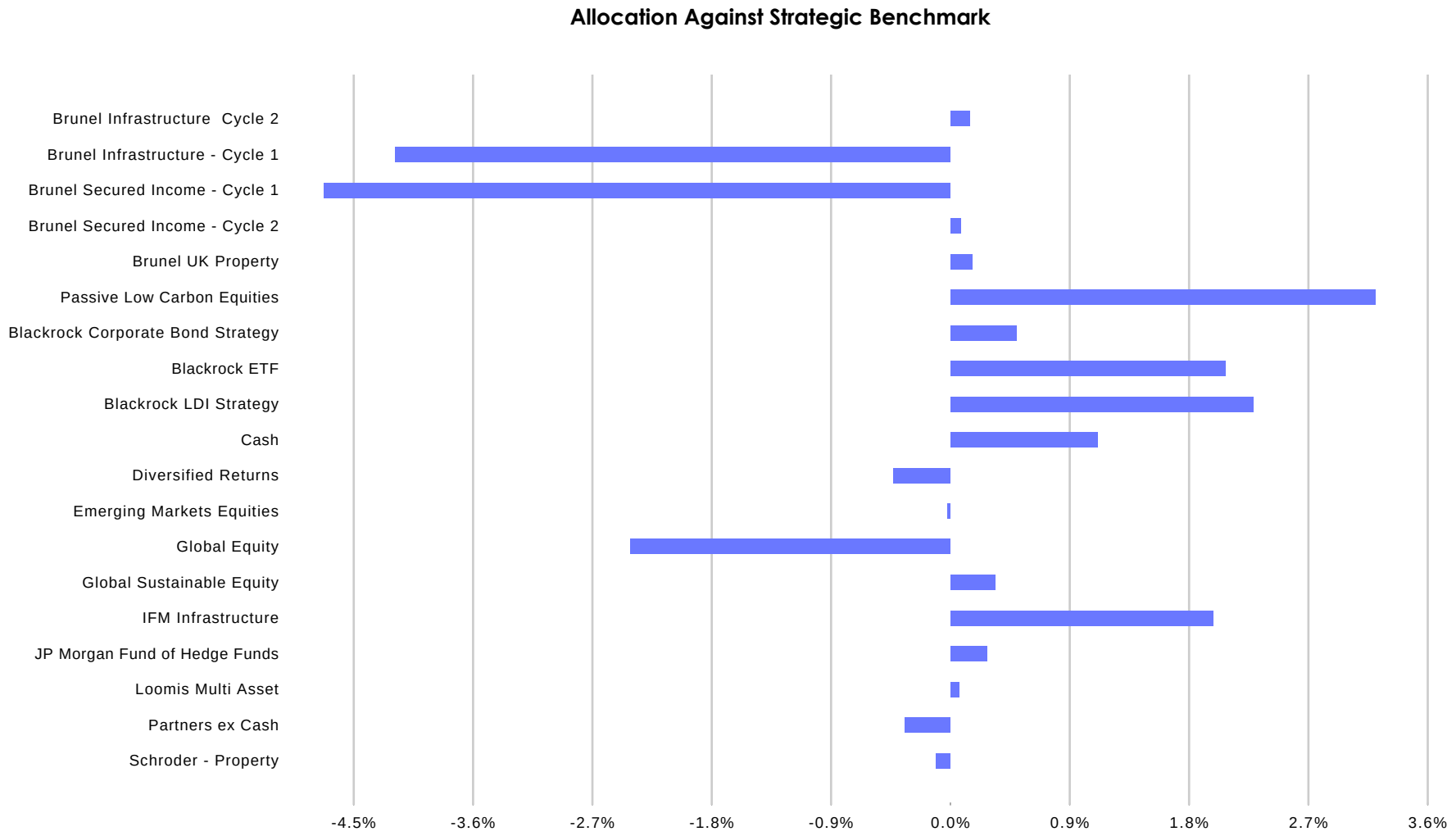
SDGs
Reporting pilot underway

100%
of our appointed listed market fund managers are currently achieving or committed to cost transparency.

Asset Allocation of Pension Fund



Asset Allocation of Pension Fund



Brunel Portfolios Overview

BRUNEL
Pension Partnership

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SII*	Excess SII*	Initial Investment
Brunel Diversifying Returns Fund	SONIA Benchmark	501	-1.3%	-1.3%							0.2%	0.1%	27 Jul 2020
Brunel Emerging Market Equity	MSCI EM TR Gross	287	2.1%	0.7%	46.1%	3.3%					13.6%	-0.3%	09 Oct 2019
Brunel Global High Alpha Equity	MSCI World TR Gross	403	3.2%	-0.9%	50.0%	10.9%					23.9%	10.4%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	541	0.4%	-3.3%							9.5%	-3.1%	30 Sep 2020
Passive Low Carbon Equities	MSCI World Low Carbon Target	692	3.8%	-0.0%	39.0%	-0.2%					11.8%	-0.1%	11 Jul 2018

*Since Initial Investment

Performance based on tradeable NAV

Where there are disparities between returns quoted above and returns provided for the same fund and period in the following pages, this is because the fund-specific pages reflect the posttransition phase, important for monitoring the performance of selected managers, while those given above reflect the Clients' actual experience from the point of initial investment, which in some cases includes the shared impact of transition costs.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Passive Low Carbon Equities

BRUNEL Pension Partnership

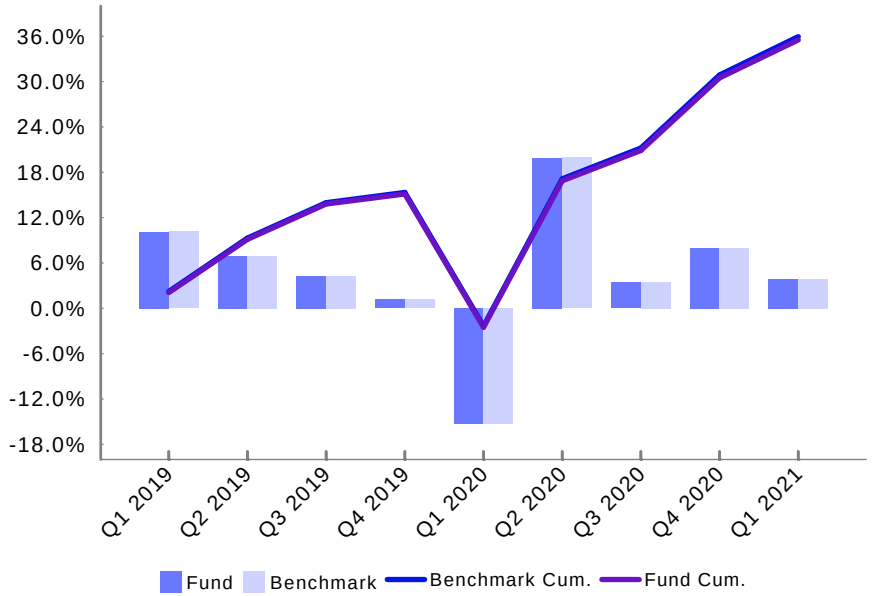
Overview

	Description
Portfolio Objective:	Provide exposure to equity returns and global economy with low exposure to carbon emissions and fossil fuels.
Investment Strategy & Key Drivers:	Portfolio is invested in global equities in accordance with Low Carbon index.
Liquidity:	High
Risk/Volatility:	High absolute risk with very low tracking error.
Total Fund Value:	£1,197,181,863

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	3.8%	3.9%	0.0%
Fiscal YTD	39.0%	39.2%	-0.2%
1 Year	39.0%	39.2%	-0.2%
3 Years			
5 Years			
10 Years			
Since Inception	11.8%	11.9%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

- The Passive Low Carbon product recorded a return of 3.9% during Q1 2021, in line with the MSCI World Low Carbon Target Index.

- The MSCI World index returned 4.1% over the quarter. The 0.2% underpeformance of the MSCI World Low Carbon Target Index vs the MSCI World Index is primarily driven by an underweight to the high-performing energy sector. The other main source of underperformance was stock selection within the materials sector.

- Over the previous 12 months, the Passive Low Carbon portfolio returned 39.0%, moderately behind the MSCI World Low Carbon target return of 39.2%.

- The MSCI Low Carbon Index moderately outperformed the MSCI World Index over the twelve months, which returned 39.1%. This was mainly due to stock selection within Energy, with zero exposure or underweights to oil & gas companies contributing positively to the relative return of the Low Carbon index.

