Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: Friday, 27th May, 2022
Time: 2.00 pm
Venue: Council Chamber - Guildhall, Bath

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

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NOTES:
1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings:-**

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

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4. **Public Speaking at Meetings**

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

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Avon Pension Fund Committee Investment Panel - Friday, 27th May, 2022

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will draw attention to the emergency evacuation procedure as set out under Note 9.

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: 25TH FEBRUARY 2022 (Pages 7 - 22)

8. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2022 (Pages 23 - 120)

This paper reports on the performance of the Brunel and legacy portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 March 2022.

9. CLIMATE POLICY UPDATE (Pages 121 - 130)

The Fund's approach to managing climate risk is threefold. Firstly, it measures its financial risk using carbon metrics that inform the Committee of the carbon exposure and intensity and thus the potential financial impact on the Fund. Secondly, it proactively invests in the transition to a low carbon economy through its capital allocation decisions. Thirdly, through its engagement with companies and public policy makers it is driving change to positively impact the real economy.

10. RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 MARCH 2022 (Pages 131 - 164)

The Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's risk management framework thereby ensuring that strategic objectives continue to be met. This report informs Panel of issues considered and decisions made by FRMG as well as any recommendations.

11. FORWARD AGENDA (Pages 165 - 168)

This report sets out the forward agenda for the Panel for 2022/23. 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 Council

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Friday, 25th February, 2022, 2.00 pm

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

Advisors: Steve Turner (Mercer), Nick Page (Mercer), Joshua Caughey (Mercer)

Also in attendance: Tony Bartlett (Service Director - Financial Control and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager) and Richard Fanshawe (Brunel)

36 WELCOME & INTRODUCTIONS

The Chairman welcomed everyone to the meeting.

37 DECLARATIONS OF INTEREST

There were none.

38 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Paul Crossley had sent his apologies to the Panel.

39 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chairman addressed the Panel and made the following statement regarding the Fund in relation to the recent Russian invasion of Ukraine.

Now that we have terminated our dedicated Emerging Markets portfolio, we only invest in developed world benchmarked funds. Therefore, any exposure to Russia will be very small and only through active stock selection decisions of our managers. However, given our ESG focus, it would be very unlikely that our active equity managers would invest in Russian stocks. We do have a small exposure through our MAC portfolio. In line with their Responsible Investment policy Brunel will be monitoring their managers to ensure all companies comply with UN principles on Business Human Rights and will consider what engagement is needed with companies as a result of this situation.

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

Mel Clarke addressed the Panel, a copy of her statement is attached as an online appendix to these minutes, a summary is set out below.

Whilst I acknowledge the progress made by APF in reducing the climate intensity of the fund, I feel that the dire state of the climate emergency means that the fund's commitment "to become a carbon neutral pension fund by 2050 or earlier" (1) is not sufficient. According to research by the campaign group UK Divest at the end of 2020, the fund's total fossil fuel investments were over £100 Million (3).

Global emissions continue to rise and people in the global south are suffering. Pension funds have been engaging with the fossil fuel industry for three decades.

Shell is the fossil fuel company most heavily invested in by Local Government Pension funds. Shell has set a target of reaching net-zero by 2050, with an interim target of cutting the carbon intensity of its output by 20% by the end of the decade.

In May 2021, a Dutch court ruled that Shell must cut its net carbon emissions by 45% by 2030. The ruling noted that Shell's current target of a 20% reduction is not sufficient to prevent global temperatures rising more than 1.5°C, in line with the Paris Agreement. Shell has since confirmed that it will appealing the ruling. Surely any company truly committed to net-zero would not appeal against a legally binding, independent court ruling that says they must make their operations Paris-aligned?

The world's 60 largest banks financed nearly $4tn in fossil fuel projects between 2016 and 2020, according to a March report from a coalition of climate organisations including the Rainforest Action Network (RAN), Sierra Club, BankTrack and more (4). Much of this money is lent to banks by pension funds.

Whilst gas and oil prices have recently demonstrated a temporary rebound following the COVID pandemic, in the long term, greener funds have better prospects. A recent article on the FT adviser website stated that "Renewable energy infrastructure is tipped to be 2022 winner and could be the best performing asset class of 2022, according to a survey of investment company managers" (4).

I put it to you that the case for rapid divestment from Fossil Fuels is overwhelming so please do it now.

The Chairman thanked her for her statement on behalf of the Panel and said that a written response would be sent in due course. He added that the Fund has put in place challenging intermediate carbon reduction goals for its equity portfolio between now and 2030 which are kept under review.

41 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

42 MINUTES: 19TH NOVEMBER 2021 (PUBLIC & EXEMPT)

The Panel were minded to approve the minutes.

43 PRIVATE MARKET PORTFOLIOS

The Investments Manager introduced this report to the Panel. He explained that representatives from Brunel will provide an update on the Cycle 1 & 2 portfolios as well as a Cycle 3 forward-look in line with their presentation (Exempt Appendix 1).

He added that representatives from Mercer were also present and have provided assurance that the Cycle 3 private market portfolios still meet our strategic objectives (Exempt Appendix 2).

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 noted the capital being committed to Cycle 3 private market portfolios to reach the existing strategic allocations as outlined in Exempt Appendix 2.

44 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2021

The Investments Manager introduced this report to the Panel and highlighted the following points.

- No concerns to flag with any of the Brunel portfolios this quarter.
- The Global Sustainable Equity portfolio again posted strong performance, achieving a 6.8% absolute return over the quarter, which was 0.5% ahead of its benchmark due to positive sector allocation.
- The High Alpha portfolio returned 6.3% in absolute terms, underperforming the index by 1.1% and the underperformance is understood.
- The quarter saw a number of portfolio changes in line with recommendations from the Equity Review. October saw a £575m sale from Brunel's Low Carbon Passive portfolio into their new Paris Aligned Benchmark (PAB) Fund, while in December the Emerging Markets portfolio was sold (c£275m) with proceeds being fully re-invested in Global High Alpha.

Josh Caughey, Mercer addressed the Panel and highlighted points from within Appendix 2 – Performance Report.

Market background: The fourth quarter of 2021 came with a number of challenges. Global supply chains remained stretched and the new Covid-19 variant was discovered mid-quarter. Soaring inflation also forced some major central banks to accelerate their exit strategies from ultra-loose monetary policies.

In spite of these headwinds, risk assets fared reasonably well with a few exceptions. Inflation expectations increased and gilt yields generally declined slightly over the quarter.

Funding level and risk: The funding level is estimated to have improved over Q4 to c.102% as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 7% over the year to 31st December 2021.

The Value-at-Risk rose over the quarter to £1,233m, mainly due to the increased allocation to equities under the new strategic asset allocation. Risk as a proportion of liabilities is lower compared to last year thanks to the decision to move to the dynamic equity option strategy.

Performance: Most assets delivered positive returns over the quarter, particularly the global equity portfolios. Property and infrastructure also generally fared well.

Relative performance was mixed at the mandate level, though the Hedge Fund and Core Infrastructure mandates have continued to stand out in outperforming their benchmarks. The Secured Income mandate has also done well over the year.

Asset allocation and strategy: The Fund terminated its holdings in Emerging Markets Equity, for which the strategic allocation was distributed between the High Alpha and Sustainable Equity mandates (which still contain emerging markets exposure).

From a strategic perspective, the allocation to Diversified Returns was also reduced, and the global equity mandates correspondingly increased in order to maintain the overall expected return of the portfolio in light of the reduction in emerging markets equities.

Total Fund performance attribution: Equities continue to be the biggest driver of returns and contributed over 70% of returns in the fourth quarter. The only detracting asset from class absolute returns over the period was Equity Protection (due to the rising underlying markets).

Performance vs. expected strategic returns: Returns have been above expectations for all global equity mandates, given the strength of equity markets since 2019.

Shirley Marsh-Hughes asked if a potential war in Europe would have a significant impact on the Value-at-Risk levels in terms of a 1-in-20 downside event.

Joshua Caughey replied that Covid-19 would also be put in the same scenario and that this highlighted the need for a scenario of differing portfolios as some asset classes might not suffer as much. He added that he felt that the Fund was in a strong funding position to do what it needed to going forward.

Steve Turner added that the dynamic protection would evolve with market levels, but said that sanctions imposed on Russia could damage economic growth.

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.

Steve Turner highlighted points within Appendix 5 for the Panel.

We have seen increased global coordination in the fight against climate change, with the US, China, India, Australia and Saudi Arabia all now also committing to net zero targets; and significant degrees of innovation and resulting disruption across a number of sectors, most notably healthcare and finance.

To translate these and other developments into relevant themes for investors, we have identified three overarching themes which we believe will impact investment decisions in 2022 and beyond.

Changing of the guard: Understanding the effects of the changing fortunes of economic players and ways of thinking that have held sway for a long time, including the evolving responsibilities of monetary policies; the prospect of an “Asian century”; the dramatic re-morphing of how finance is provided.

Position for transition: How investors should plan for the changes required to put us on a most sustainable path; the role of impact investing; the management of resources to facilitate the green transition; and the power that can be exercised through engagement.

Modern diversification: How portfolios should be reinvented to hit target returns while maintaining protection; the use of dynamic allocation between strategies and themes; and how to gain access to emergent innovators.

Shirley Marsh-Hughes asked how in the reporting process can we capture more of the good work that we are doing with regard to climate change.

Steve Turner replied that the most likely way that they would be able to do this would be as part of the TCFD (Task Force on Climate-related Financial Disclosures) reporting process. He added data most readily available on equities and that they were working with Brunel to expand coverage where available and where the data is sensible.

He added that he felt it was unlikely that they would see quick progress in receiving accurate data in areas such as Private Markets. He said that there were developments and initiatives taking place within property and some multi-asset credit managers that could improve their data.

The Group Manager for Funding, Investment & Risk commented on the need for consistency in the data being received. She agreed that property and multi-asset credit were two likely areas to begin to receive accurate data. She added that this work would also require appropriate resourcing and conversations were being had with Brunel on this issue.

The Chairman asked if having currently withdrawn from emerging markets was presenting any particular difficulties given the prominence of Asian economies.

Steve Turner replied that not all themes and opportunities would be relevant to all clients. He said that there were reasons to be positive about China / Asia in the long term return perspective, but investors with net zero targets would find it challenging. He stated that they were trying to find the balance between achieving the expected returns whilst still achieving the net zero transition.

He said that having come out of emerging markets had allowed the Fund to invest further in sustainable equities. He added that should the position change significantly then there could be a case for re-engagement.

The Chairman asked what the advantages / disadvantages would be with regard to re-engagement with emerging markets, either as a whole or with the exclusion of China.

Steve Turner replied that if targeted exposure could be achieved and was easily implementable with Brunel, then we would have to judge whether it would be additive to returns, help to enhance returns, add genuine diversification and be consistent with your overall climate goals.

The Panel were minded to note the information as set out in the reports.

45 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 DECEMBER 2022

The Investments Manager introduced this report to the Panel and highlighted the following points.

- Following its last meeting the Panel asked FRMG to consider the quantitative impacts of rising inflation on the Fund's investment strategy, specifically in relation to the LDI hedge ratio. FRMG examined the impact of different inflation hedge ratios in terms of risk/return, collateral and in the context of the wider investment strategy, noting how the Fund's already well diversified portfolio is well positioned to mitigate a range of downside risks. FRMG concluded that the Fund should maintain the current inflation hedge ratio while continuing to monitor the inflationary environment.

- The EPS was restructured in December 2021 to take account of the changes to the underlying equity portfolio that were agreed as part of the wider equity allocation review in September i.e. the removal of the dedicated emerging market equity allocation and the subsequent increase to developed market equities. FRMG considered the post-trade report prepared by Mercer which showed transaction costs for exiting the emerging market exposure came in higher than expected (0.21% of exposure traded vs. 0.14% estimate) as a result of increased volatility at the time of trading.

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 were minded to:

i) Note the current funding level and LDI hedging position
ii) Note the impact and performance of the equity protection strategy
iii) Note the current collateral adequacy position
iv) Note the current FRMG workstreams as summarised in sections 5-7 of the report.

46 FORWARD AGENDA

The Investments Manager introduced this report to the Panel and explained that reports have been identified for their next four meetings.

The Panel were minded to note the forward agenda as printed.

The meeting ended at 4.00 pm

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**27 May 2022**
TITLE:	**Review of Investment Performance for Periods Ending 31 March 2022**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - Mercer Performance Monitoring Report Appendix 2 – Brunel Quarterly Performance Report Exempt Appendix 3 – Quarterly Portfolio Monitoring Summary Appendix 4 – Brunel Presentation: Multi Asset Credit Portfolio	

1. THE ISSUE

1.1. This paper reports on the performance of the Brunel and legacy portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 31 March 2022.

1.2. The Mercer Performance Monitoring Report at Appendix 1 is presented in its revised format and will continue to evolve over time to focus on strategic issues.

1.3. Appendix 2 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.

1.4. The performance of the Fund's Risk Management Framework is considered separately under Agenda Item 10 – Risk Management Framework Review.

1.5. Exempt Appendix 3 contains a summary table which is designed to flag any concerns from a performance, operational and/or RI perspective. The table has been compiled using data provided by Brunel as part of their routine reporting process.

1.6. Appendix 4 is a Brunel presentation which focuses on the Multi Asset Credit Portfolio. Brunel will present the paper at the meeting.

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 decreased by £69m in the quarter (-1.1% net investment return) ending March 2022 giving a value for the Fund of £5,826m.

4.2. The first quarter of 2022 proved challenging for markets with Russia's invasion of Ukraine causing a global shock that threatened growth-outlooks as economic ramifications began to materialise. As Russia and Ukraine are both large producers of energy, metal and food, this conflict, and the accompanying sanctions, exacerbated inflation while adding further upward pressure on commodity prices. Another emerging threat to global growth came from the latest Covid outbreaks in China and the supply disruptions expected from strict lockdowns in major cities such as Shanghai. While commodities were up over the quarter, most other assets such as fixed income, equity and listed property funds were down. The MSCI All Country World Index was down 2.4% in GBP terms with energy being the best-performing sector. In the UK, inflation rose to 6.2% in February, its highest rate in 30 years, with the Bank of England (BoE) forecasting inflation to peak in the spring at around 8%. The BoE raised rates to 0.75% over the quarter. Elsewhere, the US Federal Reserve raised interest rate by 0.25%, for the first time since 2018, as it attempts to control 40-year inflation highs brought about by geopolitical tensions and pandemic-related supply shocks. Similarly high inflation rates hit the Eurozone and, while not raising rates, the European Central Bank increased the pace of reductions within its asset purchase program. In UK LDI markets, gilt yields rose by 67bps across the curve. Across Private Markets, Infrastructure funds globally raised $70bn, a 42% higher rate than their previous peak. This was led by renewables as the war in Ukraine increased the desire for energy security alongside traditional environmental drivers. In particular, energy transition funds designed to decarbonise the economy continued to expand. Private Debt managers have gained from muted activity in the public markets by offering opportune financing solutions to upper-middle and large-cap borrowers. Finally, UK property deal volume rebounded over the quarter, with Hotels, Residential ad Student Accommodation attracting interest. Sterling depreciated against the US Dollar by 2.8%, by 0.6% against the Euro and appreciated by 2.5% against the Japanese Yen. Further information on Q1 asset class performance can be found in the Mercer report at Appendix 1.

B – Investment Manager Performance

4.3. The Mercer report at Appendix 1 provides strategic level information including total fund level performance, current funding level and an analysis of how the Fund's mandates are performing against expected strategic returns.

4.4. 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 18-32 of Appendix 2.

4.5. Overall, the Fund saw a negative return over the quarter. Leading detractors Global High Alpha and Global Sustainable Equities produced absolute returns of

-8.0% (-5.8% on a relative basis) and -9.8% (-7.5% on a relative basis) due to the significant bias to lower-carbon companies and Growth/Quality tilts. The Passive Paris Aligned Passive Portfolio also saw negative absolutes returns of -3.7%, in line with its benchmark, with Utilities and Financials being two of the only positive contributors to returns over the quarter. In credit markets, Multi Asset Credit (MAC) posted a -2.7% return vs. the 1.1% cash benchmark, having been negatively affected by rising inflation and increased corporate and sovereign credit spreads due to the invasion of Ukraine. Although behind its benchmark for the quarter, the Diversifying Returns Fund manged to produce a positive 0.4% return with big positive contributors including commodity moves and long currency positions in the Brazilian Real and Norwegian Kroner. Core Infrastructure, Renewable Infrastructure, Secured Income and Property portfolios all produced positive absolute returns despite the uncertainties brought on by supply chain issues and inflation. Of those mandates with a 1-year track record the majority still earnt positive absolute returns over the year, with notable outperformance across the Brunel UK Property and IFM Infrastructure portfolios. The currency hedge detracted 0.4% over the quarter as Sterling weakened.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. **Returns versus Strategic Assumptions:** Returns since the last valuation date (March 2019) for all equity mandates (with the exception of the passive Paris-aligned fund where track record is insufficient to draw conclusions) and core and renewable infrastructure are ahead of the assumed strategic returns used during the 2019/20 investment review. International property is below expectations as the mandate has been impacted by the pandemic. Due to the way this portfolio invests (capital drawn down over time) the focus should be on longer-term performance. Brunel Diversifying Return Funds is also marginally behind expectations due to a dampening of performance over the past three quarters. Other mandates are either still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

5.2. **Rebalancing:** In line with recommendations from our equity review, the quarter saw the remaining balance of our Brunel Low Carbon Passive portfolio (£221m) switched into the Paris Aligned Benchmark (PAB) Fund.

The wind-down of the JPM hedge fund mandate continues with the second redemption of $80m settling in February and a third scheduled for May.

5.3. **Responsible Investment (RI) Activity**: A summary of RI activity undertaken by Brunel is included on page 11 of Appendix 2.

As part of the ongoing ESG communications strategy the fund published a member-focused climate change action plan on the website. This incorporated the key pillars of disclosures required under TCFD while also setting out our and associated climate commitments, as required under our IIGCC Net Zero Asset Owners pledge. Post quarter end the second edition of the Fund's e-zine was published on the website and distributed internally. This publication included a summary of the RI member survey and a case study on the renewable credentials of Biomass, which the Fund has exposure to through its renewable infrastructure allocation.

5.4. **Voting and Engagement Activity:** Hermes engaged with 209 companies held by Avon in the Brunel active portfolios on a range of 719 ESG issues. Environmental topics featured in 23% of engagements, 86% of which related

directly to climate change. Social topics featured in 21% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 40% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 119 meetings (1,042 resolutions). At 42 meetings they recommended opposing one or more resolutions. 79% of the issues Hermes voted against management on comprised board structure and remuneration. During the quarter, the underlying investment managers undertook the following voting activity on behalf of the Fund:

Companies meetings voted: 403

Resolutions voted: 5,348

Votes For: 4,580

Votes Against: 645

Abstained: 62

Withheld vote*: 61

***** *A Withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for nor against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required*

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

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

10.1. The Council's Section 151 Officer has 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	

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Mercer

Avon Pension Fund

Panel Investment Report
Quarter to 31 March 2022

May 2022

Steve Turner
Joshua Caughey

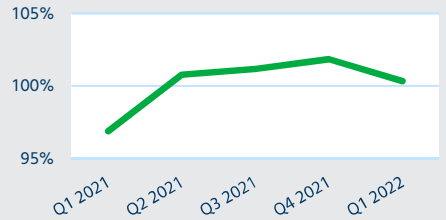
Contents

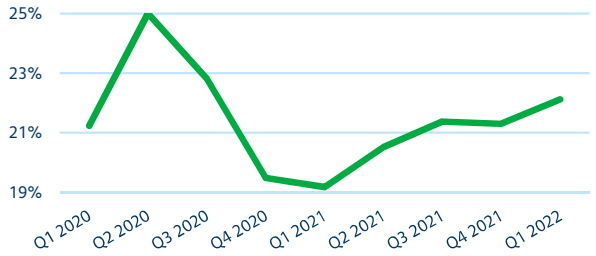
Executive summary

1

Executive summary

Market background	• The first quarter of 2022 was dominated by Russia's invasion of Ukraine and changes in central bank policies. These led to large movements in asset prices and elevated levels of volatility, with both equities and bonds delivering negative returns. • Inflation expectations increased over the quarter, and gilt yields rose significantly.
Mercer market views	• Our medium term outlook is mixed after the turbulent start to 2022, given the crosscurrents at play. • The rise in inflation and increasing bond yields are negatives for equities and growth fixed income, while geopolitical risks around the globe remain elevated. On the other hand, corporate profit growth should remain resilient in 2022 and interest rates should remain low for several quarters as they take time to "normalise".
Funding level and risk	• The funding level is estimated to have decreased marginally over Q1 to c.100%, as the assets fell in value whilst the liabilities rose slightly. • It is estimated to have increased by 3% over the year to 31 March 2022 (as illustrated to the right).
	• The Value-at-Risk rose over the quarter to £1,284m, due to increased volatility in equity, interest rates and inflation markets. • It also increased as a percentage of liabilities to 22.1%. • Risk as a proportion of liabilities has increased over the year, although remains below the levels of 2020. From Q4 2020, the VaR figures reflect the move from a static to a dynamic equity option strategy.





Executive summary

Performance

- The Fund assets fell in value primarily due to negative returns from the equity portfolio. The multi asset portfolios also delivered negative returns.
- The alternatives in real assets and the LDI portfolio offset some of the impact from equities, as they delivered positive returns.
- Underperformance relative to the strategic benchmark over the one and three year period to 31 March 2022 is mainly due to the impact of the equity protection strategy, although significant underperformance from the High Alpha and Sustainable Equity portfolios over Q1 2022 has also contributed over the year. This pattern of relative performance is not unexpected given that growth stocks have been re-rated due to rises in interest rates. Carbon heavy stocks performed relatively well over the quarter.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-1.1	10.0	6.5
Strategic Benchmark **(2)** (ex currency hedge)	1.6	13.3	9.1
Relative **(1 - 2)**	**-2.7**	**-3.3**	**-2.6**

- Conversely the real assets have done well over the one and three years against their benchmark, so relative performance at the mandate level has been mixed overall.
- The Currency Hedge overlay detracted from returns over the quarter and one year period due to a weakening of sterling, though it has added to returns over the three year period.
- Absolute returns for all global equity mandates, except for the recently-incepted Paris Aligned mandate, have been above the strategic returns modelled at the last investment strategy review in March 2019, given the strength of markets over this period.
- UK Property, Secured Income and Core Infrastructure have also done well relative to strategic expected returns.

Asset allocation and strategy

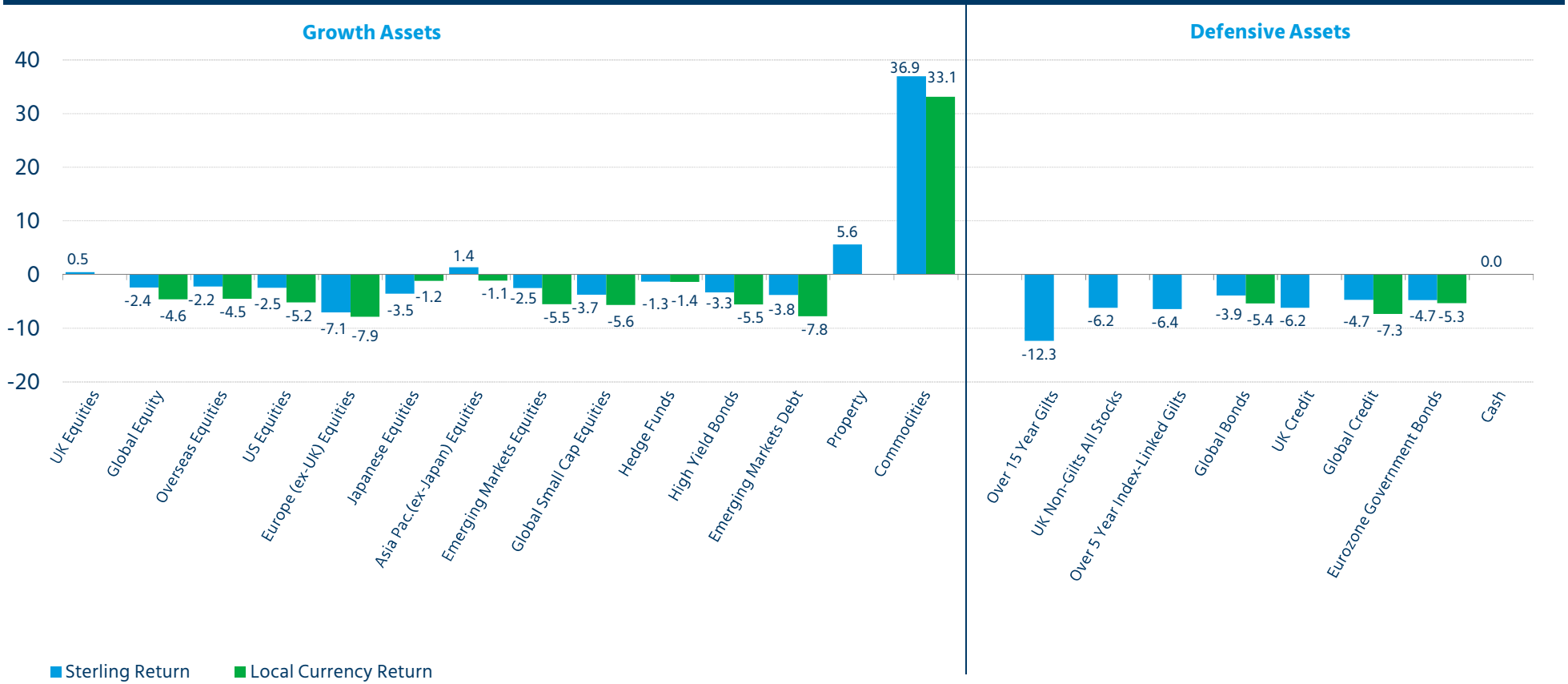
- During the quarter, the Fund completed the equity portfolio transitions with the top-up of the Sustainable Equity mandate and termination of the Low Carbon mandate.
- At quarter-end, all asset classes were within their ranges, except for the Renewable Infrastructure and Private Debt mandates which are still in the process of being drawn down.
- c£22m was drawn down to Brunel private market portfolios during the period.

Market background

2

Market background

Return over 3 months to 31 March 2022 (%)



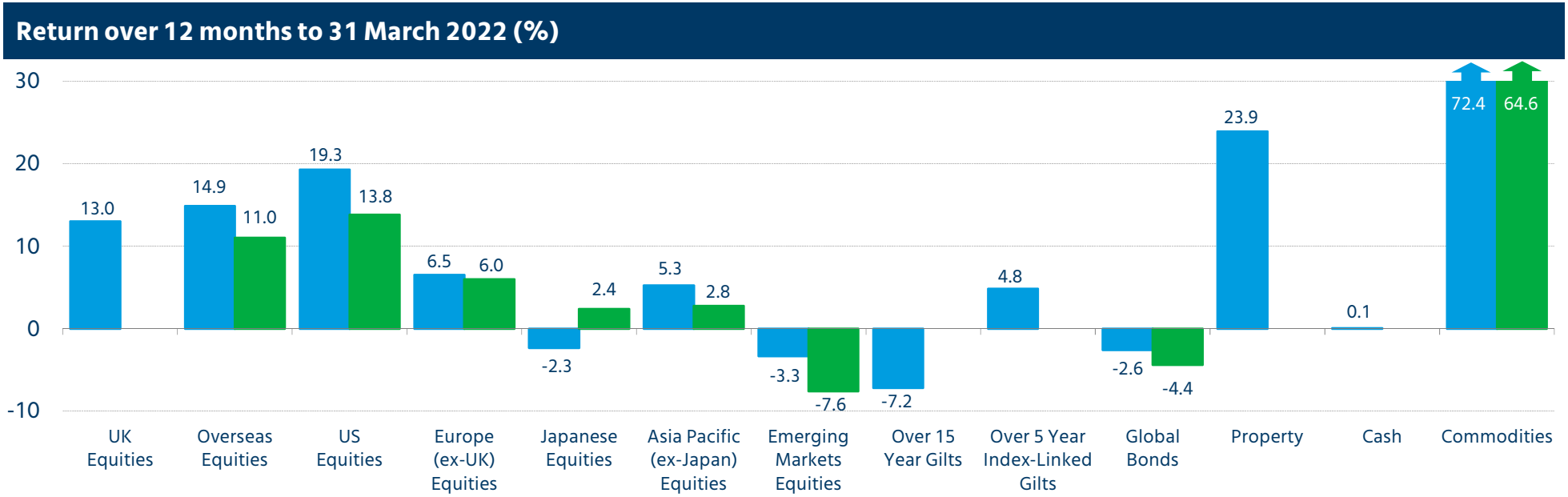
The first quarter of 2022 was dominated by Russia's invasion of Ukraine and central bank policy. This led to large movements in asset prices and elevated levels of volatility.

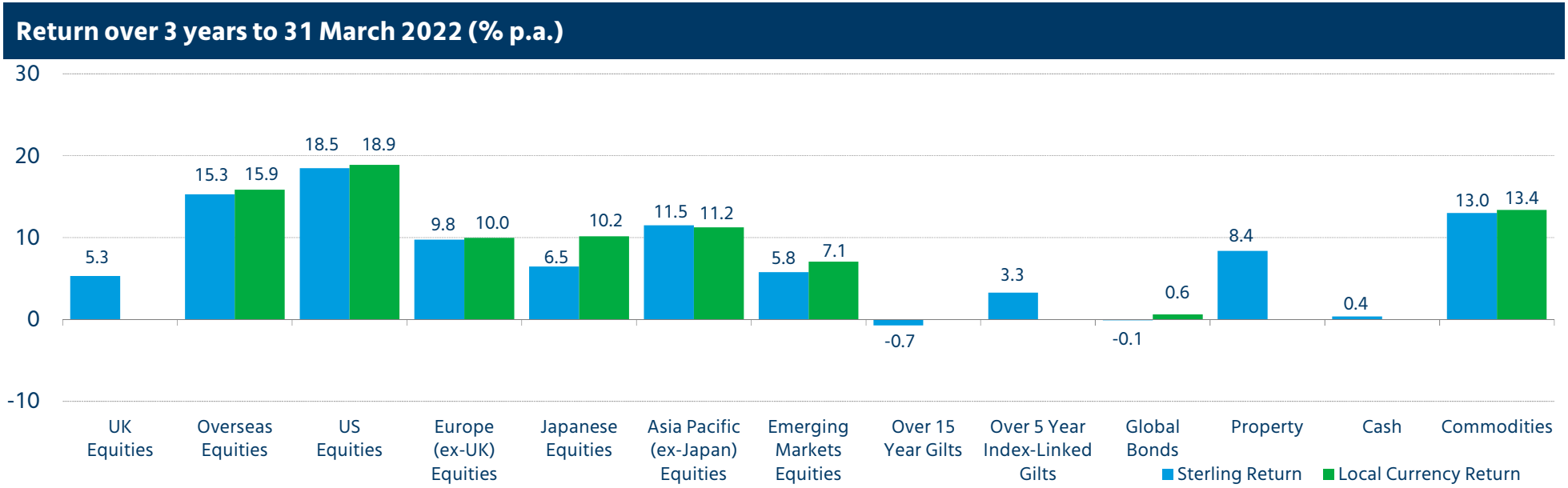
2022 started on a positive note. Most developed countries elected not to re-introduce far reaching pandemic-related restrictions, which supported demand. Although inflation came in at elevated levels, a combination of improving supply chains and moderate monetary tightening was expected to bring it under control. The invasion of Ukraine and subsequent spike in commodity markets completely changed this narrative, however. Central banks were forced to accelerate this pace of tightening even as growth expectations were dialed down. Commodity markets were the only asset class to produce positive absolute returns over the quarter as equity and bond markets struggled to navigate the ongoing uncertainty.

Mercer

Source: Refinitiv

Market background – 1 & 3 years





Mercer

Source: Refinitiv

Mercer market views

3

Market Outlook (April 2022)

Overweight Neutral weight Underweight

Mercer's current position/view

Position/view last time (if changed)

Global equities weakened in what was a volatile quarter in response to the Ukraine crisis, much higher inflation and the associated hawkish turn by many of the world's central banks. After seven consecutive quarterly gains since the COVID low in March/April 2020, the US S&P500 lost c.2% (GBP return), although losses had been double that in the weeks immediately after the Russian incursion into Ukraine. There were large dispersions within and across markets, with commodity exporters/producers generally doing a lot better than importers/buyers. Global bond yields rose sharply to their highest level in several years as inflation rose to levels not seen since the 1980's in the US and also reached multi-decade highs in other developed economies. Commodity prices surged, especially those produced in large quantities in Russia and Ukraine, such as oil, natural gas and wheat. Oil prices fell back a little into quarter end, allowing global equities to recover some of their losses towards quarter end, however, government bonds continued to weaken.