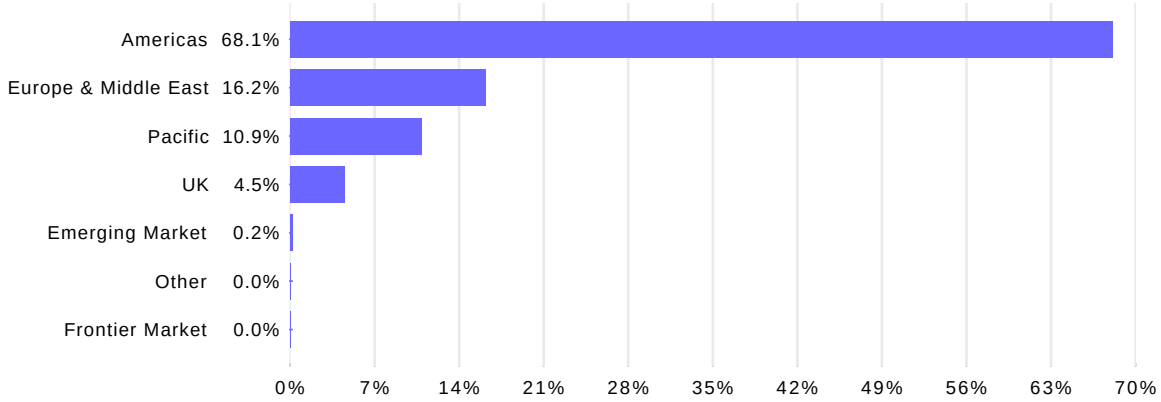
Passive Low Carbon Equities – Region & Sector Exposure

BRUNEL Pension Partnership

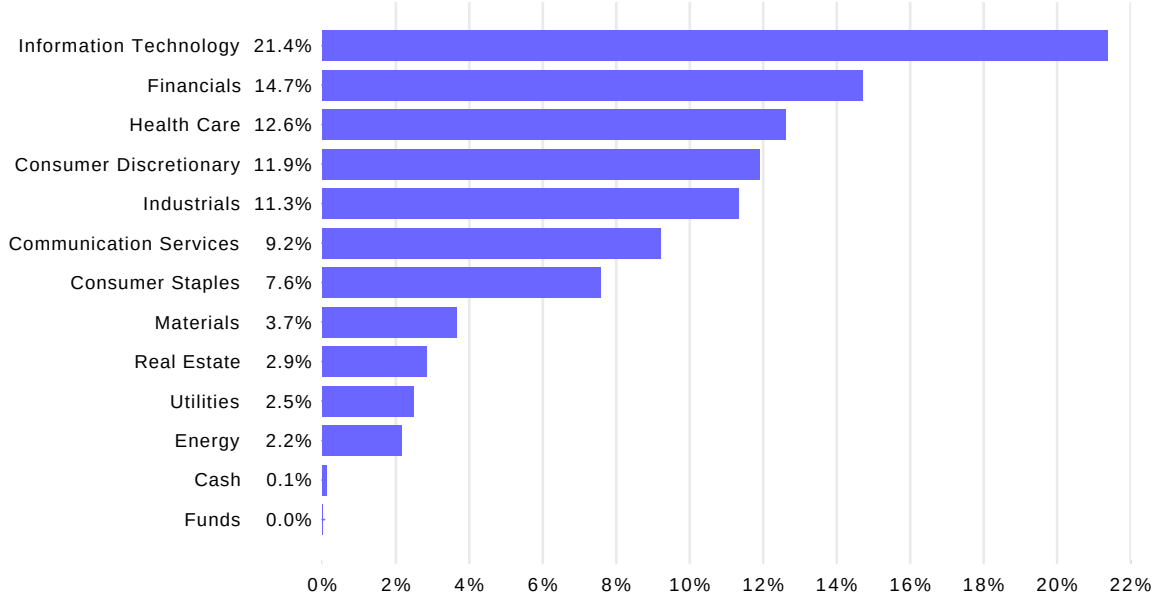
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	68,339,401
MICROSOFT CORP	55,525,916
AMAZON.COM INC	43,367,926
FACEBOOK INC-CLASS A	23,177,313
ALPHABET INC-CL A	20,778,070
ALPHABET INC-CL C	20,002,545
TESLA INC	16,440,299
JPMORGAN CHASE & CO	14,983,458
JOHNSON & JOHNSON	14,451,915
VISA INC-CLASS A SHARES	12,162,868
PROCTER & GAMBLE CO/THE	11,484,696
UNITEDHEALTH GROUP INC	11,410,218
BERKSHIRE HATHAWAY INC-CL B	11,385,658
NVIDIA CORP	10,887,809
WALT DISNEY CO/THE	10,751,685
HOME DEPOT INC	10,675,802
NESTLE SA-REG	10,649,047
MASTERCARD INC - A	10,592,243
SCHLUMBERGER LTD	10,048,884
BANK OF AMERICA CORP	9,755,504

Regional Exposure



Sector Exposure



Passive Low Carbon Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ASML HOLDING NV	64.6	84.4
2. NEXTERA ENERGY INC	70.3	32.8
3. SCHLUMBERGER NV	60.5	50.0
4. HONEYWELL INTERNATIONAL INC	64.4	65.4
5. TEXAS INSTRUMENTS INC	63.0	76.7
6. ACCENTURE PLC	62.5	61.1
7. SCHNEIDER ELECTRIC SE	71.6	50.0
8. NESTLE SA	58.7	48.6
9. PROCTER & GAMBLE CO/THE	57.9	70.5
10. SIEMENS AG	63.7	68.7

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. BROADCOM INC	43.2	50.0
2. AT&T INC	43.4	32.7
3. VISA INC	46.2	29.5
4. JPMORGAN CHASE & CO	47.1	62.3
5. JOHNSON & JOHNSON	42.9	63.4
6. AMAZON.COM INC	49.4	50.0
7. FACEBOOK INC	42.0	58.4
8. MICROSOFT CORP	46.5	35.1
9. ALPHABET INC	44.8	57.6
10. APPLE INC	46.5	50.1

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	53.1	53.5
Passive Dev Equities	53.3	53.7

* Position 1 is the top contributor/detractor.

0 50 100

TruValue Labs & SASB

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	2.4	2.4	4.4	4.3
Passive Dev EQ	3.0	2.9	7.5	7.6

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores

TruValue Labs & SASB

Brunel Assessment:

- **Texas Instruments** (Technology), have released a major advancement in electric vehicle (EV) battery management systems (BMS), enabling automakers to improve the reliability, efficiency and range of EV's
- **AT&T** (Telecom Services), is committing $2 billion over the next three years to make internet access affordable for more Americans by opening 'connected learning centers'. The initiative is an attempt to narrow the gap in access to education and job opportunities, known as the digital divide.
- **Alphabet** (Big Tech) will contribute 25 million euros to the newly set up European Media and Information Fund to combat fake news. Regulatory scrutiny however continues, the UK has launched a new watchdog, the Digital Markets Unit (DMU) to look at how a code of conduct could govern the relationship between digital platforms, such as small businesses and news publishers.
- **Honeywell International** (Electronic Equipment) expanded its supply chain suite to help enterprises better track and monitor operations.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The benchmark is the MSCI Developed World so that carbon reductions achieved to create the Brunel Passive Low Carbon Portfolio can be monitored. Carbon intensity of the Portfolio is half that of the MSCI Developed World Index.

Brunel Diversifying Returns Fund

BRUNEL Pension Partnership

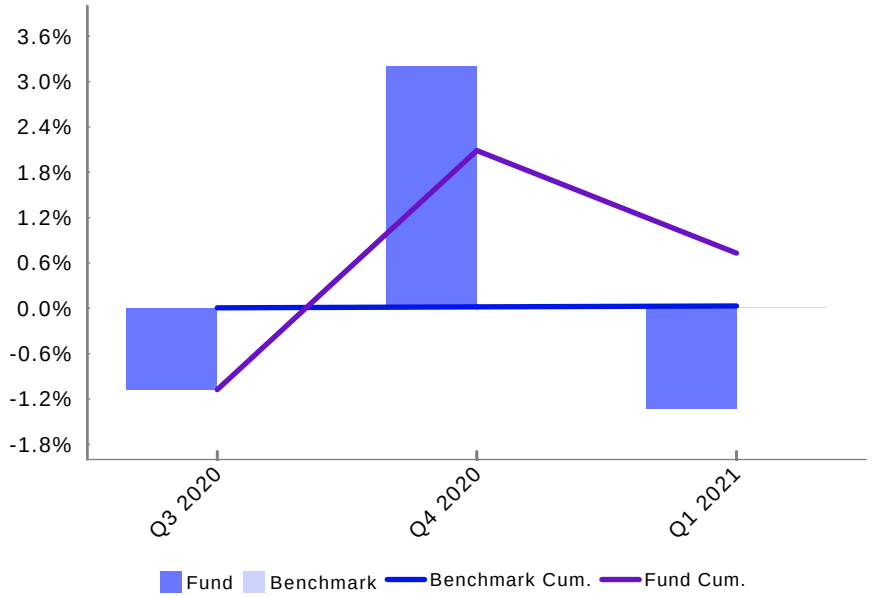
Overview

	Description
Portfolio Objective:	Provide exposure to a range of alternative return drivers and a degree of downside protection from equity risk.
Investment Strategy & Key Drivers:	Actively managed to achieve growth at moderate absolute risk, diversified between asset classes and by geography.
Liquidity:	Managed Liquidity.
Risk/Volatility:	Moderate absolute risk against cash.
Total Fund Value:	£1,359,561,086

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-1.3%	0.0%	-1.3%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	0.7%	0.0%	0.7%

Rolling Performance*



* Partial returns shown in first quarter

The Diversifying Returns Fund launched on 27 July 2020 and delivered returns of 0.7% to 31 March 2021.

• The Diversifying Returns Fund returned -1.3% over the first quarter of 2021.

• William Blair has been the strongest performer since fund launch. Exposure to equity beta made a strong contribution to performance and was only partially offset by negative returns from fixed income and security selection. Lombard Odier has also derived a positive return from equities, as well as from commodities exposure. Sovereign bonds offset a portion of the positive returns derived elsewhere in their portfolio.

• UBS has delivered marginally positive returns since portfolio inception. Notable contributions to performance came from a short position in the Swiss franc and long exposure to the Mexican peso and South African rand.