Global economic growth was strong at the end of 2021, but there were signs of slower growth at the start of 2022 as higher inflation started to eat into household incomes. This was especially the case in Europe, which relies much more on energy imports than the US, in particular large imports of Russian natural gas, whose price has skyrocketed. Despite this, the global economy has remained resilient in part because Europe and some other regions are benefiting from a gradual recovery in tourism and other sectors affected by the COVID pandemic, and labour markets are exceptionally strong. China remained a key outlier globally with its economy remaining under pressure from COVID-related lockdowns.

We expect the global economy to remain resilient, despite the surge in commodity prices and higher bond yields. These are likely to turn what would have been a great year in terms of global GDP growth into merely a decent year. However, the crisis in Ukraine is not over and with the timing and scope of an eventual end to the conflict unclear, there remain significant risks to global GDP. As we peer into 2023 and 2024, the risks of a hard landing or recession in the US have grown with the Federal Reserve set to raise interest sharply this year and into next.

Inflation has risen sharply in recent quarters and is at very elevated levels almost everywhere with the notable exceptions of Japan and China. Much of the inflation increase, such as the jump in used car prices and some energy prices, is likely transitory and will unwind, although the timing of that unwind is unclear. However, higher labour costs on the back of very low unemployment and strong labour demand are likely to persist and these should continue to put upward pressure on inflation for some time. The US stands out as having the tightest labour market and thus the highest inflation risk.

We expect monetary policy to be tightened almost everywhere with the key exceptions of China and Japan. The Fed has said it wants to get its policy rate to neutral, which it estimates at 2.4%[1]. To tame inflation the Fed might have to increase interest rates higher than the neutral rate and the higher it goes, the greater the risk of a subsequent US recession. Other central banks are not perceived to be as far behind the curve as the US and can proceed more cautiously. We expect the Bank of England to continue to hike interest rates, but stop sooner than the Fed and be more responsive to any signs of material economic weakness caused by higher inflation and tighter fiscal policy. The ECB is set to embark on an interest rate hiking cycle before year-end, although is likely to move cautiously. Central banks are also set to tighten monetary policy by reducing the size of balance sheets: so-called quantitative tightening.

There are a number of powerful crosscurrents to consider when assessing the outlook for key asset classes and weighing the significance of them is particularly challenging at the moment. The sharp rise in inflation, increasing bond yields and central bank policy is a key negative for equities and growth fixed income, while geopolitical risks from Ukraine and elsewhere around the globe remain elevated. On the other hand, corporate profit growth should remain resilient in 2022 and interest rates should remain low for several quarters as they take time to "normalize". Bond yields have already risen sharply with 2022Q1 being one of the worst quarters for developed market government bonds ever. While the chance of a near term pause has gone up, we still think bond yields will move higher on a 1-3 year view.

We have positioned our portfolio more cautiously as the current uncertainty makes it hard to have strong conviction anywhere and valuations have not come in enough to justify buying into the dip just yet. On the main asset classes, we have moved equities and growth fixed income back to neutral and increased our cash position to seize future opportunities if markets sell off more. Within equities, we have removed our preference to small caps and emerging markets. We have become slightly less negative on duration to reflect how bond markets have already priced in some of the tighter monetary outlook. We have left the growth and defensive fixed income sub asset class positions unchanged.

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

Mercer

The views on these slides are as at April 2022, and the charts summarise Mercer's views on the medium term (1-3 years) outlook for returns .

[1]Source: Bloomberg

Listed equities

ASSET CLASS	JANUARY 2022	APRIL 2022	COMMENTARY
Global Equity	Neutral	Neutral	**The MSCI World Index returned -2.3% in GBP terms over 2022Q1 but still had positive returns of 15.9% on a one-year basis.[1] We have maintained our broad market equity sector position at neutral within the global equities portfolio.** Valuations have improved over the quarter but remain at similar levels as one year ago when we did not deem global equities to be outright attractive either. Importantly, the macroeconomic and earnings outlook was much better then as markets were positioning for a reopening boom and inflation was deemed to be transitory. Now, earnings momentum is fading[2], central banks have initiated an aggressive hiking cycle as inflation has proven to be persistent and the conflict in Ukraine and its impact on commodity prices has added uncertainty to already moderating growth and increasing inflation expectations. Investor sentiment as measured by the Bank of America fund manager March 2022 survey has been deteriorating with a large number of investors seeing late cycle dynamics, and fearful of a bear market ahead. Profit expectations as measured by the Citigroup Global Earnings Revisions index turned negative in March 2022 for the first time since mid-2020. We therefore do not believe that current valuations, even if they have improved over the quarter, compensate for these elevated risks just yet. However, we maintain our neutral position as we believe that large companies with pricing power will not necessarily be worse off than more cyclical small caps if a recession materializes, while EM comes with additional idiosyncratic risk.
Global Small Cap Equity	Neutral	Neutral	**The MSCI Small Cap index returned -3.7% in GBP terms over 2022Q1 and 4% on a one-year basis[1]. We have downgraded our small cap allocation from the overweight side of neutral to neutral.** Valuations have improved over the quarter and are also more attractive than a year ago. They are now below their historical average on some metrics and are still more attractive than their large cap counterparts. Nevertheless, we have decided to remove our preference for small caps over large caps this quarter. The macro economic environment has become more challenging and risks are to the upside which affects small caps to the same, if not larger degree than large caps given their more cyclical nature. Their regional focus and lower duration profile may help in a tightening monetary environment marred by geopolitical uncertainty but we do not have sufficient conviction at the moment to maintain our small cap tilt.
Emerging Markets	Neutral	Neutral	**The MSCI Emerging Markets index returned -4.3% in GBP terms over 2022Q1 and -6.8% on a one-year basis[1]. We have downgraded our position at the overweight side of neutral to neutral.** Valuations have improved a lot over the quarter and emerging markets remain the most attractively valued equity sub-sector. Although the increasing uncertainty of the macro and geopolitical environment equally impacts emerging markets, tailwinds exist in the form of commodity exposure from Latin America, and Chinese policy easing rather than tightening. However, the index's heavy Asia and especially China exposure also comes with additional idiosyncratic risks. China's hardline approach to Covid-19 has led to severe restrictions and lockdowns again, covering now the majority of China's largest cities. Rising input prices and slowing global demand could have a negative impact on exporters from China, Korea and Taiwan. Western countries have moved beyond Covid controls which is shifting demand from goods to services. Our conviction level is therefore not strong enough any more to maintain our current preference for emerging over developed market equities.

[1]Source: Bloomberg, DataStream as of end of 1Q2022
[2]Source: Factset

Growth fixed income

ASSET CLASS	JANUARY 2022	APRIL 2022	COMMENTARY
Global Loans	Neutral	Neutral	**Over 2022Q1, global loans returned 2.8% in GBP hedged terms[1]. We have maintained our bank loans position at neutral within the growth fixed income portfolio.** Despite the lower credit quality of the loan index, valuations appear relatively attractive given an average price below par and a yield of 6%. Further, their floating rate nature and senior secured position makes them quite appealing in an environment of more hawkish central banks. Forward looking default rate expectations remain low, and we believe investors are seeing sufficient reward for the level of risk at these levels. Our outlook for elevated interest rate volatility has us favoring the floating-rate nature of the loan asset class versus high yield.
High Yield	Neutral	Neutral	**Over 2022Q1, global high yield returned -2.8% on a GBP hedged basis[1]. We have maintained our global high yield position at the negative side of neutral within the growth fixed income portfolio.** Despite the drawdown, high yield valuations appear slightly rich with spreads still well inside their longer term averages. While strong fundamentals support low default activity going forward, it is worth pointing out that spreads may be vulnerable to an environment with less abundant liquidity and potentially slower economic growth. 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.
EM Debt (Local Currency)	Neutral	Neutral	**EMD local currency market returns fell through Q1 2022, posting a return of -3.8% in GBP hedged terms[1]. We have maintained our position at a higher conviction neutral within the growth fixed income portfolio.** We maintain a slight preference relative to Hard Currency due to more attractive spread valuations, historically cheap EM currencies, and generally lower duration profile. Despite the inherent volatility of the sector, LC rates and FX have held up quite well in the face of Russia's invasion of Ukraine. However, the post-pandemic global growth story appears vulnerable in the near term to an escalation in tensions. The sharp rise in commodity prices will drive a number of idiosyncratic stories and will support both headwinds and tailwinds for a number of regions. Further supply disruptions are likely to support an already elevated inflation level further raising the potential for swifter tightening monetary policy globally. Overall, flows have been heavily disrupted by the Russian invasion which could give potential investors pause for thought for some time.
EM Debt (Hard Currency)	Neutral	Neutral	**EMD hard currency markets underperformed through Q1 2022, posting a return of -7.4% in GBP hedged terms[1]. We have maintained our overall neutral allocation within the growth fixed income portfolio.** Spreads continued to widen and remain elevated versus pre-pandemic levels with EM HY spreads being the widest they have been outside of a recession. The recent strength of the US dollar could impact the ability of some EM countries to repay, rising rates and continuing geo-political risks are headwinds, as is the large duration component of the asset class. Whilst Russia's invasion of Ukraine was the largest driver of performance over the quarter, pre-invasion the market was already down c.2.75% with inflationary pressure and rate rises weighing on the duration heavy HC market. Whilst the market saw spreads widen broadly towards the end of February, the largest portions of the initial drawdown appear to be somewhat contained to Russia, Belarus, Ukraine and some neighbouring countries. Recent signals from the Fed point towards a more aggressive hiking path to help tame inflation, with an increasingly hawkish Fed showing no signs that the Russian invasion will impede tightening. This has added fuel to the recent dollar rally which, in tandem with rising US rates, will increase interest payments on HC debt. Sentiment remains vulnerable to the evolution of the Covid pandemic, inflation, US rate hikes and the ongoing situation in Ukraine.

[1]Source: Bloomberg, DataStream as of end of 1Q2022

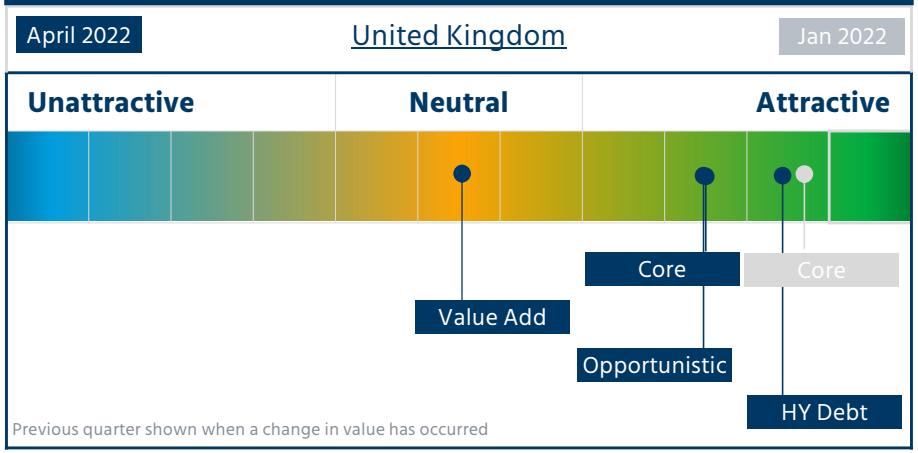
Defensive fixed income

ASSET CLASS	JANUARY 2022	APRIL 2022	COMMENTARY
UK Sovereign Fixed Income	Neutral	Neutral	**Over 2022Q1, UK sovereign bonds returned -3.1% in GBP terms. We have maintained our neutral position in UK sovereign fixed income within the defensive fixed income portfolio.** 10yr gilt yields rose significantly over the quarter, from 0.97% to 1.60%, following two Bank of England (BoE) rate rises in response to elevated levels of inflation. The BoE now expects inflation to run as high as 8% over the coming months, well ahead of its 2% target. The rise in yields has improved our outlook from a valuation perspective, but we acknowledge the potential for further downside given the inflation outlook. The BoE's third hike in a row was no surprise but its more dovish tone contrasted with the Fed, with the BoE acknowledging that households will likely come under significant pressure in the coming months due to surging energy prices. The market is currently pricing in 4 to 5 further rate hikes over 2022, which would take the base rate close to 2%.
UK Inflation-Linked Bonds	Underweight	Underweight	**Over 2022Q1, UK inflation linked bonds returned -5.4% in GBP terms. We maintain our underweight position in the defensive fixed income portfolio.** Despite upside inflation risks, structurally rich valuations and sensitivity to changes in real rates with a more hawkish BoE, supports our underweight position. Although surging nominal yields drove negative quarter-to-date returns as the conflict escalated, inflation-linked bonds gained ground towards quarter end. Real yields fell over March as breakevens widened, supporting the asset class from both a duration and inflation risk perspective. Pre-invasion, there were already concerns over high energy prices, high goods inflation, bottlenecks across supply chains and fears of a deteriorating growth outlook. Supply chains are likely to become even more fractured amidst sanctions on Russian entities and the growth outlook has worsened too. However, we still expect global inflationary pressures to ease as supply chains normalize, seeing current inflation prints falling but remaining above central bank targets for the foreseeable future. From a technical perspective, with stagflation risks rising, demand for inflation protection should remain elevated. UK linkers in particular continue to be supported by a captive local market seeking to hedge inflation risks in long-dated pension liabilities, supported by lack of issuance.
UK Investment Grade Credit	Neutral	Neutral	**Over 2022Q1, UK investment grade credit returned -6.2% in GBP terms. We have maintained UK investment grade credit within the defensive fixed income portfolio at neutral.** Risk-off sentiment dominated and spreads widened over the quarter in all sectors in response to elevated geo-political risk and concerns regarding inflation, economic growth and the rate environment but spreads are still close to their pre-pandemic lows. Despite the heighted risk environment, corporate fundamentals remain solid; balance sheets have largely improved and downgrade and default expectations remains muted. Persistent supply chain bottle necks (with continued Chinese lockdowns), coupled with rising input costs pose a threat to corporate earnings. Households will come under additional strain in the coming months. The market should continue to benefit from technical tailwinds in the form of continued demand for spread product, although the winding-down of asset purchase programs will remove some support. Outsized issuance in 2020 and 2021, coupled with a rising rate environment, should see less supply over 2022 which should be supportive from a technical standpoint.

[1]Source: Bloomberg, DataStream as of end of 4Q2021

Real Estate Outlook and Opportunities

Relative Attractiveness by Fund Style



- **Core:** The strong momentum of the post-pandemic recovery is likely to fade against a backdrop of weaker macroeconomic fundamentals. We have therefore slightly reduced our positive view on core investment strategies compared with last quarter. We expect the core UK institutional investor base to remain focused on income security and inflation protection, such as residential and long lease strategies.
- **Value Add**: Income risk strategies remain at neutral with no change on last quarter. The recovery of occupier markets has surprised on the upside but risks remain elevated for some sectors of occupier demand, for example offices and retail.
- **Opportunistic**: Opportunistic strategies remain attractive in our view. We think there is a good probability of achieving asset acquisitions at discounted pricing as market dislocations play out with 'special situations' most likely to emerge in the retail and leisure sectors. Faster obsolescence due to the growth of ESG requirements may also result in turnaround opportunities for Offices.
- **High Yield Debt**: Real estate debt funds continue to look attractive for income seeking investors as traditional bank lenders remain cautious. 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 combination of elevated inflation and tax increases dampened consumer sentiment in the first quarter, while the outlook for 2022 GDP growth fell by 60bps[1]. However, the expectation remains for decent economic growth at 4.1% for the year. Inflation is likely to rise further in the short term, but is likely to fall back towards the Bank of England's target in 2023. The market implied path for the BoE Bank Rate is for it to rise to around 2% by year-end.
- The outlook for UK real estate remains positive although we expect a moderation of returns following a remarkably strong post pandemic recovery. We think the relative pricing of the sector as a whole should remain fundamentally attractive, especially to income seeking investors, despite the prospect of higher interest rates in the near term. The industrial and residential sectors should continue to outperform offices and retail, although by a much smaller margin than over the past year.
- Our top three sector/geographic picks in terms of real estate fundamentals:

1. **Mid-market Private Rented Residential:** We prefer strategies targeting higher yielding Private Rented Residential assets that are affordable to average households. The sector has robust supply and demand dynamics and should be attractive to cash flow focused investors in search of diversification and inflation protection. However, operational expertise is vital to minimizing cost inefficiencies.
2. **Urban Logistics:** The fundamentals of supply and demand remain strong for logistics sites in and around major urban areas, as commerce continues to move towards a home delivery model while supply is generally constrained by competing land uses. Attractive pricing is difficult to achieve for standing assets, however, and so build-to-core strategies appear more attractive.
3. **Non-fashion retail warehousing:** Following several years of declining values as a result of weakening occupier demand, we think there is now relative value in the sector although risks remain elevated. We think accessible retail parks with rebased rents, sustainable income profiles and low fashion exposure have attractive risk return dynamics at current pricing levels.

Mercer

[1]Source: average of forecasts by Goldman Sachs, JP Morgan, and Morgan Stanley

Funding level and risk

4

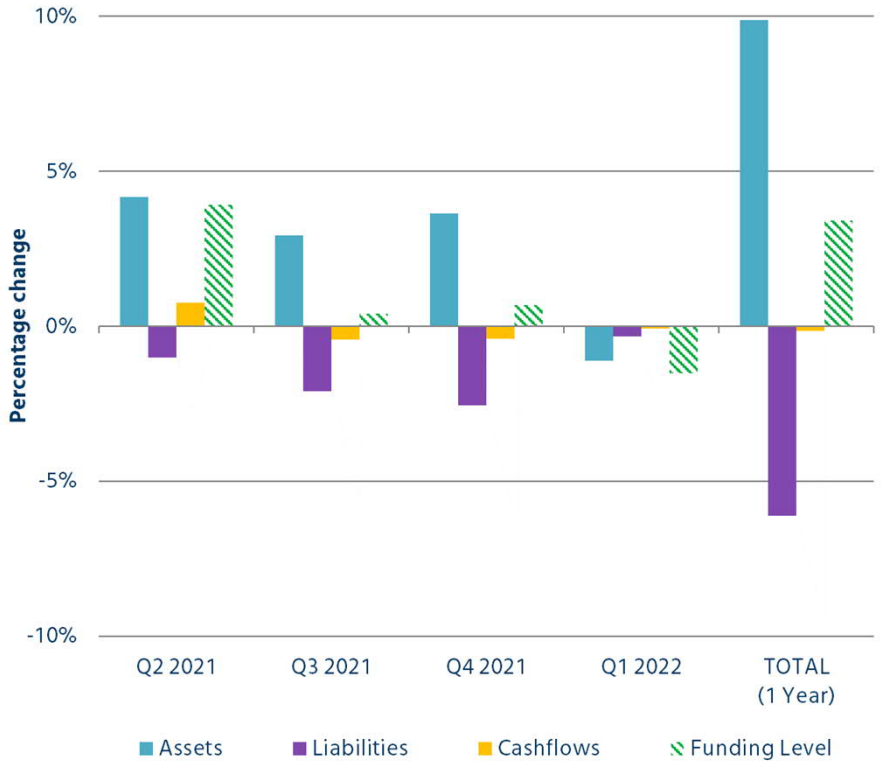
Change in deficit

Based on financial markets, investment returns and net cashflows into the Fund, the surplus was estimated to have decreased over Q1 from £107m to £19m.

This occurred as the value of the assets decreased, whilst the present value of the liabilities increased marginally.

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

Funding level attribution



The Fund's assets contracted by 1.1% over the quarter, whilst the liabilities are expected to have increased by c. 0.3% due to the rise in inflation.

The combined effect of this, also allowing for expected cashflow over the period, saw the funding level decrease to c.100%.

The funding level is estimated to have increased by c. 3% over the year to 31 March 2022.

Impact figures are estimated by Mercer.

Risk decomposition – 3 year Value at Risk

- The two charts below illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The final columns show the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.

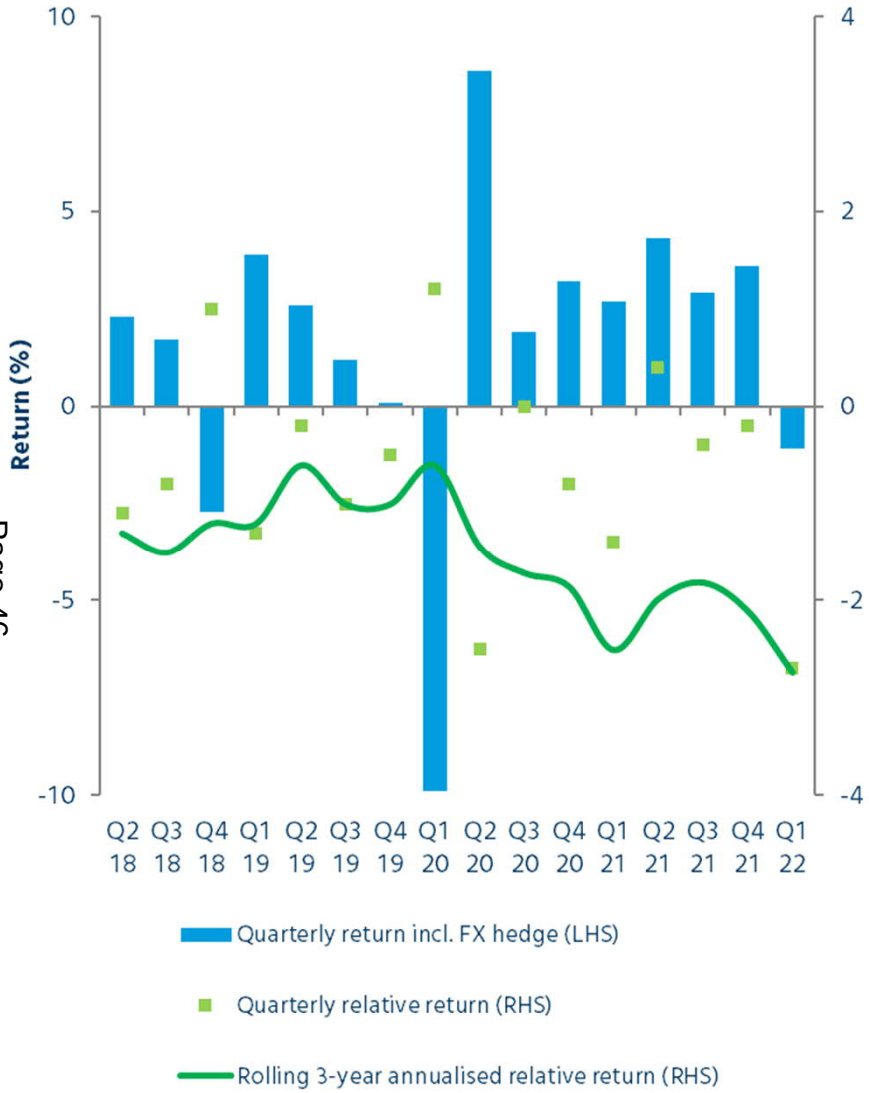
- As at 31 March 2022, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.3bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR rose over the quarter**, due to increased volatility in equity, interest rates and inflation.

VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

Performance summary

5

Total Fund performance

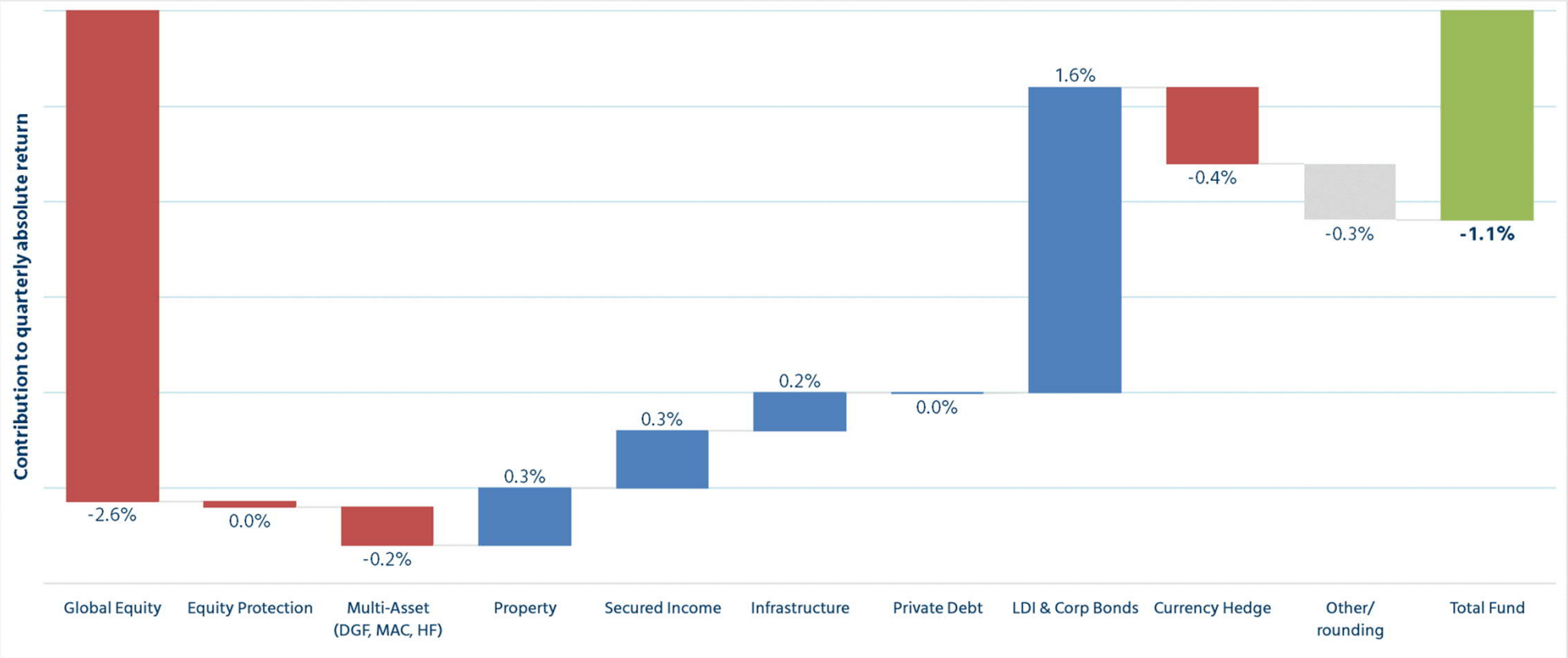


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-1.1	10.0	6.5
Total Fund (ex currency hedge)	-0.7	10.8	6.4
Strategic Benchmark **(2)** (ex currency hedge)	1.6	13.3	9.1
Relative (1 - 2)	**-2.7**	**-3.3**	**-2.6**

Commentary

- As illustrated on the next slide, the Fund assets fell in value over the quarter largely due to negative returns from the equity portfolio. Alternative investments in real assets mitigated this to an extent by delivering positive returns, with the UK Property and Secured Income mandates standing out. The LDI portfolio added to returns due to the rise in inflation.
- Underperformance relative to the benchmark was driven by the High Alpha and Sustainable Equity mandates, and the Multi-Asset mandates underperformed against their 'cash plus' benchmarks. The Alternative investments mitigated this with their own outperformance.
- Over three years, relative performance of the Hedge Fund and Core Infrastructure mandates continues to be strong, and outperformance has also been seen from the Renewable Infrastructure and Secured Income mandates, whose cycle 1 investments have now been in place for this length of time.
- The Equity Protection strategy is the main reason for overall underperformance over the one and three year periods, whilst the Overseas Property portfolio, and more recently the active Equity portfolios, have also detracted.
- Equity market losses have accelerated in to Q2 at the time of writing. In this environment, the Equity Protection has worked as expected and helped protect the portfolio by c.1-2%.

Total Fund performance attribution – quarter



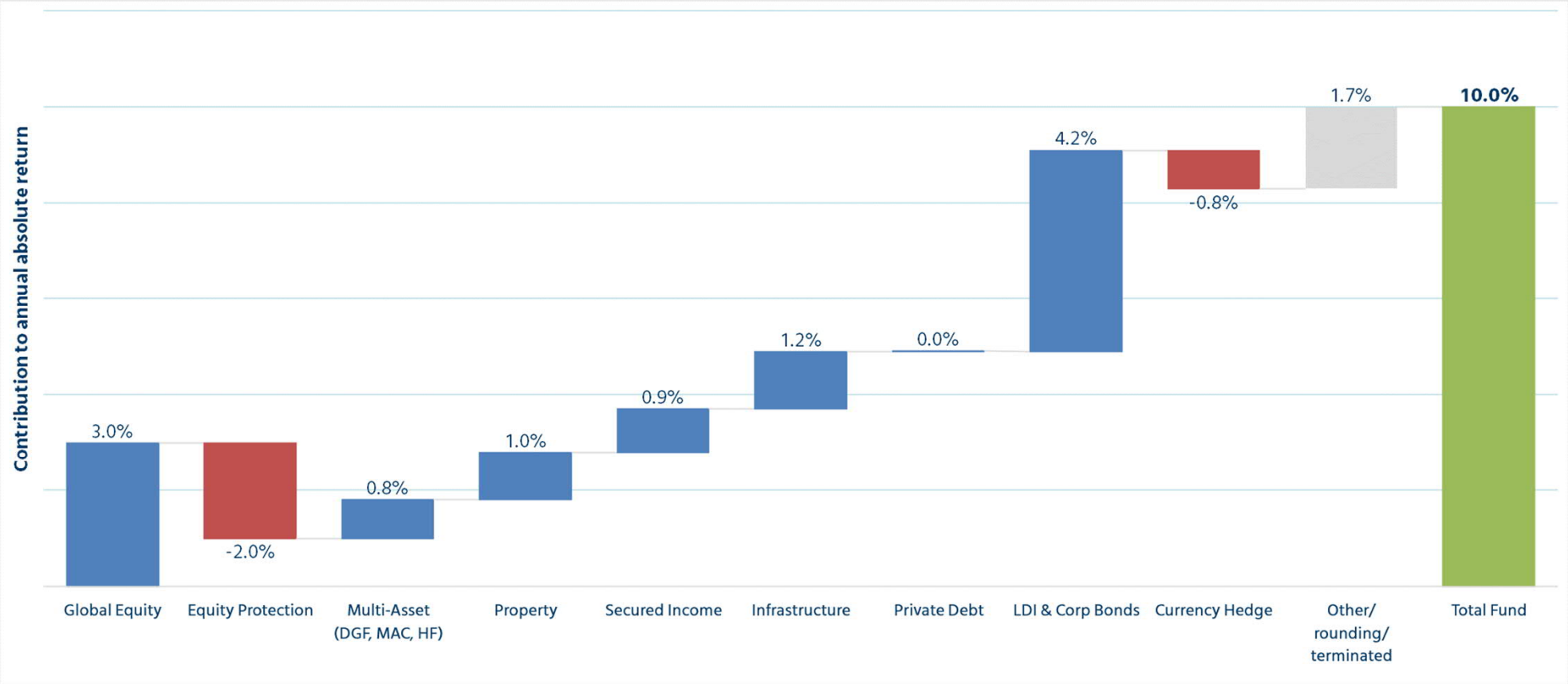
Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding error.

Equities continue to be the biggest driver of returns, and were the main reason for the negative returns in the first quarter. Performance was significantly below the index for the High Alpha and Sustainable Equity portfolios, so the equity protection did not particularly dampen these losses.

The Currency Hedge overlay detracted due to the weakening of sterling, and the Multi-Asset portfolios also detracted in aggregate, however the Alternative portfolios in real assets contributed value.

The LDI portfolio made a large positive contribution to returns due to the protection it provides against inflation.