• J.P. Morgan made a negative contribution to fund returns from the portfolio's inception. The biggest detractors included the equity quality and fixed income carry signals. However, they continued to bring diversification benefits to the portfolio in Q1 2021. Their equity trend and value signals, along with a

Brunel Diversifying Returns Fund

Continued Commentary

short duration position, enabled them to benefit from steepening yield curves and a rally in cyclical equities that presented a more challenging environment for the other managers.

• Lombard Odier's exposure to sovereign bonds was a major contributor to negative returns in the first quarter of 2021. Steepening US yield curves also negatively affected the Japanese yen, a lower-yielding currency. Long exposure to the yen was the biggest detractor from UBS's performance over the period. A growth bias in the security selection element of William Blair's strategy led to negative performance over the quarter, as Value outperformed. However, this growth bias is generally seen as a strength from a portfolio construction perspective, as it tends to deliver positive returns during equity market sell offs and contributes to the Fund's defensive characteristics.

Brunel Emerging Market Equity

BRUNEL
Pension Partnership

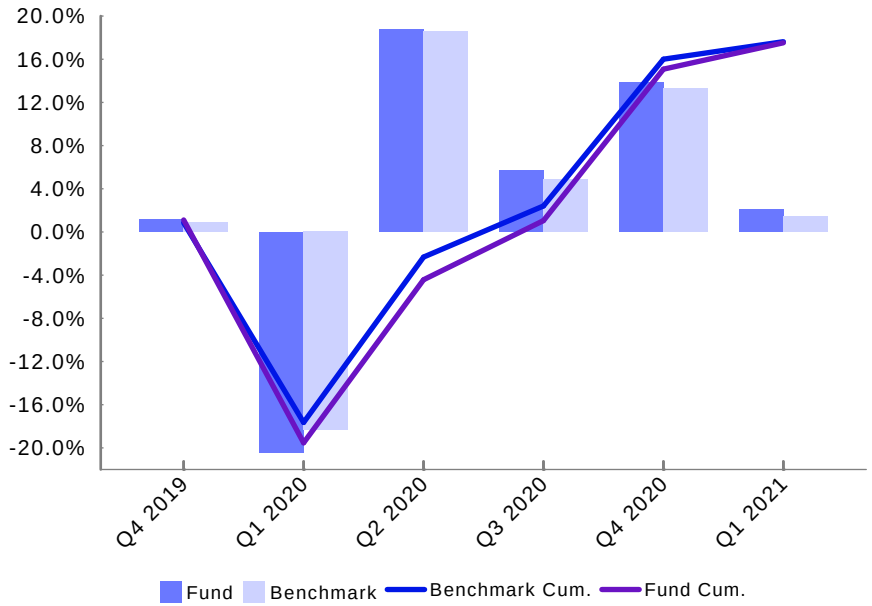
Overview

	Description
Portfolio Objective:	Provide exposure to emerging market equities, targeting excess returns and enhanced risk control from leading managers.
Investment Strategy & Key Drivers:	A geographically diverse portfolio, typically expected to achieve higher long-term growth rates than developed economies.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5% tracking error.
Total Fund Value:	£1,533,342,283

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	2.1%	1.4%	0.7%
Fiscal YTD	46.0%	42.8%	3.2%
1 Year	46.0%	42.8%	3.2%
3 Years			
5 Years			
10 Years			
Since Inception	12.3%	12.4%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

Emerging market equities continued their upward trend in Q1 2021. Returns over the quarter were modest, with the MSCI Emerging Markets Index returning +1.4% in GBP terms.

Return dispersion by country was notably large, when compared to the previous quarter. Taiwanese equities had a very strong quarter, returning +9.9%, mostly driven by robust demand for semiconductors. However, other significant country constituents like Brazil had a very different experience, contracting by 10.8% over the same period. The underperformance in Brazil was driven by a combination of COVID setbacks and sensitivity to the rising interest rate environment in the US. Rising rates in the US brought into question Brazil's ability to sustain its debt, given its negative current account balance (c. -1.5%) and net international investment position (c. -30%).

Sector dispersion was also present in Q1, though less significant than country dispersion. Materials was by far the strongest performing sector in Q1 2021; the sector currently comprises 7.7% of the MSCI Emerging Markets Index. The biggest winners within the sector were oil and industrial metals, notably copper. Copper and oil appreciated by +14% and +22% respectively, driven by growing prospects for global economic activity. Healthcare was one of the weakest

Brunel Emerging Market Equity

Continued Commentary

performers in emerging markets over the quarter, falling by 5.4% in GBP terms, partially driven by profit-taking.

One of the major stories over the quarter was the dismissal of Naci Agbal - governor of the Central Bank of Turkey – after just three months in the role. Recep Tayyip Erdogan dismissed the governor in favour of an academic, Sahap Kacioglu, who has consistently lobbied for lower interest rates. The decision to remove Agbal shocked financial markets; the Turkish lira fell as much as 14% in one day; equity markets suffered similar losses.

The portfolio had another strong quarter, returning +2.1% net of fees, which was +0.7% ahead of the benchmark. Ninety-One and Wellington did particularly well, outperforming the index by +2.6% and +1.4% respectively. Genesis lagged the benchmark this quarter, underperforming by 1.3%. The primary driver of relative returns across all managers was stock selection; there was almost no impact from the allocations to country, sector, market cap or style.

• The portfolio once again benefitted from strong stock selection, particularly in China. Significant value was added by underweights to larger Chinese technology-orientated index stocks, which fell in value. Examples of this include Pinduoduo, Xiaomi and NIO, which fell by -25%, -23% and -21% respectively. These names came under intense pressure following discount rate rises in the US, much like their developed market peers. Pinduoduo also suffered from the exit of CEO and founder Colin Huang Zheng. Held names also added to relative performance. Examples of this include China Longyuan and Country Garden Services, which rose +34% and +48% respectively.

• Value stocks continued to outperform the broader market at the start of 2021, in line with developed market peers. MSCI Emerging Markets value stocks outperformed the broad market index by +1.8% over the quarter. The most significant style observation was not Value vs Growth but in fact the momentum indicator. High momentum stocks were volatile and eventually underperformed the main market index by 6% in Q1 2021; they were outperforming by as much as +6% in mid-February. The portfolio is typically style neutral, with a modest tilt towards Quality, which performed in line with the main market.

• The portfolio has now outperformed the benchmark for four consecutive quarters on a net-of-fees basis. As a result, since inception, performance is almost flat versus the benchmark, erasing the significant underperformance observed in Q1 2020. Since-inception relative performance is now -0.04%

• One-year performance was strong in both absolute and relative terms. The portfolio returned +46.1%, comfortably ahead of the benchmark, which returned +42.8% over the same period.

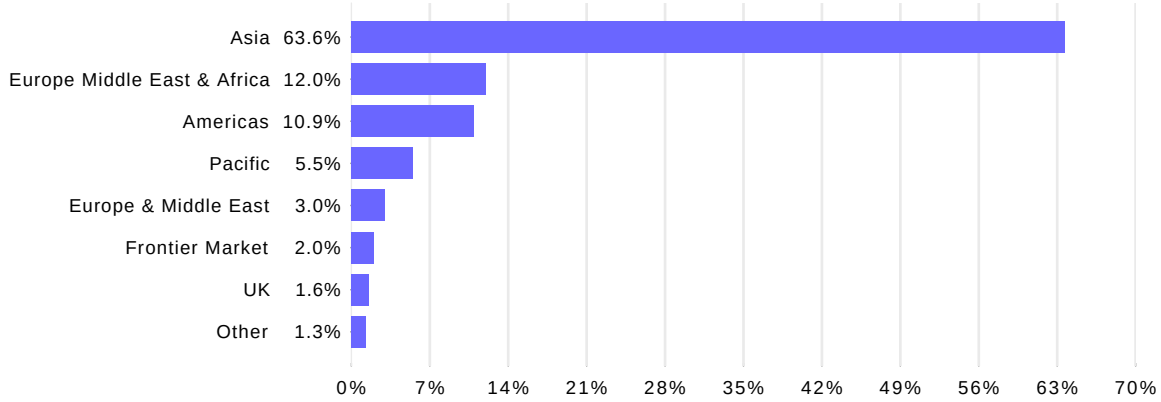
Brunel Emerging Market Equity – Region & Sector Exposure