Total Fund performance attribution –1 year



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

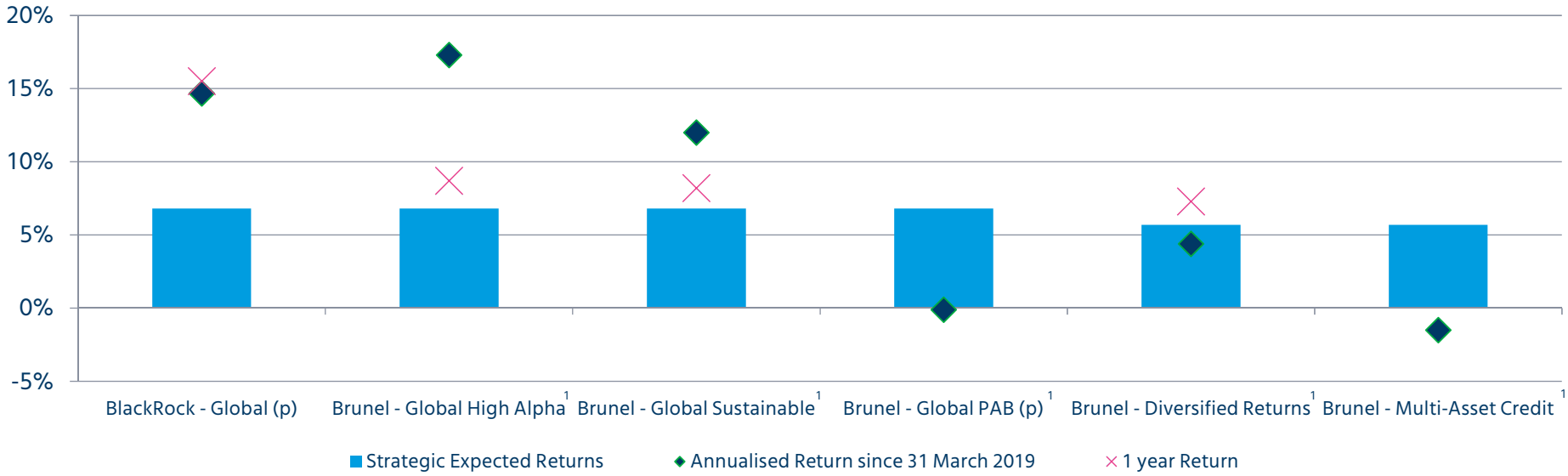
Equities made a positive contribution over the year (making up c30% of total returns), which was dampened by the equity protection in place in line with expectations.

The Alternative portfolios added value, and the LDI portfolio made the largest contribution overall (c.42% of total returns).

The Currency Hedge detracted due to sterling weakening.

Performance vs. expected strategic returns

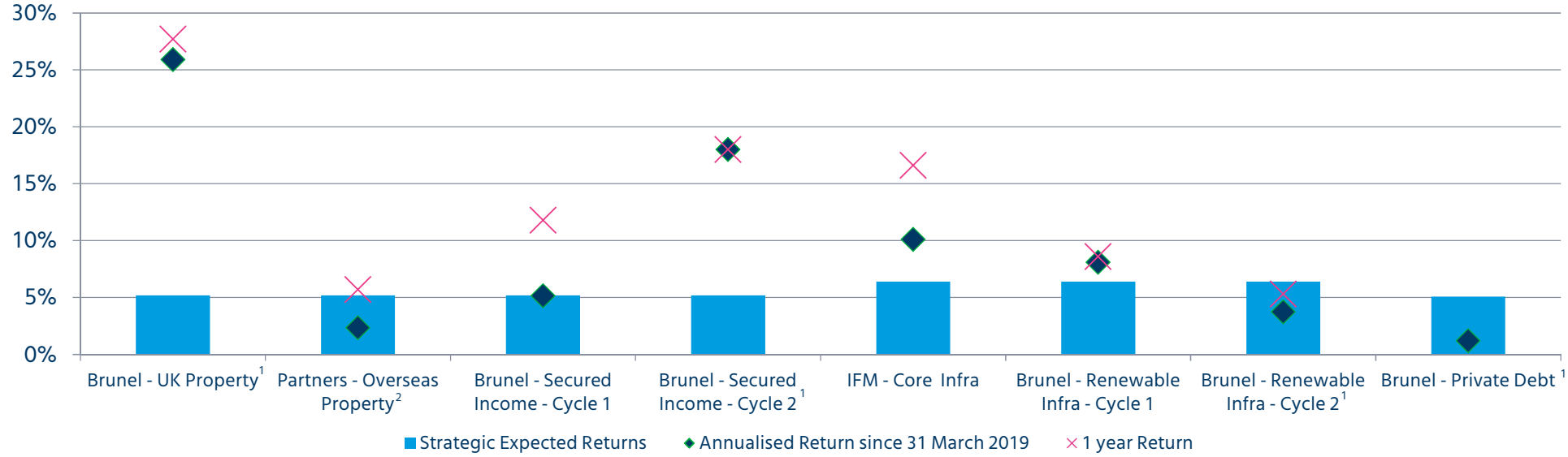
	BlackRock Passive Global Equity	Brunel Global High Alpha	Brunel Global Sustainable	Brunel Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
Benchmark allocation	4.0%	12.5%	15.0%	10.0%	6.0%	6.0%
Commentary	Returns above strategic expectations due to strength of equity markets since 2019. Mandate has tracked the underlying market.	Returns above expectations given strength of markets since 2019. Strong initial manager outperformance added to returns, though recent performance has been weaker.	Returns above expectations given strength of markets since 2020, though has so far underperformed benchmark.	Flat returns so far given October 2021 inception date. Too early to draw conclusions.	Returns marginally below expectations due to a dampening of performance over the past nine months.	Returns below expectations due to sell-off in Q1 2022.



Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 March 2019 to 31 March 2022, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.
[1] Mandate was incepted after 31 March 2019. A list of inception dates can be found in the Appendix.

Performance vs. expected strategic returns

	Brunel UK Property	Partners Overseas Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt
Benchmark allocation	3.75%	3.75%	10.0%	5.0%	5.0%	5.0%
Commentary	Returns above expectations; property has fared very well since inception in January 2021.	Returns below expectations. Improvements seen over past year, and generally the mandate's longer-term performance is stronger.	Returns in line with expectations for cycle 1 (first drawdown in 2019), but above expectations for cycle 2 (2021) thanks to strong property markets. Mandates are still in the drawdown phase.	Returns above expectations as real assets have delivered. Recent outperformance assisted by non-recurring gains on certain assets and valuation increases.	Returns above expectations for cycle 1 (2019), but below expectations for cycle 2 (2020). Mandates are still in the drawdown phase so longer-term performance will be more meaningful.	Mandate incepted in September 2021; too early to draw conclusions.



Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 March 2019 to 31 March 2022, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.
[1] Mandate was incepted after 31 March 2019. A list of inception dates can be found in the Appendix.
[2] Returns are shown up to 31 December 2021, as this is the latest data available.

Mandate performance to 31 March 2022

Manager / Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)	3 Year Performance vs Target
BlackRock Passive Global Equity	-2.9	-2.4	-0.5	15.5	15.4	+0.1	14.7	14.6	+0.1	-	N/A (p)
Brunel Global High Alpha Equity	-8.0	-2.3	-5.8	8.7	15.9	-6.2	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	-9.8	-2.5	-7.5	8.2	12.9	-4.2	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Equity Paris-Aligned	-3.7	-3.7	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Diversified Returns Fund	0.4	0.8	-0.4	7.3	3.2	+4.0	N/A	N/A	N/A	+4-5	N/A
JP Morgan FoHF	-2.3	0.9	-3.2	-0.3	3.1	-3.3	7.9	3.2	+4.5	-	Target met
Brunel Multi-Asset Credit	-2.7	1.1	-3.8	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel UK Property	6.3	5.6	+0.7	27.7	23.1	+3.7	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	2.1	2.5	-0.4	5.7	10.0	-3.9	2.5	10.0	-6.9	-	Target not met
Brunel Secured Income - Cycle 1	3.0	1.7	+1.3	11.8	7.0	+4.5	5.2	3.1	+2.0	+2	Target met
Brunel Secured Income - Cycle 2	6.3	1.7	+4.5	18.0	7.0	+10.3	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	2.4	1.3	+1.1	16.6	5.2	+10.8	9.5	5.5	+3.8	-	Target met
Brunel Renewable Infrastructure - Cycle 1	1.9	1.7	+0.2	8.6	7.0	+1.5	7.8	3.1	+4.6	+4	Target met
Brunel Renewable Infrastructure - Cycle 2	1.0	1.7	-0.7	5.3	7.0	-1.6	N/A	N/A	N/A	+4	N/A
Brunel Private Debt	0.7	1.1	-0.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-8.6	-8.6	0.0	-6.8	-6.8	0.0	1.9	1.9	0.0	-	N/A (p)
BlackRock LDI	16.2	16.2	0.0	42.0	42.0	0.0	12.7	12.7	0.0	-	N/A (p)
Equity Protection Strategy	-0.0			-2.5			-5.0			-	N/A

Since inception performance for Partners, which was the largest underperformer over the three year period, has been at 5.7% p.a. *

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees.
Returns are in GBP terms, except for JP Morgan whose performance is shown in local terms.
Relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically.
A summary of the benchmarks for each of the mandates is given in the Appendix.
Green = mandate exceeded benchmark. Red = mandate underperformed benchmark. Black = mandate performed in line with benchmark (mainly reflecting passive mandates).

Performance for JP Morgan and Partners in IRR terms. Performance for IFM is in TWR terms.
Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.
*Partners performance is to 31 December 2021 as this is the latest date that this is available. The mandate's inception was in 2009.

Asset allocation

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Valuations by asset class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Relative (%)
Global Equity	1,086,633	1,007,071	18.4	17.3	16.5	11.5 - 21.5	+0.8
Global Sustainable Equity	649,094	802,687	11.0	13.8	15.0	10.0 - 20.0	-1.2
Paris-Aligned Equity	822,170	574,338	13.9	9.9	10.0	5 - 15	-0.1
Diversified Returns Fund	535,962	538,061	9.1	9.2	6.0	4 - 10	+3.2
Fund of Hedge Funds*	228,309	171,125	3.9	2.9	-	No set range	-
Multi-Asset Credit	324,157	315,433	5.5	5.4	6.0	3 - 9	-0.6
Property	383,740	391,001	6.5	6.7	7.5	5 - 10	-0.8
Secured Income	438,515	468,845	7.4	8.0	10.0	5 - 15	-2.0
Core Infrastructure	416,777	427,128	7.1	7.3	5.0	2.5 - 7.5	+2.3
Renewable Infrastructure	80,341	89,252	1.4	1.5	5.0	2.5 - 7.5	-3.5
Private Debt	42,418	42,713	0.7	0.7	5.0	0 - 7.5	-4.3
Corporate Bonds	133,538	121,987	2.3	2.1	2.0	No set range	+0.1
LDI & Equity Protection	615,390	708,640	10.4	12.2	12.0	No set range	+0.2
Cash**	137,325	167,500	2.3	2.9	-	0 - 5	+2.9
Total	5,894,582	5,825,780	100.0	100.0	100.0		

Source: Custodian, Investment Managers, Mercer. Red numbers indicate the allocation is outside of tolerance ranges.
Totals may not sum due to rounding and other residual holdings.
*Mandate due to be terminated.
**Valuation includes the ETF and currency instruments, as well as assets in transit.

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	297,132		288,513	5.0	5.0
Brunel	Global High Alpha Equity	756,038		695,906	12.8	11.9
Brunel	Global Sustainable Equity	649,094	211,266	802,687	11.0	13.8
Brunel	Global Low Carbon Equity	225,669	-215,531	-	3.8	0.0
Brunel	Passive Global Equity Paris Aligned	596,501		574,338	10.1	9.9
Brunel	Diversified Returns Fund	535,962		538,061	9.1	9.2
JP Morgan	Fund of Hedge Funds	228,309	-59,065	171,125	3.9	2.9
Brunel	Multi-Asset Credit	324,157		315,433	5.5	5.4
Brunel	UK Property	198,282		210,953	3.4	3.6
Partners	Overseas Property	173,549		168,035	2.9	2.9
Brunel	Secured Income – Cycle 1	370,147	14,593	381,102	6.3	6.5
Brunel	Secured Income – Cycle 2	68,368		87,742	1.2	1.5
IFM	Core Infrastructure	416,777		427,128	7.1	7.3
Brunel	Renewable Infrastructure – Cycle 1	62,526	6,587	70,620	1.1	1.2
Brunel	Renewable Infrastructure – Cycle 2	17,815	511	18,632	0.3	0.3
Brunel	Private Debt	42,418		42,713	0.7	0.7
BlackRock	Corporate Bonds	133,538		121,987	2.3	2.1
BlackRock	LDI & Equity Protection	615,390		708,640	10.4	12.2
Record	Currency Hedging*	22,354	-10,000	-10,360	0.4	-0.2
BlackRock	ETF	65,532	40,451	105,127	1.1	1.8
Internal Cash	Cash	81,060	9,859	93,576	1.4	1.6
Total		5,894,582	-9,927	5,825,924	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding and other residual holdings.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.
* Valuation includes the collateral holdings for the currency overlay.

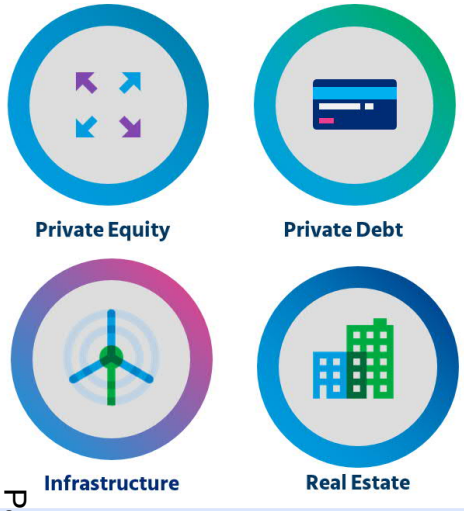
Current topics

7

Current topics

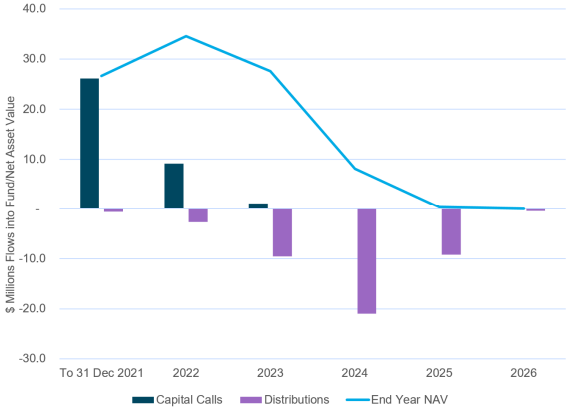
Private Markets – Cash Flow Planning

Different asset classes



Sustainable opportunities
Within multiple asset classes

Example cashflow profile



As private market funds mature, overall cashflow will become negative as distributions overtake capital calls.

To maintain private market exposure, investors need to plan reinvest with reference to the cashflow forecast.

Summary

Private market assets can offer investors a return premium over listed securities and help achieve medium and long-term objectives

Certain private assets such as private debt hold a yield component, and as a floating rate asset class, can also provide some inflation protection

Having a well thought out commitment plan targeting an allocation, cashflows and return, whilst ensuring illiquid assets are mostly run-off by the time the illiquidity assets can no longer be tolerated, should help investors achieve their objectives

Relevance to the Fund

The Fund accesses private markets through Private Debt, Infrastructure, Secured Income and Property. It recently made new commitments to the first three of these, taking into account the amounts required to achieve and maintain the target allocations in the near future.

Impact Investing – Is it on your agenda?

The biggest sustainability challenges

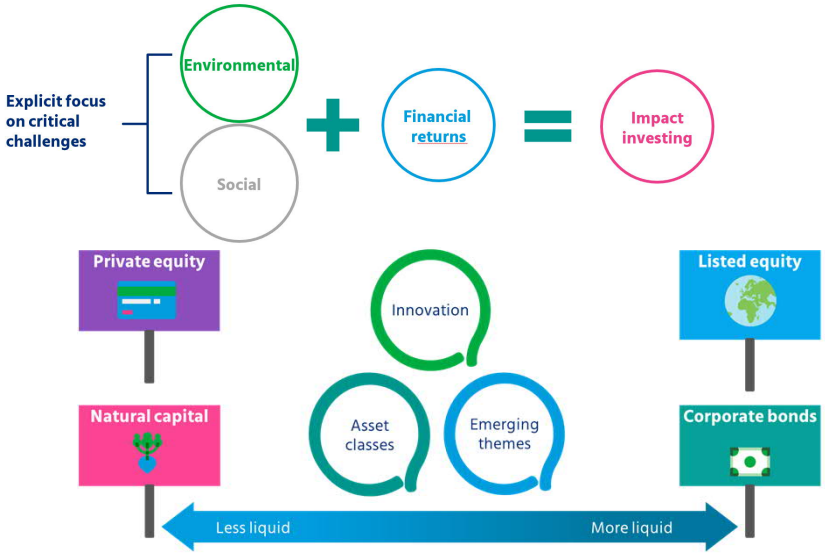
Environmental

- **Climate change** — **$2.4 trillion** investment in energy systems required to limit warming to 1.5°C[1]
- **Biodiversity** — **68% loss** in animal population since 1970[2]
- **Circular economy** — **$4.5 trillion** in economic benefits to 2030

Social

- **Financial inclusion** — **1.7bn people** unbanked[4]
- **Water** — **$6.7 trillion** required in water infrastructure investment by 2030[5]
- **Education** — **$800bn cost** of illiteracy to the global economy[6]

Sources:
1 Intergovernmental Panel on Climate Change, Summary for Policymakers, 2018
2 WWF 2020
3 World Economic Forum – Circular Economy and Material Value Chains
4 World Bank 2018
5 OECD 2018
6 UNESCO 2018



Relevance to the Fund

The Committee have discussed the extent of impact investing within the portfolio and the opportunity set for further integration.