BRUNEL Pension Partnership

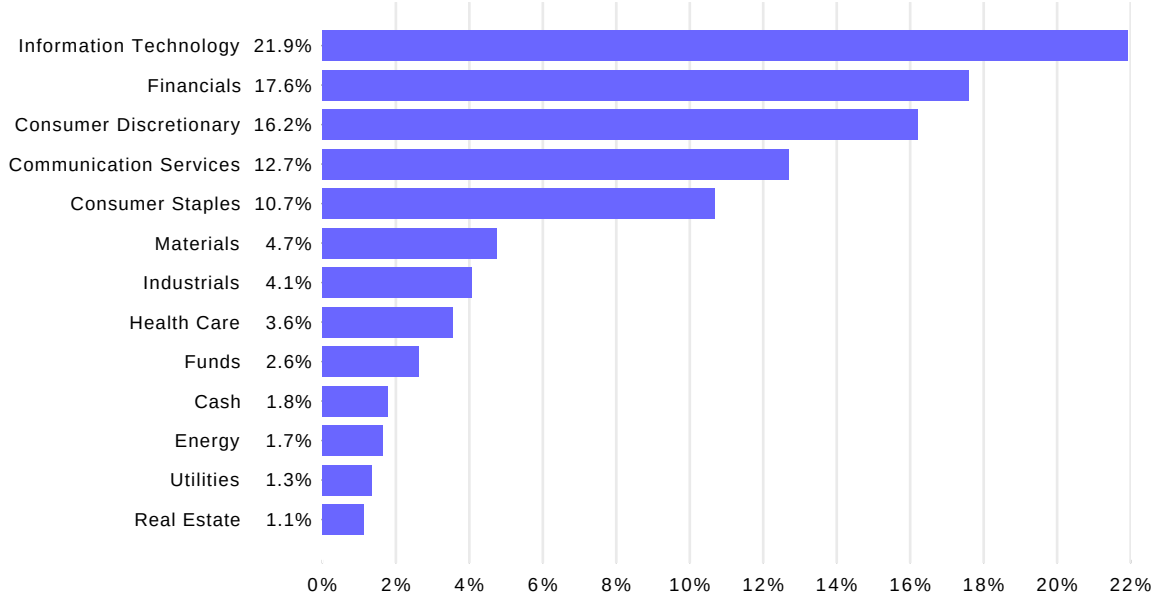
Top 20 Holdings

	Mkt. Val.(GBP)
TAIWAN SEMICONDUCTOR MANUFAC	110,478,180
TENCENT HOLDINGS LTD	100,026,354
SAMSUNG ELECTRONICS CO LTD	62,938,011
ALIBABA GROUP HOLDING-SP ADR	49,629,795
ISHARES MSCI INDIA ETF	38,824,397
SBERBANK PJSC -SPONSORED ADR	32,831,701
ALIBABA GROUP HOLDING LTD	27,831,422
AIA GROUP LTD	27,358,546
NASPERS LTD-N SHS	23,102,366
INFOSYS LTD-SP ADR	22,583,755
HDFC BANK LTD-ADR	20,399,843
MEDIATEK INC	16,242,206
PING AN INSURANCE GROUP CO-H	16,208,815
YANDEX NV-A	16,012,374
SAMSUNG ELECTRONICS-PREF	15,607,353
CHINA CONSTRUCTION BANK-H	15,524,413
WULIANGYE YIBIN CO LTD-A	14,988,294
BID CORP LTD	14,233,337
COUNTRY GARDEN SERVICES HOLD	14,113,620
CIE FINANCIERE RICHEMO-A REG	12,520,932

Regional Exposure



Sector Exposure



Brunel Emerging Market Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURING	62.0	37.5
2. DELTA ELECTRONICS INC	74.9	28.8
3. CHINA LONGYUAN POWER GROUP CORP LTD	68.8	40.5
4. MEDIATEK INC	63.3	67.5
5. INFOSYS LTD	58.3	81.4
6. OTP BANK NYRT	64.6	63.3
7. HANON SYSTEMS	69.2	83.8
8. WEICHAI POWER CO LTD	70.4	50.0
9. SINO-AMERICAN SILICON PRODUCTS INC	68.2	38.6
10. OPAP SA	64.8	78.9

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. GRUPO MEXICO SAB DE CV	42.6	30.4
2. ICICI BANK LTD	43.2	57.5
3. WULIANGYE YIBIN CO LTD	46.3	91.2
4. NETEASE INC	43.2	78.5
5. YANDEX NV	45.8	36.6
6. KIMBERLY-CLARK DE MEXICO SAB DE CV	37.5	10.9
7. ANTA SPORTS PRODUCTS LTD	37.2	17.6
8. ALIBABA GROUP HOLDING LTD	48.6	25.1
9. SAMSUNG ELECTRONICS CO LTD	47.6	67.2
10. TENCENT HOLDINGS LTD	45.6	30.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

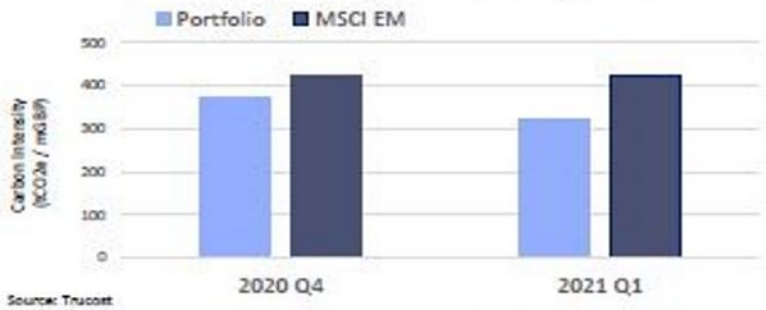
Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	53.5	53.6
MSCI EM	53.6	53.7

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)



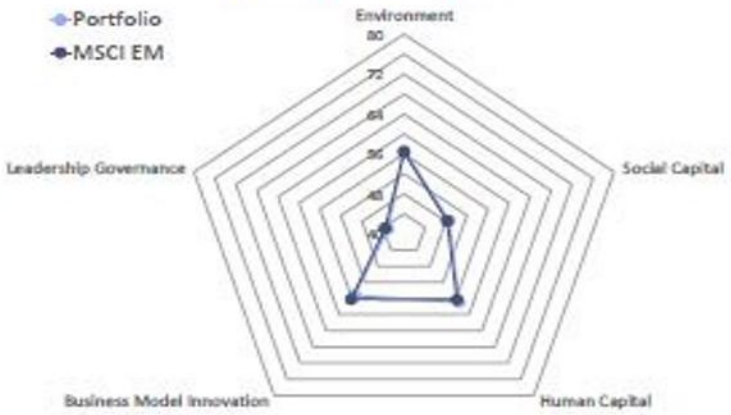
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	2.5	2.3	4.0	3.8
MSCI EM	2.9	3.4	8.0	8.2

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Assessment:

- **Taiwan Semiconductor Manufacturing** (Semiconductors) production has been impacted by the worst drought in Taiwan in 56 years. This was exacerbated when construction damaged power supply and an estimated loss of 30,000 wafers and NT$1 billion.
- **Hanon Systems** (Transportation) has agreed to back Volta Energy Technologies, a $150 million energy storage start up fund. The investment comes at a time when interest in energy storage solutions couldn't be higher.
- **Yandex** (Internet Media and Services), the Russian internet giant, has been accused of violating competition law on its search engine at the expense of other companies. The Russian Competition watchdog says that it must allow third-party services to be included in search results on similar terms to its own services.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The carbon intensity of the Portfolio and its benchmark decreased over the quarter, following market movements. The Portfolio remains below its benchmark, the MSCI Emerging Markets for both extractives revenue exposures and extractive industries value of holdings.

Brunel Global High Alpha Equity

BRUNEL
Pension Partnership

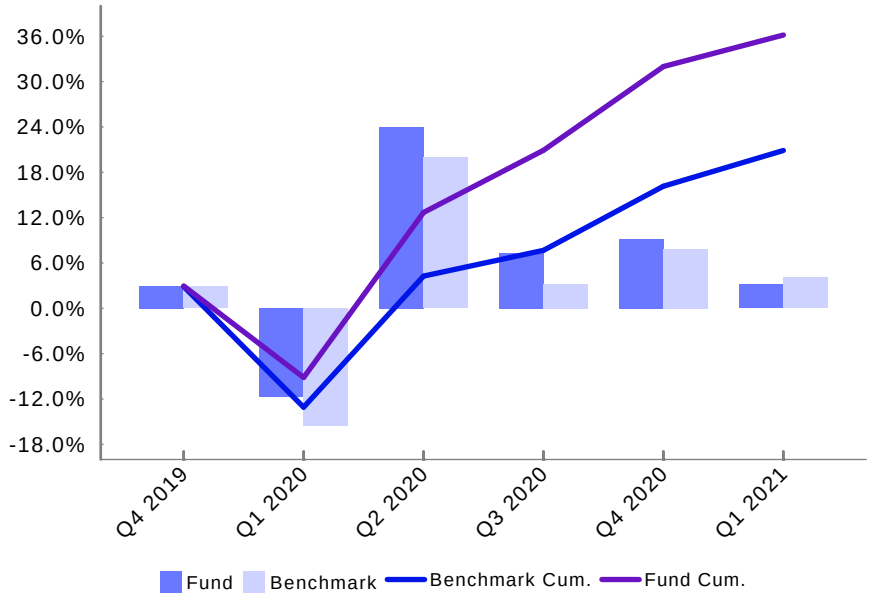
Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	High conviction, concentrated portfolios with strong style/factor biases invested in a unconstrained manner.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets.
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5-6% tracking error.
Total Fund Value:	£3,326,658,961

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	3.2%	4.1%	-0.9%
Fiscal YTD	49.9%	39.1%	10.8%
1 Year	49.9%	39.1%	10.8%
3 Years			
5 Years			
10 Years			
Since Inception	26.4%	15.5%	10.9%

Rolling Performance*



* Partial returns shown in first quarter

Over the last 12 months, the fortunes of global equity markets have been indelibly entwined with the impacts of Covid as governments, businesses and individuals have responded to the pandemic and investors have tried to understand the implications. Global developed equities (as proxied by the MSCI World index) delivered a 4.1% return over the quarter, consolidating the more significant returns seen over recent quarters.

In broad terms, the market rotation out of stocks deemed to have prospered from the COVID-induced slowdown into those stocks most hurt by the pandemic, continued this quarter. The two best-performing sectors by far were Energy and Financials, continuing their outperformance from last quarter. Dispersion of returns was in evidence throughout the quarter, both between sectors and within sectors, and the portfolio saw these themes play out.

The portfolio returned 3.3% over the quarter, underperforming the benchmark by 0.8%, thus ending a run of quarterly outperformance that began at inception in December 2019. The quarterly performance was robust given an environment that provided headwinds for a portfolio with a negative Value and pro-Growth tilt.

Brunel Global High Alpha Equity

BRUNEL
Pension Partnership

Continued Commentary

The quarterly underperformance was largely driven by stock selection, with weak performance in the Financials; the more Quality-diversified financial names held as overweights (such as MSCI and Moody's) suffered, whilst the more cyclical Value names which are underrepresented in the portfolio (such as Wells Fargo and Bank of America) performed strongly. Weak stock selection in the Consumer Discretionary sector highlighted another trend over the quarter, as overweight Growth names gave up recent strong gains (Pinduoduo, Peloton, Tal Education and NIO all fell by more than 20%). On a positive note, the portfolio was able to participate in the 'recovery trade' in the materials sector with overweights in companies such as Steel Dynamics, Reliance Steel, Anglo and Glencore.

On a sector allocation basis, the negative impact of being underweight Energy and Financials sectors outweighed the benefit of being underweight Consumer Staples and Utilities, the two lowest-performing sectors. On a country allocation basis, the portfolio's overweight to China detracted, whilst the underweight to US had a neutral impact.

Managers' performance continues to reflect their different investment styles. Harris and RLAM performed strongly in market conditions that rewarded their more value-driven approaches. Despite their smaller allocations within the fund, their material contribution to fund returns partially offset the negative contribution of the larger allocation to more Growth-oriented managers, such as AB and BG, which struggled over the quarter.

Over one year, the portfolio performed strongly in both absolute and relative terms, returning 50.7%, and thus outperforming the benchmark by +11.6%. This excellent outcome was largely the result of positive stock selection, which is important for a portfolio where the focus is on fundamental managers selected for their ability to select concentrated portfolios of high-conviction names.

During the quarter, £185m was redeemed from the portfolio as two clients rebalanced their wider asset portfolios. The outflow was used to rebalance the underlying manager allocations back towards target.

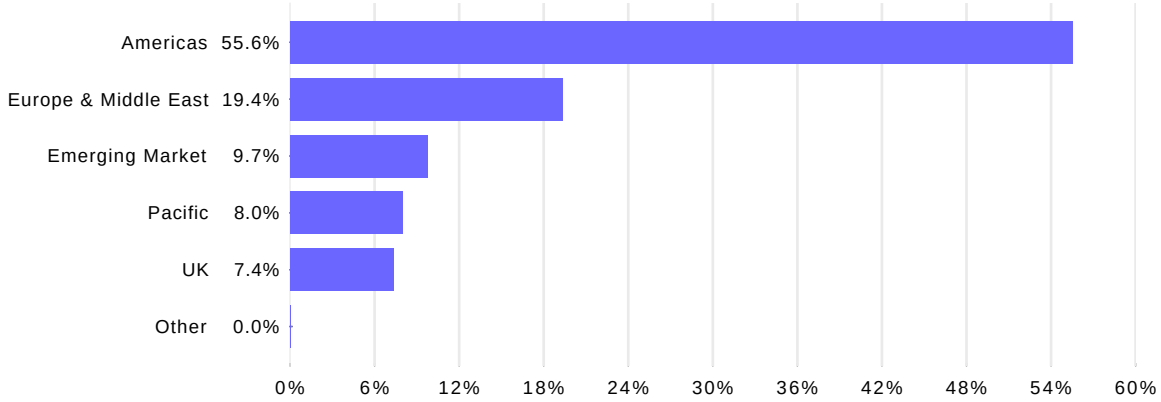
Brunel Global High Alpha Equity – Region & Sector Exposure

BRUNEL Pension Partnership

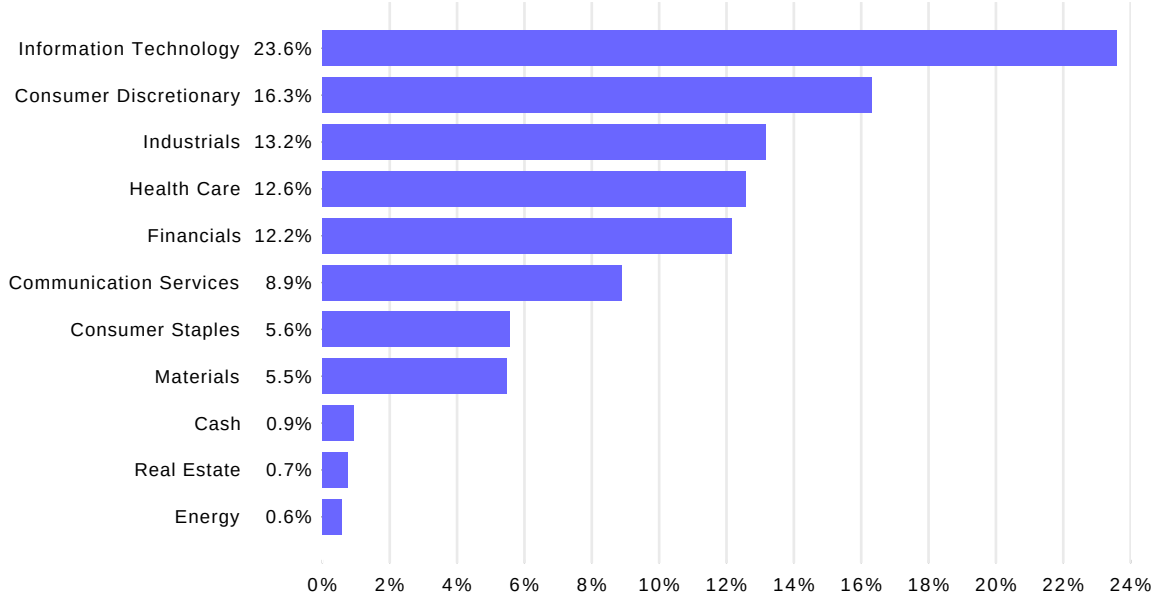
Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	136,151,420
MASTERCARD INC - A	95,610,898
ALPHABET INC-CL A	88,404,184
TAIWAN SEMICONDUCTOR-SP ADR	74,233,520
MOODY'S CORP	70,640,651
KEYENCE CORP	64,568,931
NESTLE SA-REG	60,625,388
SCHWAB (CHARLES) CORP	58,932,632
TJX COMPANIES INC	58,337,880
ASML HOLDING NV	51,622,766
AMAZON.COM INC	48,936,546
TENCENT HOLDINGS LTD	48,149,789
NIKE INC -CL B	45,570,596
ALIBABA GROUP HOLDING-SP ADR	43,661,552
CAPGEMINI SE	40,041,095
NIDEC CORP	40,002,600
JOHNSON & JOHNSON	38,537,341
APTIV PLC	38,434,511
AUTOMATIC DATA PROCESSING	36,443,179
FACEBOOK INC-CLASS A	36,367,956

Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURIN	62.0	57.5
2. ASML HOLDING NV	64.6	84.4
3. RECRUIT HOLDINGS CO LTD	67.5	25.4
4. MURATA MANUFACTURING CO LTD	69.7	86.0
5. CAPGEMINI SE	63.4	69.6
6. NIDEC CORP	61.5	26.2
7. SPIRAX-SARCO ENGINEERING PLC	69.6	54.8
8. STEEL DYNAMICS INC	63.8	62.3
9. NESTLE SA	58.7	48.6
10. CARRIER GLOBAL CORP	63.7	83.5

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. ALIBABA GROUP HOLDING LTD	46.6	25.1
2. BECTON DICKINSON AND CO	44.2	75.3
3. NIKE INC	47.2	66.8
4. TENCENT HOLDINGS LTD	45.6	30.8
5. JOHNSON & JOHNSON	42.9	83.4
6. FACEBOOK INC	42.0	58.4
7. AUTOZONE INC	36.4	81.8
8. TJX COS INC/THE	41.0	22.5
9. MICROSOFT CORP	48.5	35.1
10. ALPHABET INC	44.8	57.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	53.7	54.1
MSCI World	53.2	53.7

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	1.6	1.5	3.3	3.2
MSCI World	3.2	3.0	7.5	7.6

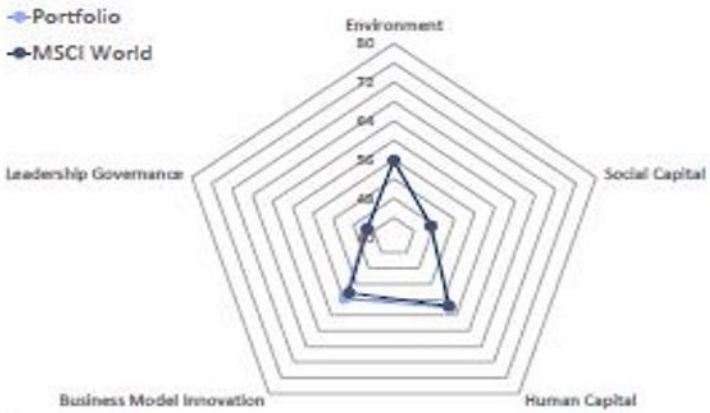
1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Brunel Assessment:

- **Taiwan Semiconductor Manufacturing** (Semiconductors) production has been impacted by the worst drought in Taiwan in 56 years. This was exacerbated when construction damaged power supply and an estimated loss of 30,000 wafers and NT$1 billion.
- **ASML Holding NV** (Semiconductors) has signed a 10 year green power purchase agreement with RWE. ASML aim to source 100% of their energy from responsible, renewable sources, such as wind, solar and geothermal energy in 2025.
- **Capeminin** (Technology) entered a collaboration with YuWaah, UNICEF, and United Nations Global Compact Network India (UNGCNI) to work together to skill India's young people. The company has also joined the 'Partnering for Racial Justice in Business Initiative' launched by the World Economic Forum.
- **Autozone** (Technology) has been involved in a multimillion-dollar battle between car companies lobbying about the 'right to repair law', parties have been criticised for scaremongering advertisements. The law would give independent mechanics access to car's diagnostic codes, supporters seek to avoid a monopoly on car repairs whilst opposers have concerns over data protection.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The Portfolio continues to have a carbon intensity significantly lower than its benchmark. Revenues from extractive activity are half that of its benchmark..