Mercer

Current topics

UK Social and Affordable Housing

Social and Affordable Housing are terms that may be used to refer to housing provided with public subsidy, or in a general way to describe housing of any housing tenure that is affordable to a particular group.

We define Social and Affordable housing as **residential real estate that is leased to occupants whose housing costs relative to their incomes exceed norms and who may face problems with housing-related payments.**

Social and Affordable Housing

Supported Housing	Social and Affordable Rent	Affordable Home Ownership	Affordable Private Rent
• For residents requiring varying degrees of care provision. E.g. refuges, the homeless and those with physical or mental health disabilities.	• Accommodation made available at below the local market rent. Usually managed by Registered Providers or Local Authorities.	• Predominantly Shared Ownership. Occupants buy a share of a property and pay discounted rent on the remaining share. Option to increase ownership over time ("staircasing").	• Homes provided for rent on the open market with rental levels set at levels deemed to be affordable for the local community. Not a regulated form of housing.

Why now?

Housing affordability is poor
- High cost of accessing home ownership and private market rental accommodation for people on low and average incomes

Driven by economic & demographic trends
- Persistent low interest rates and weak earnings growth
- Population growth and shrinking household sizes (fewer people per household)
- 4.0m households social renting with 1.2 million on waiting lists
- 4.4m households in private rented sector*

Supply is constrained
- Chronic lack of Government funding for providers of Social and Affordable accommodation
- Transfer of existing social housing to private sector under 'right to buy'

Relevance to the Fund

✔ The Committee has discussed the potential benefits from making a strategic allocation to Affordable Housing.

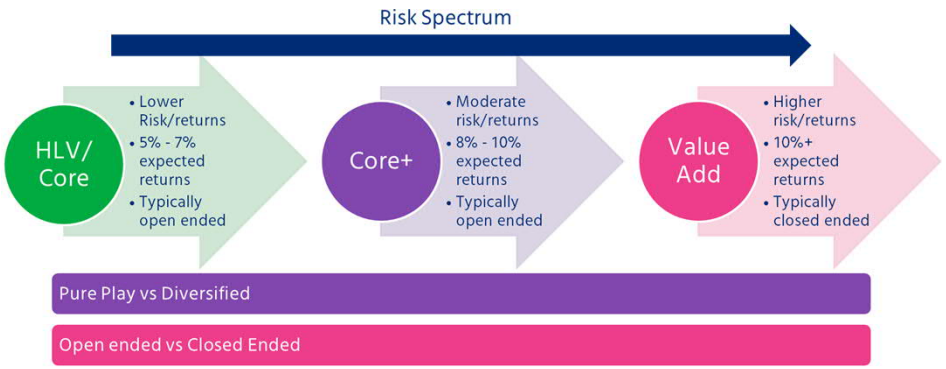
Attractions for investors

Diversifi-cation
- Diversification within a multi-asset portfolio vs commercial real estate sectors
- Within social and affordable funds, e.g. by geography and housing tenure
- Asset class is less sensitive to wider economic and financial market risk factors

Secure income
- Potential to achieve long lease terms with implicit Government backing
- Future rental levels more predictable due to regulated nature of some tenures
- High levels of occupation/low vacancy expected

Inflation linkage
- Lease contracts will typically feature index-linked rental uplifts
- Regulated formats of social and affordable housing are associated with inflation-linked benefit payments
- Open market rents tend to rise with household incomes

ESG
- Asset class has very strong "**S**ocial" impact credentials
- May accommodate vulnerable members of the community and those whose needs are not met by the market
- May help alleviate the wider housing shortage and lead to the creation of low carbon homes



Mercer

Appendix

Q1 2022 equity market review

Equity markets contracted over the first quarter.

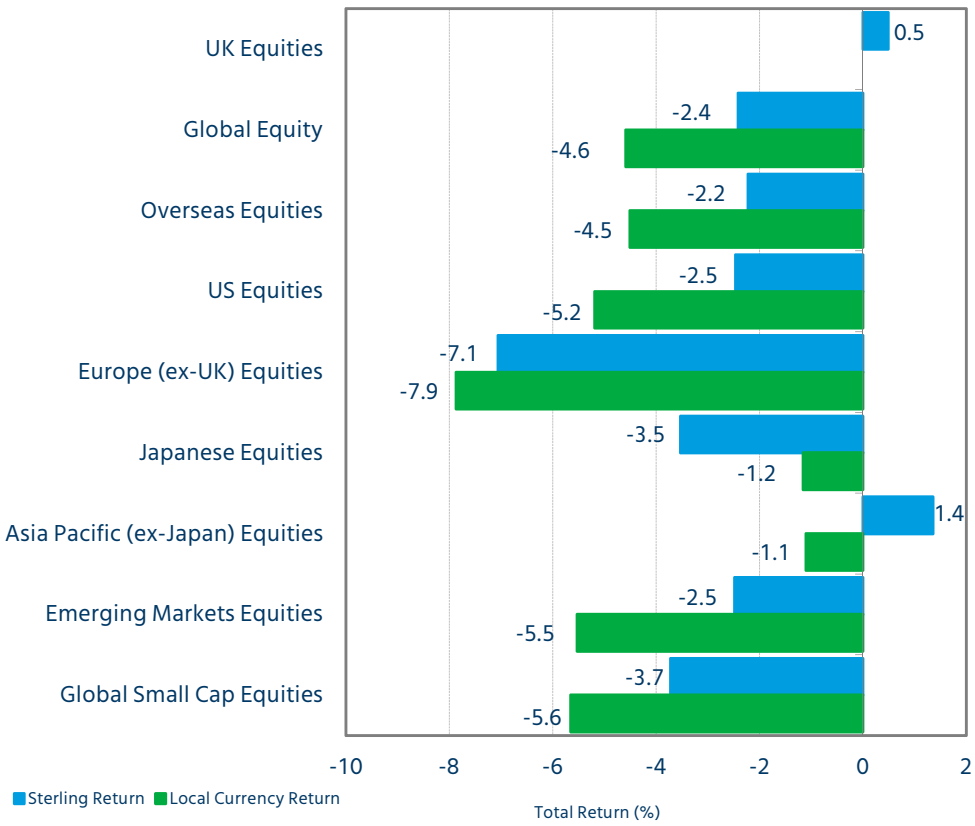
Global Equities returned -4.6% in local currency terms. Markets sold off due to monetary tightening and the Ukraine conflict, though there was some degree of a rebound towards the end of the period.

US equities returned -5.2% in local terms, whilst European (ex-UK) equities returned -7.9%. Japanese equities returned -1.2%. The US was fairly insulated from the Ukraine crisis but still had to contend with higher energy prices and tighter monetary policy. For both Europe and Japan, supply chain stresses and high energy prices were the main headwinds.

Emerging markets equities returned -5.5% in local terms. Latin America did remarkably well, Brazil in particular, as they benefitted from the rally in commodity prices. China performed poorly, driven by major lockdowns as well fears over delistings from US exchanges and sanctions, should China be deemed too supportive of Russia. Taiwan and Korea had negative returns as supply chain stress intensified and input prices rose.

Global small cap stocks returned -5.6% in local terms. Small caps lagged global equities as investors opted for less cyclical stocks in a quarter that cast some doubt on the durability of the economic rebound, at least in the short term.

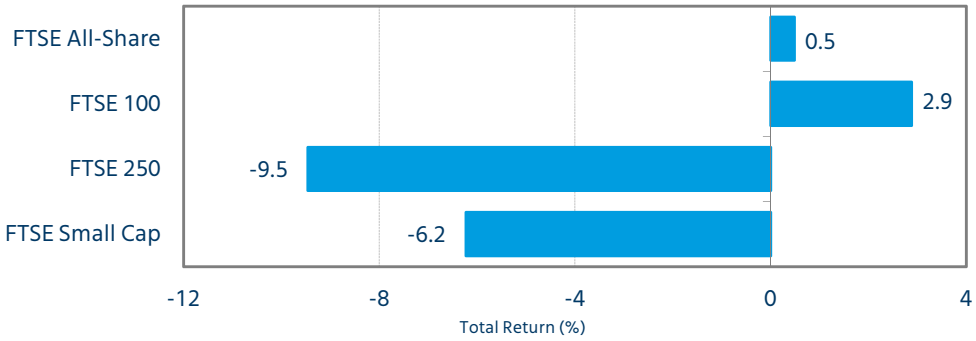
Equity Performance - Three Months to 31 March 2022



The FTSE All Share index returned 0.5% over the quarter with the large cap FTSE 100 index returning 2.9%. The FTSE 100 and FTSE All-Share's large exposure to energy, materials and financials was a strong tailwind over the quarter, as energy prices increased significantly following the crisis in Ukraine.

UK small cap and mid-cap stocks that are more reflective of the domestic UK economy produced negative returns in-line with the wider equity market.

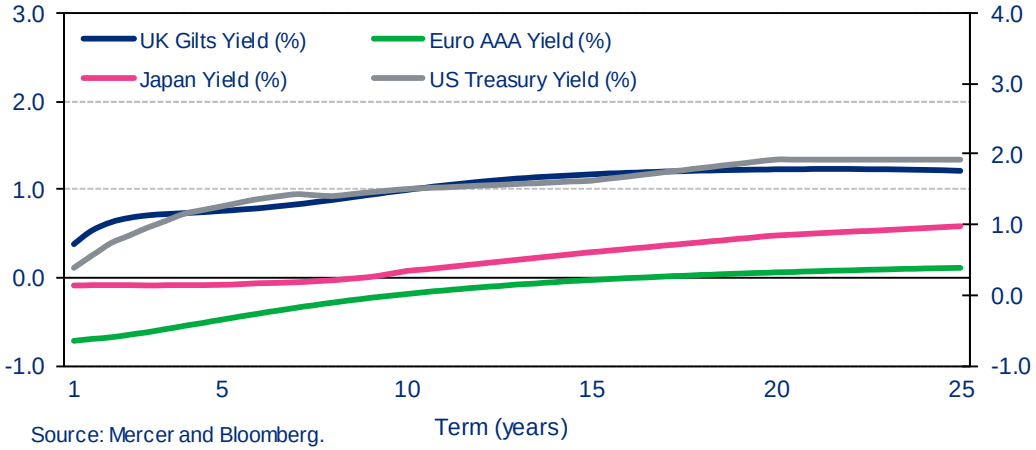
FTSE Performance by Market Cap - Three Months to 31 March 2022



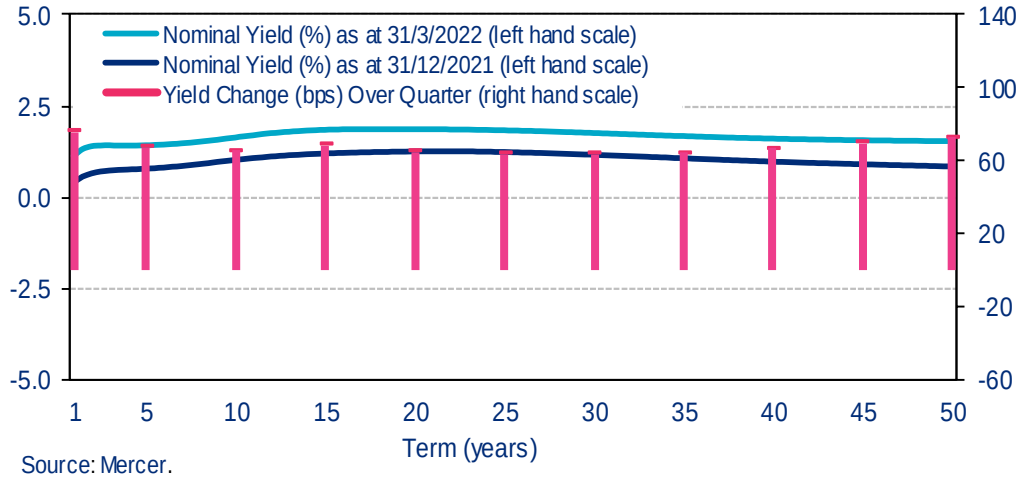
Mercer

Source: Refinitiv

Q1 2022 bond market review



Source: Mercer and Bloomberg.



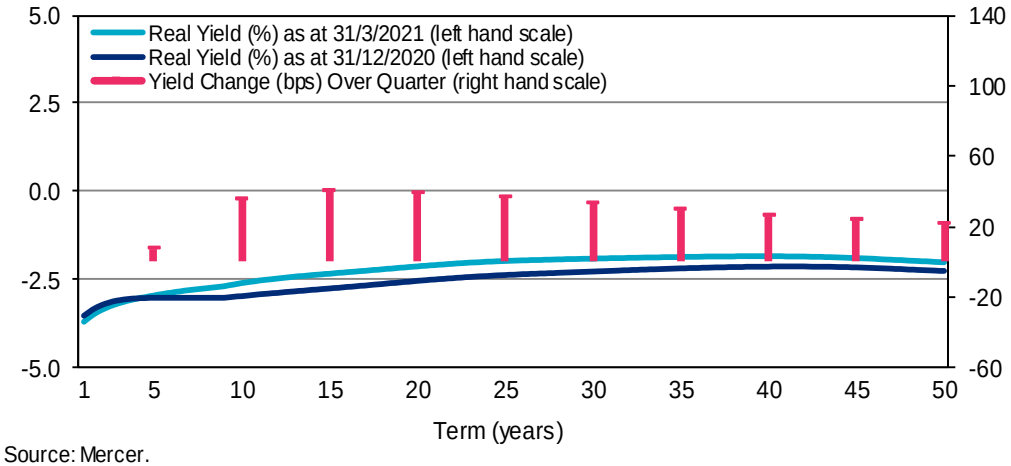
Source: Mercer.

Government Bond Yields

Global government bond yield curves bear flattened significantly over the quarter as yields at the shorter end of the curve reacted to tightening central bank policy and rate hikes. 10-year gilt yields rose by 64bps while US 10-year treasury yields rose by 83bps. Both the Federal Reserve and the Bank of England hiked interest rates over the quarter and are expected to continue to tighten policy throughout 2022. 2-year yields in the UK and US rose, 68 and 160bps respectively.

Eurozone yields also rose significantly; while the European Central Bank held off increasing interest rates, it announced an acceleration in tapering of asset prices and adopted more hawkish rhetoric in general.

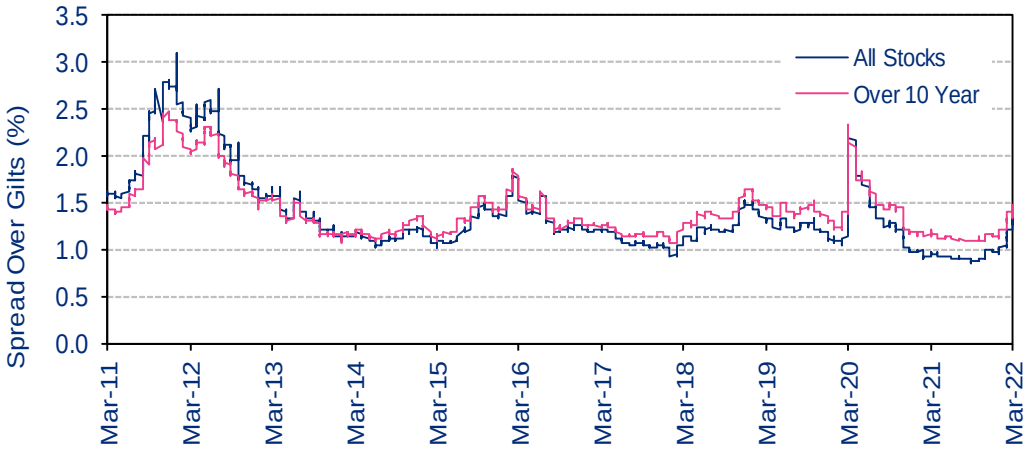
Q1 2022 bond market review



Source: Mercer.

UK Index-Linked Gilt Yields

UK real yields rose across the curve. Market based measures of inflation expectations, in the form of breakeven inflation, shifted upwards but this was offset by the large increase in nominal yields. The UK 10-year breakeven rate rose to 4.6% intra-quarter but fell back to 4.4% by quarter end – still the highest level since the global financial crisis.



Source: Refinitiv.

Corporate bonds

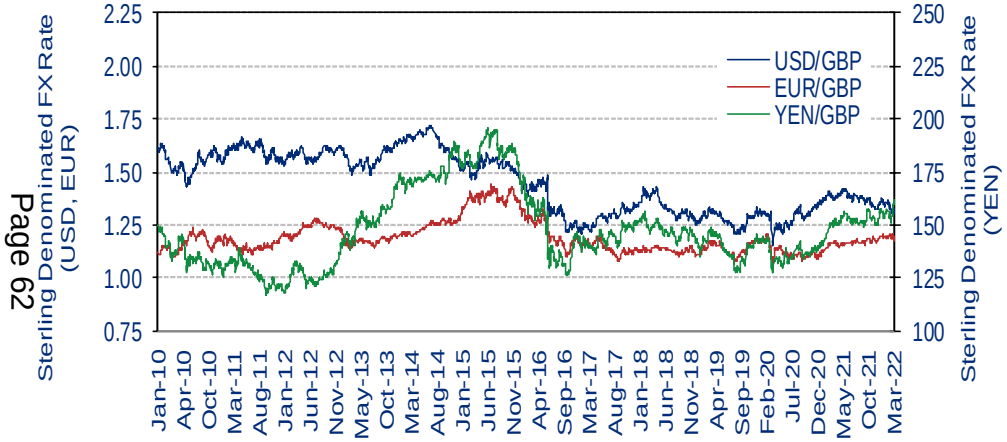
Spreads on UK investment grade credit widened for the quarter as investors initially fled risk assets, though spreads began to tighten again towards the end of March.

Q1 2022 currency market review

Sterling depreciated versus the US dollar and Euro but appreciated versus the Yen over the quarter.

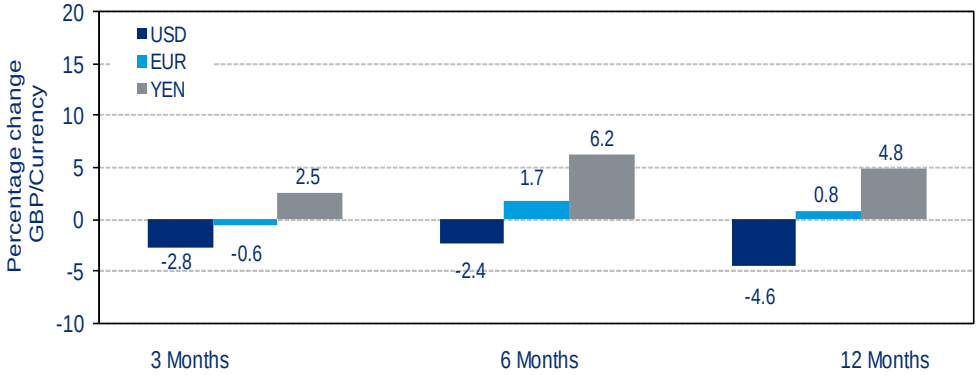
Monetary policy divergence between the regions was one of the drivers. For the year as a whole, Sterling has appreciated vs the Yen and Euro as stronger economic growth and the prospect of tighter monetary policy made Sterling more attractive relative to the former. Sterling weakened against US dollar as both growth prospects and the yield outlook favoured the latter.

Sterling Denominated FX Rate



Source: Refinitiv.

Change in sterling against foreign currencies



Source: Refinitiv.

Q1 2022 property

UK property as measured by the MSCI Index increased by 5.6% over the quarter to 31 March 2022..

Source: Refinitiv

Summary of mandates

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

Market background indices

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

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BRUNEL
Pension Partnership

Performance Report for Quarter Ending 31 March 2022

Contents

Brunel News

BRUNEL
Pension Partnership

The first quarter was marked by Russia's invasion of Ukraine, which sparked a succession of major sanctions. We took the view, in light of these developments, that the investment outlook for Russia had changed materially. We decided to prohibit further investments in Russia and to unwind the small exposure we already held. As David Vickers, our Chief Investment Officer, explained at the time: "We believe that this position firmly sits within our fiduciary duty to our clients and has been reached based on investment considerations."

Brunel staff were back in the office in force, with all desks pre-booked on several days.

The busy period around COP 26 also saw us transfer our passive funds to the new Paris-aligned benchmarks (co-developed with FTSE Russell). In the first quarter, the total funds transferred to these benchmarks rose from £3 billion to £4 billion. We also added a new theme to our RI reporting: biodiversity.

Brunel appointed two new managers (Jupiter and Mirova) to the Sustainable Equities portfolio. This launched in 2020 with £1.2 billion in AUM; it has since grown to £2.5 billion. The portfolio continues to place ESG considerations at the forefront of the investment process, such that managers *positively pursue* companies that will provide a benefit to society.

Over the period, Brunel also appointed Opus Nebula to take over our extensive client reporting responsibilities, one of our core services. Opus will enable Brunel to report separately to each client on a quarterly basis, across listed and private markets.

Several Brunel figures made their presence felt in the market over the period. In February, David Cox, Head of Listed Markets, published a blog for FTSE Russell on making Paris goals a reality – the blog was republished by Portfolio Institutional. Following some public attacks on stakeholder capitalism, the FT published a letter signed by fifty senior investment professionals in its defence – Faith Ward was the lead signatory on the letter.

Brunel continued its RI work in both advocacy and in reviewing our own processes, too. On the former, Brunel co-filed a resolution calling for the introduction of the Living Wage at Sainsbury's, which directly employs 189,000 people. The coalition comprised ten institutional investors, representing £2.2 trillion and 108 individual shareholders.

"This was already an urgent issue – and current global events mean that urgency is increasing by the week," said Laura Chappell, CEO. "Food prices and energy bills are increasingly unsustainable for many of the lowest-paid employees, but companies like Sainsbury's have the wherewithal to appropriately compensate a large number of key workers –providing an example for others to follow. "

In reviewing our own processes, our Climate Stocktake gained momentum, and interviews were initiated with a range of key stakeholders – these are ongoing at time of writing, but those we have contacted have generally shown a strong desire to participate.

In March, we published our Annual Report & Financial Statements, which demonstrated major cost savings across our portfolio offering. We would encourage you to read further about an exceptional year.

Executive Summary

BRUNEL
Pension Partnership

High-Level Performance of Pension Fund

• The fund delivered absolute performance of -1.1% over the quarter in GBP terms. This was 2.7% behind the benchmark return of 1.6%.
• Total fund return for the 12 months to end March 2022 was +10.0%, which was 3.3% behind the return of the benchmark of 13.3%.

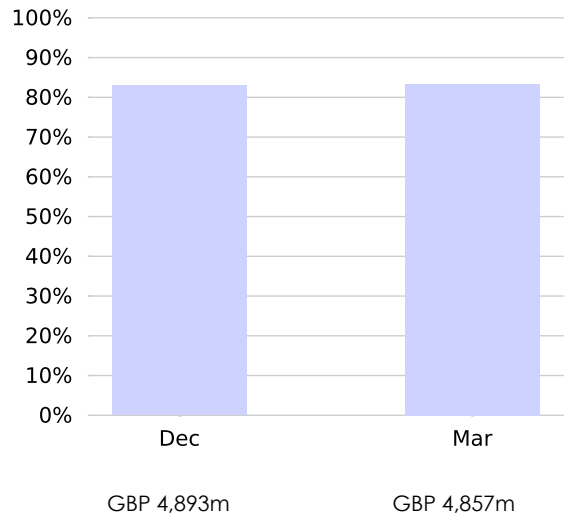
Key points from the last quarter

• A switch of approximately £221m from the Passive Low Carbon portfolio to the Global Sustainable Equity portfolio was completed during the quarter.

Total Fund Valuation

	Total (GBPm)
31 Dec 2021	5,895
31 Mar 2022	5,826
Net cash inflow (outflow)	-5

Assets Transitioned to Brunel



Market Summary – Listed Markets

It goes without saying the Russian invasion of Ukraine had a big impact on markets in the first quarter of 2022. However, it's important to remember the economic backdrop that preceded this tragedy, which is, sadly, ongoing at the time of writing.

As noted in previous updates, the belief that rising inflation, in part caused by increasing commodity prices, would be transitory had started to give way to the belief it would become persistent. The removal of Omicron restrictions early in the year gave central bankers the confidence to be more hawkish in their rhetoric, leading to negative returns in January for both equities and fixed income.

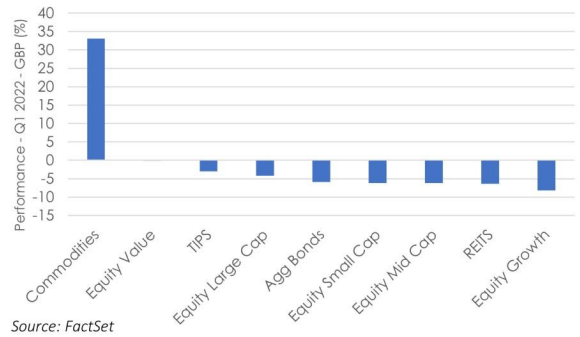
From an economic standpoint, the Russian invasion of Ukraine in February has only accentuated the pre-existing condition of rising commodity prices contributing to inflation.

Russia and Ukraine are large producers of energy, metals and food. Combined, they produce 29% of the world's wheat and 12% of global calories in 2021, with Ukraine among the top four global suppliers of corn. Russia is the third largest producer of oil, and second largest producer of natural gas, accounting for around 40% of Europe's supply. Russia is also among the top five global producers of steel, nickel and aluminium.

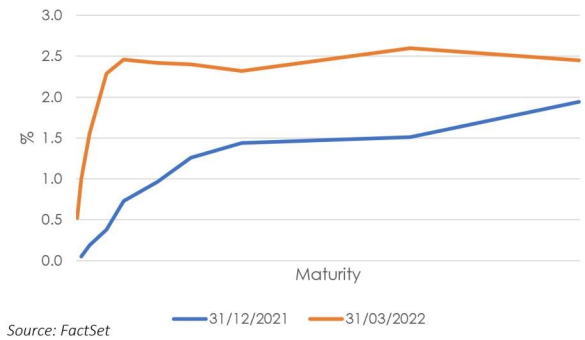
Given the proportion of global commodities produced across the two countries, it is no surprise that tough sanctions applied to Russian exports, combined with a significant reduction in Ukraine's output, has seen commodity prices rise further. To give a flavour of the extent of price increases over the quarter, the Bloomberg Commodity Index returned 29%, Brent crude oil prices rose 35%, wheat was up 31% and nickel prices increased by 64%. Brunel funds with commodity exposure have benefitted from this positive performance; the Diversifying Returns portfolio generated positive returns over the period. However, rising commodity prices impacted other asset classes negatively.

There was a brief compression in sovereign bond yields in the days following the invasion. However, if markets thought central banks would identify war as a reason to hold off monetary tightening, they were to be disappointed. For the most part, the world's central bankers emphatically confirmed their intention to tame inflation, with a number increasing policy rates. The Federal Reserve approved the first increase in the Federal Funds rate in three years on 16 March, whilst the Bank of England raised the base rate in both February and March. Yields increased significantly over the quarter and there was a large compression in the 2-year & 10-year Treasury spreads.

US Asset Class Returns - Q1



US Yield Curve



Market Summary – Listed Markets

Over the period, Treasuries, as measured by the Bloomberg US Treasury (3-10Y) Index, returned -3.0%. The Bloomberg Barclays Global Aggregate returned -5.0% on a GBP hedged basis and the iBoxx Sterling Gilts (1-10Y) index returned -2.7%.

The US dollar Index was up 5.4% over the quarter, benefitting from both risk aversion and from investors revising their expectations of the magnitude and speed of rate rises.

Against the backdrop of war and rising interest rates, it could be argued the MSCI ACWI held up reasonably well, falling 2.4% over the period. But the headline figure masks high dispersion in the performance of the underlying securities. It is not surprising Energy was the best-performing sector, returning 26.7%. The Materials, Utilities and Financial sectors returned 6.3%, 4.3% and 2.7% respectively, while all other sectors posted negative returns.

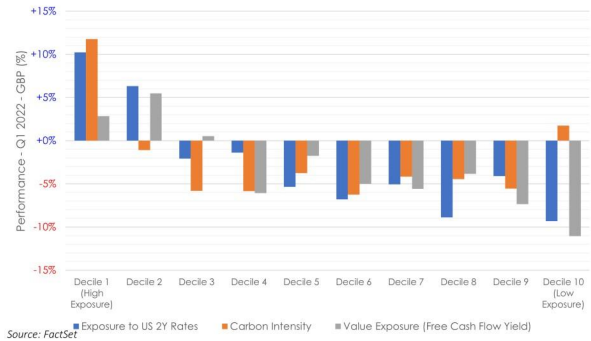
Our analysis – as highlighted in the table right – demonstrates that the best performing companies had high carbon intensity, positive sensitivity to higher interest rates, or were in traditional "value" areas (defined as high free cash flow yield).

Positive exposure to the Value factor helped the Brunel Low Volatility portfolio to markedly outperform its benchmark. However, below-benchmark exposure to carbon-intensive companies (which we associate with higher levels of long-term risk), does generally result in stylistic tilts, and thus acted as a headwind for other Brunel active equity portfolios over the period.

Looking ahead, policymakers are likely to find the economic landscape challenging. The US economy is at risk of overheating. Consumer-price inflation is 7.9% and wages are 5.6% higher (both YoY). There are nearly twice as many job openings as there are unemployed workers. Short-term rates are expected to rise to 2.5% by the end of 2022 and to more than 3% in 2023. Whether the Federal Reserve can control high inflation without tipping the economy into recession remains to be seen. It doesn't have a great track record of doing so, and markets are pricing a reduction in rates after 2023, reflecting an expectation the economy may then be flagging and need support.

Europe subject to cost push inflation resulting from rising energy prices, also has an inflation problem. Economists expect Europe's economy to grow in 2022 but this assertion would be challenged should Europe decide to stop importing Russian gas, or if Russia stops selling it.

Global Equity Markets Performance - Rates, Carbon & Value



Source: FactSet

Market Summary – Listed Markets

The most immediate threat to global growth comes from the outbreak of Omicron in China. Several major cities, including Shanghai, are under lockdown. Lower output and further disruption to global trade associated with lockdowns is likely to add to the inflationary pressures the world is grappling with.

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

Overview
Q1 was undoubtedly marred by the situation in Ukraine. Following prolific fund activity and a sustained recovery in Q4 2021, economic activity largely remained positive in Q1, but slowed from the peak of last year, while the Ukraine crisis impacted growth expectations further. Commodity prices soared, since Russia is a key producer of oil, gas and wheat. This contributed further to the surge in inflation, alongside continued supply chain disruption. Central bank rhetoric turned more hawkish, with the Fed and the Bank of England implementing hikes, and the ECB indicating a rise this year was no longer ruled out.

Preqin's Q1 2022 report showed infrastructure funds raised $70bn in the quarter, 42% higher than the previous peak (in Q4 2019). North America was the main focus, possibly driven by anticipated deployment opportunities created by the recently signed *Infrastructure Investment and Jobs Act* in the US.

In the same report, Preqin calculated an IRR return of 8.5% over the 10-year period to Q3 2021. Preqin predicts investors will continue to be attracted to the asset class, with the prospect of defensive inflation protection in many assets.

The war in Ukraine reinforced the market interest in renewables, now with the additional impetus of energy security adding to the demand for sustainability. Nuclear energy benefited from the same interest.

Energy transition funds designed to decarbonize industry, heating, transport and agriculture continued to proliferate, and the first materially significant hydrogen infrastructure investments were made in the quarter.

Private Equity
2021 was a record year for private equity in terms of investment activity and exits. Both investment activity and portfolio company performance showed signs of recovery from the pandemic. Following this record-breaking year, private equity activity slowed down in the first quarter of 2022. Both the number and value of deals dropped, compared with Q1 2021. In addition, exits and PE-backed IPOs recorded their lowest value in recent quarters. The Russian invasion of Ukraine caused a global shock in commodity prices, which contributed to a further increase in inflation fears and supply chain disruptions – even as inflation and supply chain issues caused by Covid are yet to subside. Higher interest rates and recession worries are the key issues that the market is monitoring – and private equity firms are assessing the effects on deal activity and portfolio performance. It is expected that the Federal Reserve will continue to raise rates through 2022 and there are calls for more aggressive hikes.

The fundraising market is strong, with major mega-funds expected to come back to market in 2022. Asset valuations are likely to be affected by rate hikes and investors are being cautious with Tech companies. PE firms have further increased their focus on ESG and ways to embed it in their processes to drive value within their portfolio investments. In addition, General Partners (GPs) are raising Impact-focused funds; this will be a key theme in the new investment cycle.

Market Summary – Head of Private Markets

BRUNEL
Pension Partnership

VC fundraising continues to show strength and has persisted despite market uncertainty. VC-backed companies are still attracting capital, with larger funding rounds. Due to the uncertainty facing public markets, investors are increasingly allocating to private markets to find attractive returns.

The fundraising market is still expected to have a strong year. Mega-funds continue to dominate the market with Buyout, Growth, and Venture the main strategies of interest. However, the fundraising period is expected to be longer to accommodate Limited Partners. In addition, GPs are indicating a shorter investment period to deploy capital.

Private Debt
Credit spreads in the public market have fully recovered from the spike caused by Russia's initial military advance into Ukraine. High yield bond spreads finished the quarter at ~350bps and ~400bps in the US and Europe, respectively. Primary market activity has been muted, with new issue volume significantly lower compared with the same period last year. This plays into the hands of the private debt market, with an increasing number of managers able to take advantage of a stuttering, broadly syndicated market by offering opportune financing solutions to upper-middle market and large-cap borrowers. This has been one of the key trends over the last 12-18 months.

Short-term rates increased over the quarter. The Secured Overnight Financing Rate (SOFR), which is the US replacement for LIBOR, increased from 0.05 to 0.3. The Sterling Overnight Index Average (SONIA), which is the UK replacement for LIBOR, increased from 0.19 to 0.69.

Q1 is typically a seasonal soft point for deal making activity as participants pause for breath after a hectic year-end. The Russian invasion of Ukraine caused volatility to spike across capital markets. Private equity sponsors put new deals on hold in the face of difficult valuation and price discovery. Deal-making activity is expected to pick up again through Q2.

US and European private debt managers have been carefully monitoring the Russia/Ukraine situation. Whilst direct exposure tends to be close to zero, managers have been conducting broader portfolio reviews of the implications of increased energy prices, capital markets volatility, supply chain shocks and the increasing risk of cyber-attacks. Given the focus on sectors such as healthcare, services and technology, direct exposure to raw material costs and energy prices tends to be limited. The main concerns cited by managers are the second and third order impacts and their influences on labour costs and wage inflation.

Property
UK monthly investment volumes rebounded in February in the industrial sector, after a slow start to 2022, with that sector accounting for three of the four largest deals. Hotels, Residential and Student Accommodation also attracted investor interest this quarter. Concerns over the economic outlook are yet to affect annual performance returns, with end-March figures still well above trend. Retail warehousing yields compressed further in Q1 and even shopping centres delivered a small positive return at the start of 2022. However, enthusiasm for UK property may

falter over the summer months, as consumer confidence wanes and rising UK interest rates influence investors' asset selection decisions. UK commercial property does provide some defence against rising inflation, so the positive element of holding real assets, often with index-linked income returns, may outweigh legitimate concerns around narrowing yield differentials.

Real estate markets globally moved away from the pandemic and back to themes of affordability, regulation, ESG and digitalisation. Geopolitical tensions are high, with military conflict between Russia and Ukraine. The polarisation between the primary and secondary/peripheral sectors, regions and locations strengthened again. The most popular sectors continued to include residential, healthcare and logistics.

The two largest economies whilst tracking back well, face significant challenges. China is being impacted by a strict zero-Covid strategy and was also shaken by a liquidity crunch in its domestic real estate market. The US is facing the risks of rising interest rates, continued supply side shortages and price increases in the near term. Globally, real estate yields continued to trend lower for longer, despite concerns over tightening monetary policy.

CEO Perspective - RI at the heart of Brunel

Over the reporting period, we saw the extreme shake-up in social and working practices – caused by lockdowns – as an opportunity for staff to review our values statement and ensure it truly describes Brunel – we were very pleased with the result and will keep our people strategy under review as the market evolves in 2022.

Reviewing our approach also meant a more decisive focus on mental health. Internally, we reviewed our own support mechanisms and ensured we were talking about mental health. We tried to normalise the subject externally, too – in an Op-Ed in Professional Pensions, I argued that a focus on mental health doesn't just make ethical sense for companies, but makes business sense too.

Other challenges were less specific to the year, reflecting systemic realities. One such focus was cost savings – our **Annual Report** demonstrated our achievements in that area. On diversity and inclusion, we know we still have some way to go, but we were particularly proud when Helen Price, in her role as co-Chair of the Asset Owner Diversity Working Group, launched the Diversity Charter, with signatories representing more than £1 trillion in AUM – signatories make a number of commitments to improving, monitoring and reporting on diversity in their companies.

Our work on climate change, most specifically the new Paris Aligned Benchmarks, as well as our approach to manager selection were recognised in Brunel winning three Europe-wide categories at the IPE Awards in Innovation, Climate Related Risk Management, and Portfolio Construction & Diversification. These awards reflect our RI and investment acumen and commitment.

Our approach must continue to evolve if we are to continue to set an industry leading example. Our updated infographic (below) outlines our RI priorities. We have taken the opportunity to update the headings of the themes to better reflect the breadth and depth and to make it clearer we are reflecting client priorities.

The most important change is that we have moved biodiversity from behind our Supply Chain theme and it is now a priority; it now has a set of specific objectives. Biodiversity is a theme close to my own heart and one which has major implications across both climate change and investing.

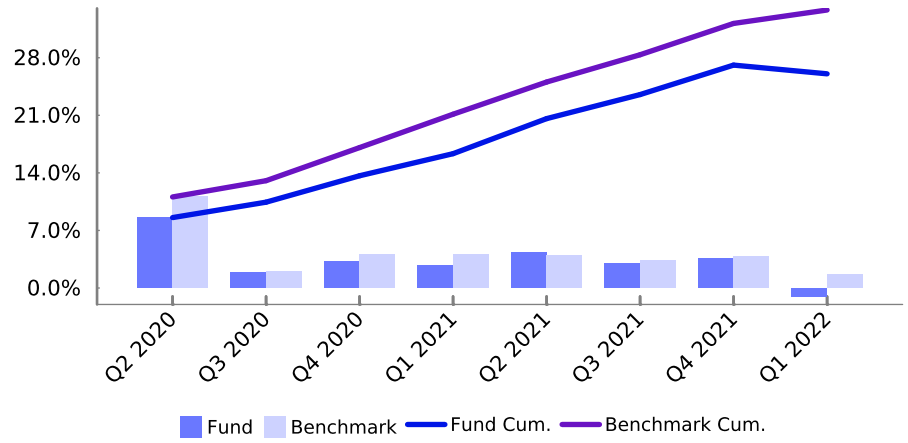
Summary of Pension Fund Performance

BRUNEL Pension Partnership

Performance of Fund Against Benchmark (Annualised Performance)

Period	Fund	Strategic BM	Excess
3 Month	-1.1%	1.6%	-2.7%
Fiscal YTD	10.0%	13.3%	-3.3%
1 Year	10.0%	13.3%	-3.3%
3 Years	6.4%	10.8%	-4.4%
5 Years	5.8%	8.6%	-2.8%
10 Years	7.7%	9.4%	-1.7%
Since Inception	8.3%		

Rolling Quarter Total Fund (Net of Manager Fees)



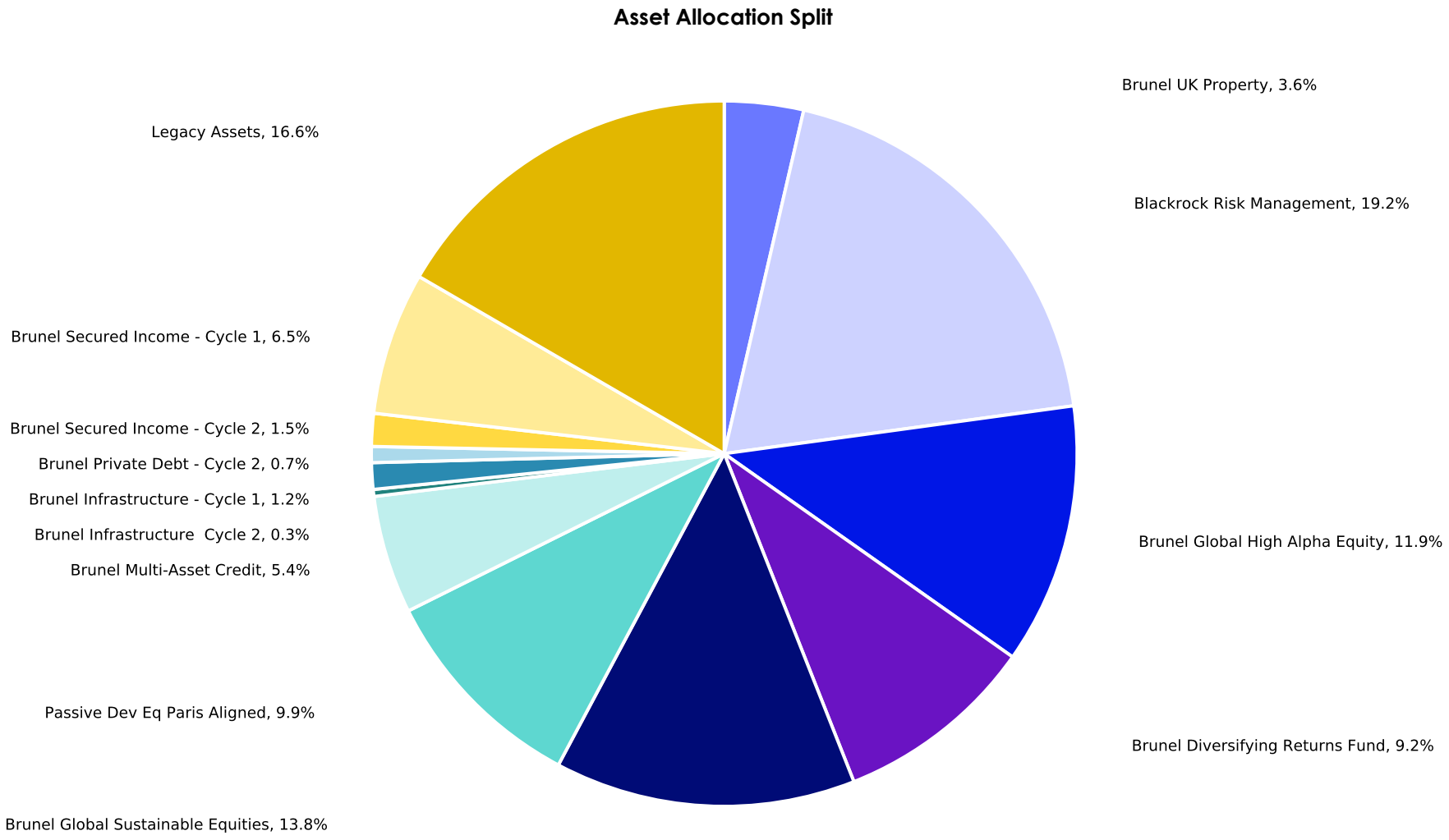
Key drivers of performance

Portfolio performance of note in the quarter:

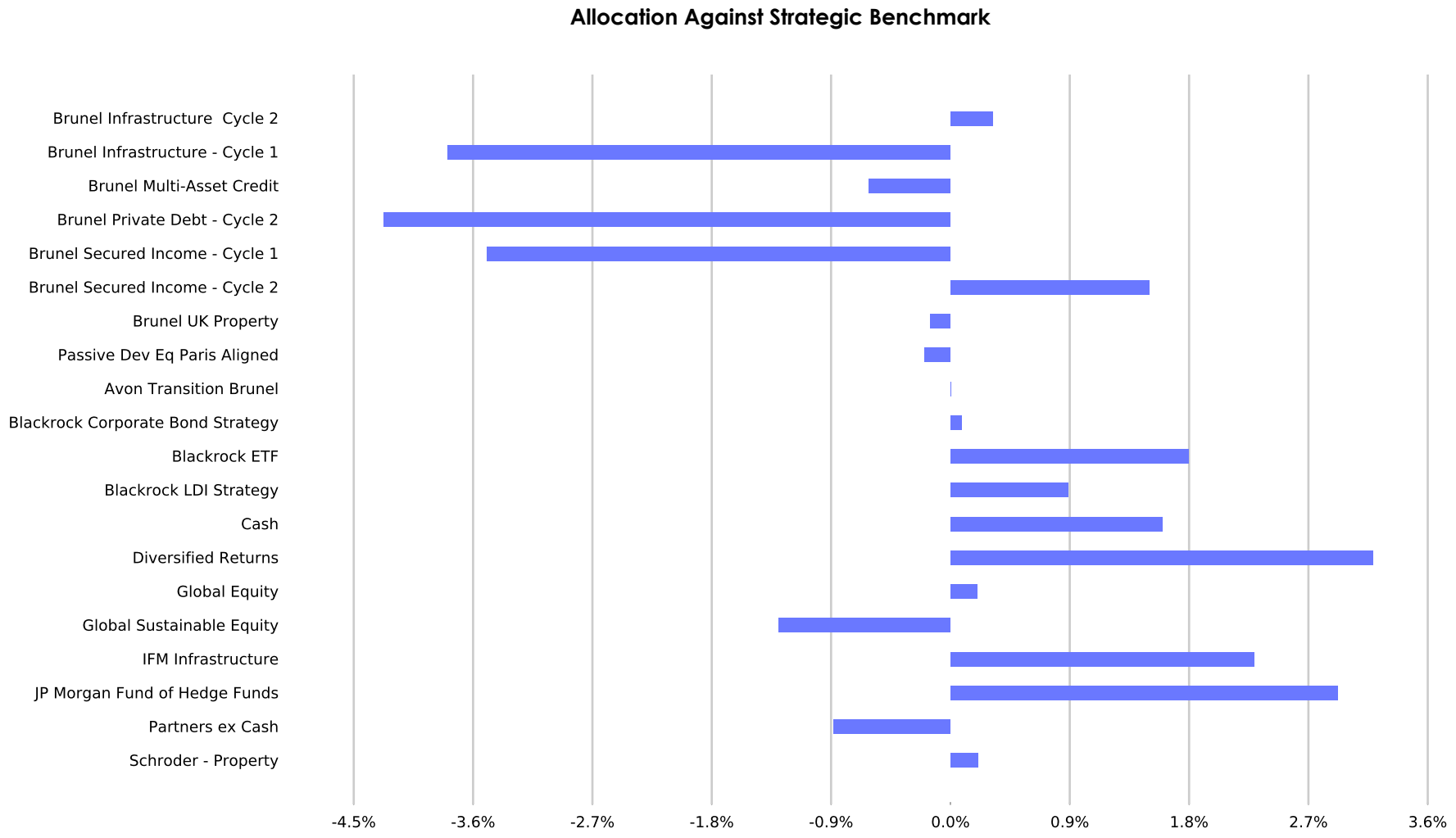
- Global High Alpha returned -8.0%, which was 5.6% behind benchmark
- Global Sustainable Equities returned -9.8%, which was 7.2% behind benchmark
- Multi Asset Credit returned -2.7%, which was 3.8% behind benchmark

Asset Allocation of Pension Fund

BRUNEL
Pension Partnership



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 Global High Alpha Equity	MSCI World TR Gross	696	-8.0%	-5.6%	8.7%	-7.2%					17.3%	2.8%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	803	-9.8%	-7.2%	8.2%	-4.6%					12.0%	-5.3%	30 Sep 2020
Brunel Diversifying Returns Fund	SONIA +3% Benchmark	538	0.4%	-0.4%	7.3%	4.1%					4.4%	1.4%	27 Jul 2020
Brunel Multi-Asset Credit	SONIA + 4%	315	-2.7%	-3.8%							-1.5%	-5.0%	02 Jun 2021
Passive Dev Eq Paris Aligned	FTSE Developed Paris-Aligned (PAB) Net Index	574	-3.7%	0.0%							-0.1%	-0.1%	29 Oct 2021

*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

Brunel Portfolios Overview (Exited)

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
Passive Low Carbon Equities	MSCI World Low Carbon Target	0	-1.3%	0.0%	19.5%	0.0%	16.6%	-0.1%			12.8%	-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

Brunel Global High Alpha Equity

BRUNEL
Pension Partnership