Absolute Weighted ESG Scores



TruValue Labs & SASB

Page 109

Brunel Global Sustainable Equities

BRUNEL
Pension Partnership

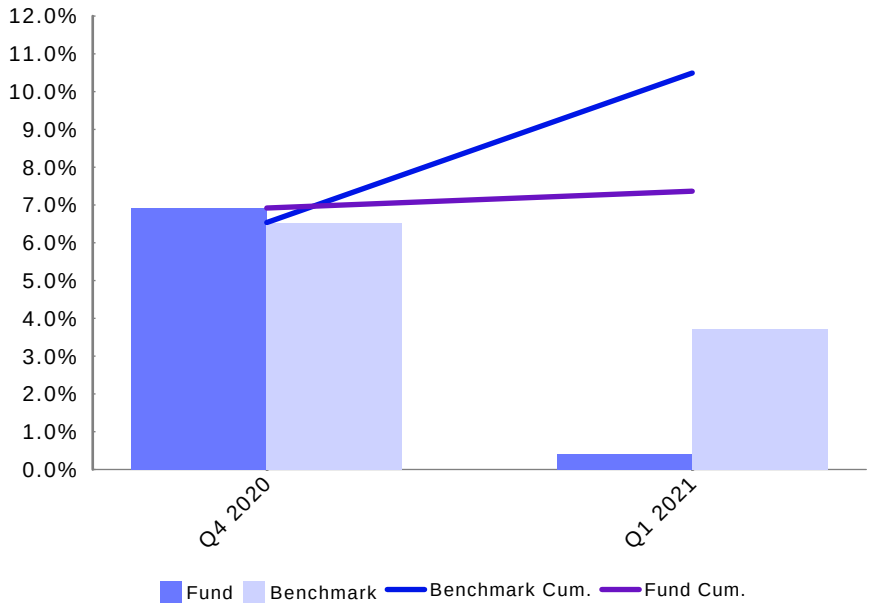
Overview

	Description
Portfolio Objective:	To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.
Investment Strategy & Key Drivers:	Actively managed, diversified by sector and geography. Consideration for a companies Environmental & Social sustainability.
Liquidity:	Managed Liquidity.
Risk/Volatility:	High, representing an equity portfolio.
Total Fund Value:	£1,864,556,822

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	0.4%	3.7%	-3.3%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	7.4%	10.5%	-3.1%

Rolling Performance*



* Partial returns shown in first quarter

The Global Sustainable Equity portfolio launched on 19 October. From inception through to 31 March 2021, the MSCI ACWI index returned 10.5%, whilst the portfolio returned 7.4% on a net-of-fees basis.

• This quarter we saw a continued rally for value stocks, carrying on from the renewed vaccine hopes that marked the end of 2020. Notably, the Energy and Finance (especially Banks) outperformed and were the main contributors to the fund's relative underperformance over the quarter. Energy and Financials returned 17% and 11% respectively; the portfolio has an underweight allocation to Energy and an underweight allocation to banks, which were the main contributors to financial sector returns. These sectors usually exhibit unsustainable characteristics and the underweights are to be expected in the portfolio.

• Whilst there have been value headwinds since inception, we take comfort that the three managers have provided varying alpha characteristics and continue to operate with sustainability at the forefront of their processes.

Brunel Global Sustainable Equities

BRUNEL
Pension Partnership

Continued Commentary

• Nordea outperformed the MSCI ACWI over the quarter by 1.7%, as its thematic Climate and Environment Strategy gives it increased exposure to small/mid-caps, which outperformed large-cap stocks over the quarter. Its selection of industrial stocks also contributed to outperformance. Ownership and RBC both underperformed, however, as they are considered to be broader sustainable managers with more exposure to the larger end of the market cap scale. Ownership manages a concentrated bottom-up portfolio, with an overweight to growth sectors such as Technology, which underperformed over the quarter. RBC's underperformance can largely be attributed to positions in renewable energy securities such as Orsted and Neste, both of which gave way as older-economy energy securities rose.

• Whilst it is still very early in this portfolio's journey, the performance of the fund has been in line with expectations, given the obvious headwinds of a Value rally in the less sustainable parts of the market. We are also pleased that the portfolio's sustainable characteristics are aligned with those expressed during the construction phase. The fund exhibits a carbon reduction relative to the MSCI ACWI of ~30%, as well as demonstrating an ESG score that is superior to the benchmark, as measured by our ESG data provider. The WACI has increased slightly since last quarter due to a coverage update from the data provider, where portfolio coverage has increased from 87% to 96%. However, the fund still offers a sizeable WACI reduction.

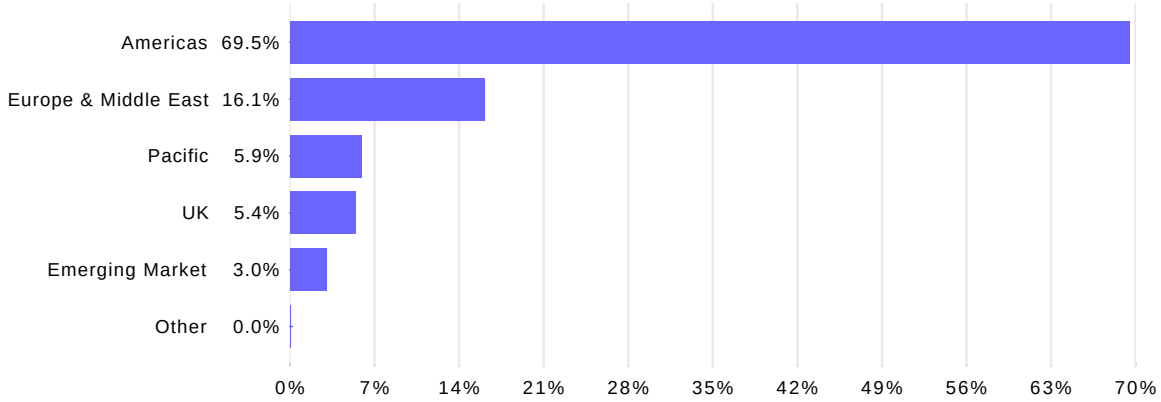
Brunel Global Sustainable Equities – Region & Sector Exposure

BRUNEL Pension Partnership

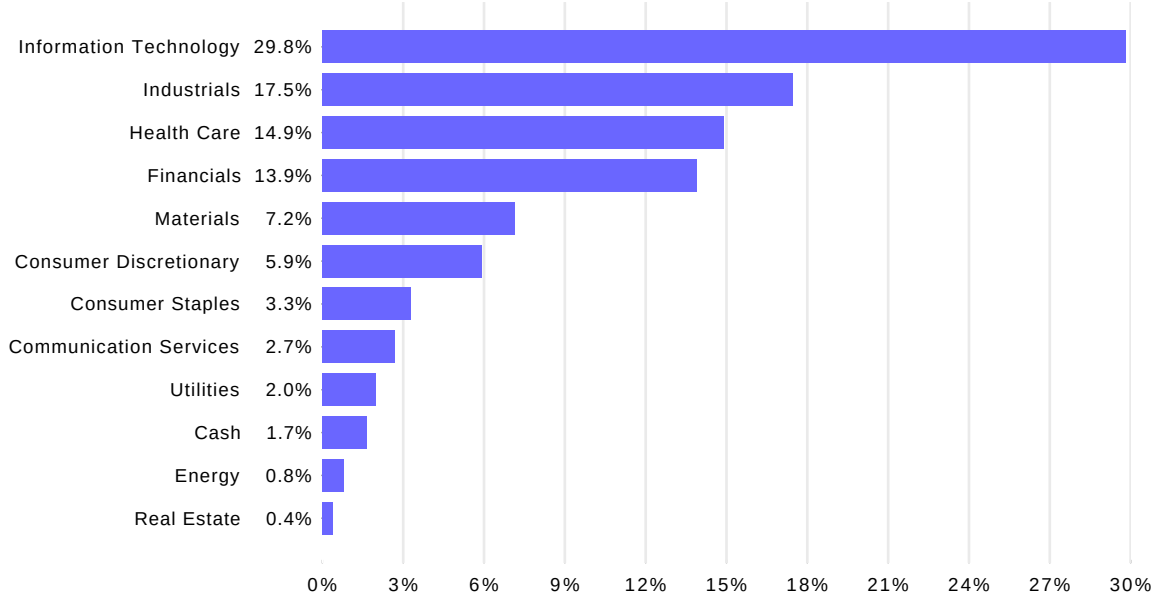
Top 20 Holdings

	Mkt. Val.(GBP)
MARKETAXESS HOLDINGS INC	59,072,056
MASTERCARD INC - A	54,356,548
ANSYS INC	49,227,331
ADYEN NV	47,405,278
WORKDAY INC-CLASS A	42,643,163
MICROSOFT CORP	36,572,237
TRADEWEB MARKETS INC-CLASS A	35,872,146
MASIMO CORP	34,361,984
ALPHABET INC-CL A	34,167,166
ECOLAB INC	33,028,973
INTUIT INC	32,794,638
PTC INC	32,110,847
BIO-TECHNE CORP	31,985,971
PAYPAL HOLDINGS INC	31,519,676
EDWARDS LIFESCIENCES CORP	31,493,745
ROCHE HOLDING AG-GENUSSCHEIN	31,252,502
INTERCONTINENTAL EXCHANGE IN	30,817,628
ILLUMINA INC	30,387,024
FIRST REPUBLIC BANK/CA	29,637,935
UNITEDHEALTH GROUP INC	28,272,098

Regional Exposure



Sector Exposure



Brunel Global Sustainable Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. WORKDAY INC	71.0	23.5
2. MARKETAXESS HOLDINGS INC	66.5	81.1
3. ECOLAB INC	71.3	63.6
4. MASIMO CORP	67.4	80.5
5. ORSTED AS	71.9	34.0
6. PTC INC	66.4	45.3
7. CRODA INTERNATIONAL PLC	71.6	28.4
8. TERADYNE INC	76.2	69.2
9. FORTIVE CORP	65.4	20.2
10. ZEBRA TECHNOLOGIES CORP	71.4	64.1

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MASTERCARD INC	55.0	70.8
2. AMAZON.COM INC	49.4	50.0
3. VISA INC	46.2	29.5
4. TYLER TECHNOLOGIES INC	49.1	12.1
5. ROCHE HOLDING AG	50.4	48.1
6. PAYPAL HOLDINGS INC	49.8	74.7
7. INTERCONTINENTAL EXCHANGE INC	47.7	68.6
8. MICROSOFT CORP	46.5	35.1
9. TJX COS INC/THE	41.0	22.5
10. ALPHABET INC	44.8	57.6

*From Q4 onwards we have moved to the latest and enhanced version of Truvalue Labs data.
Please see supplementary note on the Client portal for more detail.

Weighted Average ESG Score	2020 Q4	2021 Q1
Portfolio	58.8	59.2
MSCI ACWI	53.3	53.7

* Position 1 is the top contributor/detractor.

0 50 100

TruValue Labs & SASB

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	1.7	2.9	3.4	3.8
MSCI ACWI	3.1	3.0	7.5	7.7

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

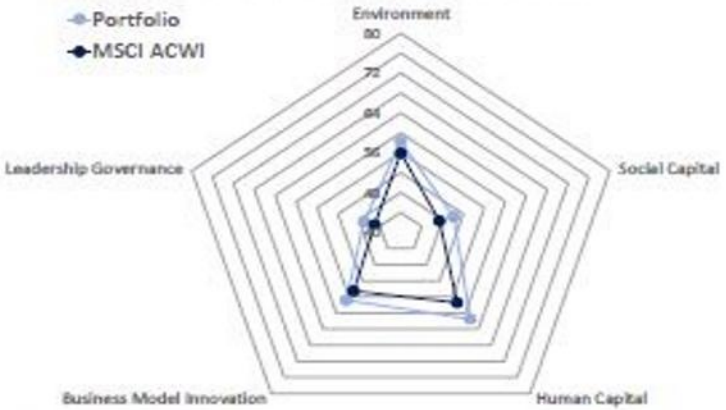
Brunel Assessment:

- **MarketAxess** (Services), the largest green bond marketplace, announced the success of its 'Trading for Trees' program. The initiative plants 5 trees for every $1 million of green bond executed and saw over 134,000 trees planted in 2020 alone.
- **Croda** (Chemicals) has been named first in Barron's 'Most Sustainable International Companies' listing. The company that uses science to make speciality chemicals, and has been heavily involved in vaccine contracts, tops the list which measures companies against 230 key ESG indicators.
- **Zebra Technologies** (Technology & Communications), has backed a Chicago logistics start up called FourKites that has launched a logistics software that tracks one million shipments a day. Zebra Technologies was recently named as one of the 'Best Workplaces for Innovators' by Fast Company.
- **Masimo** (Medical Equipment & Supplies) has announced FDA approval or a new real-time and wireless Bluetooth connectivity patient monitoring device. The technology will reduce clutter in operating rooms where space is at a premium and improve safety as cables can accidently be pulled on conventional patient monitoring equipment.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.

As expected from this Sustainable Portfolio, the carbon intensity and exposure to extractive industries are significantly below benchmark. The Portfolio has considerably higher ESG scores compared to its Benchmark across Environment, Social and Human Capital categories.

Absolute Weighted ESG Scores



TruValue Labs & SASB

Glossary of Terms

Term	Previously referred as	Meaning
Absolute return		The actual return, as opposed to the return relative to a benchmark.
Allocation		Measures the impact of decisions to allocate assets differently from the benchmark.
Alternative Investment Fund (AIF)		An Alternative Investment Fund such as a hedge fund, private equity, real estate fund and other funds focused on alternative asset classes.
Alternative Investment Fund Managers (AIFM)		A fund manager that is authorised (full scope AIFM) or registered (if they manage AIFs with assets under management below certain thresholds) to manage AIFs such as hedge funds, private equity, real estate funds.
Alternative Investment Fund Managers Directive (AIFMD)		This is an EU law that requires each AIF managed within the scope of the Directive to have a single AIFM responsible for ensuring compliance with the Directive.
Annualised		Figures expressed as applying to one year.
Assets Under Management (AUM)		This measures the total market value of all the financial assets which a financial institution such as a mutual fund, venture capital firm, or brokerage house manages on behalf of its clients and themselves.
Attribution		Identifies the drivers of performance relative to the fund benchmark. The relative return is decomposed into two areas; Allocation and Selection.
Authorised Contractual Scheme (ACS)		An investment vehicle and fund manager, based in the UK, that allows LGPS pension funds or other organisations with money to invest alongside each other - while keeping a clear record of who owns what.
Benchmark Return		Expected return based on market indices as dictated by the fund strategy.
Brunel Board	Brunel Manager Board	Board of executive and non-executive directors, leading the Brunel company.
Brunel		Brunel Pension Partnership - The FCA-authorised investment manager entity that manages the pooled investments.
Brunel Executive Directors **(ED)**		The Executive Directors are responsible for overseeing the delivery of the Brunel objectives.

Glossary of Terms

Term	Previously referred as	Meaning
Brunel Pension Partnership Limited **(Brunel)**		One of the eight LGPS Pools in England & Wales. A FCA regulated company, wholly owned by the Administering Authorities, and responsible for implementing the asset allocation strategies of the Brunel Funds by investing Fund assets within defined 'portfolios'. In particular, it will research and select the investment funds needed to meet the requirements of the detailed Strategic Asset Allocations. These investment funds will be operated by professional external investment managers. Brunel Pension Partnership [c£30bn: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire]
Chief Finance Officer **(CFO)**		A corporate officer primarily responsible for managing the financial risks of the corporation. This officer is also responsible for financial planning and record-keeping, as well as financial reporting to higher management. In the Local Authorities this is the S151 officer.
Chief Legal Officer **(CLO)**		The chief lawyer of the legal department, usually in a company or a governmental department who minimizes its legal risks by advising the company's other officers and board members on any major legal and regulatory issues the company confronts, such as litigation risks. In the Local Authorities this is the Monitoring Officer.
Collective Investment Scheme **(CIS)**		This is an investment scheme wherein several individuals come together to pool their money for investing in a particular asset(s) and for sharing the returns arising from that investment as per the agreement reached between them prior to pooling in the money.
Creation, Amendment and Deletion policy **(CAD policy)**		Brunel procedure for creation, amendment and deletion of portfolios
Cross Pool Collaboration Group **(CPCG)**		A collaborative group across the eight UK LGPS pools

Glossary of Terms

Term	Previously referred as	Meaning
Deloitte		Auditors, appointed to provide internal audit services to Brunel
Duration		The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movement in yields.
Environment, Social and Governance **(ESG)**		A subset of non-financial performance indicators used by investors to evaluate corporate behaviour and to determine the future financial performance of companies.
Full Business Case **(FBC)**		Strategic, financial, economic, commercial and management case.
Finance and Legal Assurance Group **(FLAG)**		Finance and Legal Assurance Group (with membership of each AAs equivalent to Chief Finance Officer (CFO) and Chief Legal Officer (CLO)) will sponsor the changes in the Funds and the arrangements for governance of the Brunel company.
Financial Conduct Authority **(FCA)**		This is a financial regulatory body in the United Kingdom, which operates independently of the UK government and is financed by charging fees to members of the financial services industry.
Freedom Of Information Request **(FOI)**		The Freedom of Information Act (FOIA) gives individuals the right to request access to recorded information held by public sector organisations.
Fund Manager		An organisation that provides investment products
FundRock		FundRock is a leading third party UCITS Management Company, Alternative Investment Fund Manager, Authorised Corporate Director and Authorised Contractual Scheme (ACS) Operator. FundRock serves as Brunel's ACS operator.
Fund Return		The total return achieved by the fund or asset class over the period. The return is obtained using the following equation on a monthly basis: ((capital gain/loss + income) / average balance) * 100
Grant Thornton		Auditors appointed to provide external audit services to Brunel
INALYTICS		An investment transition advisor procured by Brunel to initially advise on the passive equities transition

Glossary of Terms

BRUNEL
Pension Partnership

Term	Previously referred as	Meaning
Institutional Investors Group on Climate Change **(IIGCC)**		The Institutional Investors Group on Climate Change (IIGCC) is a forum for investors to collaborate on climate change. IIGCC's mission is to mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policymakers and investors. IIGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.
Investment Management Agreement **(IMA)**		The contract with a fund manager
Investment Strategy Statement **(ISS)**	Replaces the Statement of Investment Principles	A document that replaces the Statement of Investment Principles under the 2016 LGPS (Management and Investment of Funds) Regulations. Administering Authorities are required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented, including its approach to pooling.
Know Your Customer **(KYC)**		The process of a business identifying and verifying the identity of its clients. The term is also used to refer to the bank regulation which governs these activities.
Legal & General Investment Management **(LGIM)**		Investment management firm
Local Government Association **(LGA)**		This is an organisation which comprises local authorities in England and Wales. The LGA seeks to promote better local government; it maintains communication between officers in different local authorities to develop best practice. It also represents the interests of local government to national government.
Local Authority Pension Funds Investments **(LAPF)**		A magazine for local authority pension investment specialists.
Local Authority Pension Fund Forum **(LAPFF)**		The collaborative shareholder engagement group for local authority pension funds. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.
Local Government Pension Scheme **(LGPS)**		This is a nationwide scheme and is a valuable part of the pay and rewardpackage for employees working in local government or working for otheremployers participating in the Scheme and for some councillors.

Glossary of Terms

BRUNEL Pension Partnership

Term	Previously referred as	Meaning
Local Government Pension Scheme **(LGPS)**		The Scheme is administered locally for participating employers through 99 regional pension funds
LGPS (Management and Investment of Funds) Regulations 2016 (Investment Regulations)	Draft LGPS (Management and Investment of Funds) Regulations 2016	Regulations 2016 (Investment Regulations) that came into effect 1 November 2016.
LGPS Code of Transparency (Transparency Code)		A move toward investment fee transparency and consistency, and part of the government's criteria for pooling investments.
Market volatility		The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.
Markets in Financial Instruments Directive II **(MiFID II)**	MiFID	MiFID is the European Union (EU) legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. MiFID applied in the UK from November 2007, and was revised by MiFID II, which took effect in January 2018. MiFID II is made up of MiFID (2014/65/EU) and the Markets in Financial Instruments Regulation (MiFIR - 600/2014/EU).
Money-weighted rate of return		The rate of return on an investment including the amount and timing of cashflows.
Portfolio	Fund	The grouping of the asset types to be available for funds. For example, Global Equities Core, Hedge funds, UK Gilts, LDI.
Portfolio group		The higher level category of asset types. For example, equities, alternatives, fixed interest.
Relative return		The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on index or Benchmark.
Selection		Measures the impact of performance at asset class or manager level in relation to the overall fund.

Glossary of Terms

Term	Previously referred as	Meaning
Time-weighted rate of return		The rate of return on an investment removing the effect of the amount and timing of cashflows.
Yield (Gross Redemption Yield)		The return expected from a board if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Audit, Risk & Compliance Committee	ARC	Patrick Newberry, NED	To oversee key functions of the Regulated Company, including: - Financial and Annual reporting - Internal controls - Compliance and whistleblowing - External audit function
Brunel Investment Committee	BIC	CIO	Formal meeting of the Brunel Investment Team, covering: - Economic and Markets update - Responsible Investment update - Stakeholder input (from Client Relations Team) - Investment proposals (private and listed markets) - Procedures - Forward look
Brunel Investment Risk Committee	BIRC	CIO	To provide challenge and insight in respect of investment risks and exposures. This will include oversight of portfolio guidelines and monitoring.
Brunel Oversight Board	BOB	Ray Theodolou (Glos)	The Oversight Board has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Oversight Board will have responsibility for ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership.The Oversight Board shall comprise of one individual appointee of each administering authority participating in the Brunel Pension Partnership. In addition to the individuals appointed by each of the administering authorities, two members representing Fund members shall be entitled to attend and contribute to meetings of the Oversight Board.
Brunel Operations Committee	BOC	COO	To review the detailed elements of Brunel's operations, including: - Technology and infrastructure - HR policies

Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Brunel Operations Committee	BOC	COO	- Regulatory change (and compliance with) - Finance - Managing supplier relationships - ICAPP oversight
Brunel Risk and Compliance Committee	BRCC	DoR & GC	Second line review overseeing the Compliance and Risk function
Client Group	CG	Sean Collins	Client Group has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Client Group will provide practical and technical support, guidance and assistance to the Oversight Board in its strategic role of ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership.Client Group shall comprise of at least one individual appointee of each administering authority participating in the Brunel Pension Partnership.
The Executive Committee	ExCo	CEO	The core responsibility of ExCo is to oversee delivery of the Brunel objectives. The Executive Committee comprises: - Chief Executive Officer - Chief Investment Officer - Chief Operations Officer - Client Relationship Director
Remuneration Committee	RemCo	Mike Clark, NED	In line with the Shareholders Agreement, to set and monitor remuneration policy including that for senior management remuneration.

Disclaimer

This material is for information only and for the sole use of the recipient, it is not to be reproduced, copied or shared. The report was prepared utilising agreed scenarios, assumptions and formats.

Brunel accepts no liability for loss arising for the use of this material and any opinions expressed are current (at time of publication) only. This report is not meant as a guide to investing or as a source of specific investment recommendations and does not constitute investment research.

Certain information included in this report may have been sourced from third parties. While Brunel believes that such third party information is reliable, Brunel does not guarantee its accuracy, timeliness or completeness and it is subject to change without notice.

Nothing in this report should be interpreted to state or imply that past performance is an indicator of future performance. References to benchmark or indices are provided for information only and do not imply that your portfolio will achieve similar results.

Brunel provides products and services to professional, institutional investors and its services are not directed at, or open to, retail clients.

Authorised and regulated by the Financial Conduct Authority No. 790168.

The Industry Classification Benchmark is a joint product of FTSE International Limited and Dow Jones & Company, Inc. and has been licensed for use.'FTSE' is a trade and service mark of London Stock Exchange and The Financial Times Limited. "Dow Jones" and "DJ" are trade and service marks of Dow Jones & Company Inc. FTSE and Dow Jones do not accept any liability to any person for any loss or damage arising out of any error or omission in the ICB.

The Global Industry Classification Standard (GICS®) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by State Street Bank and Trust Company.

BRUNEL
Pension Partnership

Page 123

This page is intentionally left blank

Appendix X

Brunel Asset Transition Update

Assets that have transitioned total £3.47bn (at 31/03/21). In addition Brunel invests £280m in secured Income and £50m in Renewable Infrastructure on behalf of the Fund. The investments in Private Debt has yet to commence. Also in January 2021 the management of the UK Property funds (£106m) transferred to Brunel.

Brunel portfolio	Value at 31/03/21	Transitioning Mandates / Managers	Date of transition
Passive Low Carbon Equities	£692m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£0m	UK Equities - TT Int'l	Nov 2018
Emerging Market Equities (EM)	£287m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities	£403m	Global Equities - Schroder	Nov 2019
Risk Management Strategies	£943m	LDI and EPS - Blackrock	Oct 2019
Diversified Return Funds	£501m	Diversified Growth Funds – Pyrford, Ruffer (partial)	July 2020
Sustainable Equities	£541m	UK Equities & Global Sustainable Fund – Jupiter UK Equities & Global High Alpha (partial) - Brunel	Sept 2020
UK Property (pooled funds)	£106m	UK Property (partial) - Schroder	Jan 2021

There will be a verbal update at the meeting regarding the portfolios that are in transition. The last phase of the transition, transitioning the Fixed Income portfolios which includes our Multi Asset Credit portfolio is in progress.

Brunel provides quarterly investment reports client group and pension committees (included as an appendix to this Quarterly Investment Monitoring report). The project to revise the client reporting from Brunel is progressing and we expect to see revised reporting by the end of this year.

This page is intentionally left blank

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**		
MEETING DATE:	**28 May 2021**	**AGENDA ITEM NUMBER**	**11**
TITLE:	**Forward Agenda**		
WARD:	**ALL**		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Nil			

1 THE ISSUE

1.1 This report sets out the forward agenda for the Panel for 2021. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

2 RECOMMENDATION

2.1 **That the Panel notes the Panel forward agenda.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 FORWARD AGENDA

4.1 The provisional agenda is as follows:

Date	Proposed agenda
28 May 2021	Strategic • Brunel – CIO overview • Review of equity portfolio (part 1) – pre meeting workshop • Risk Management Governance arrangements Monitoring • Investment performance including update on pooling • Risk Management Framework • Managing Legacy Portfolios
10 September 2021	Strategic • Brunel update on listed market portfolios • Review of equity portfolio (part 2) Monitoring • Investment performance • Risk Management Framework
19 November 2021	Strategic • Cycle 3 Private Market commitments Monitoring • Investment performance • Risk Management Framework

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

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

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, investments & Risk; 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank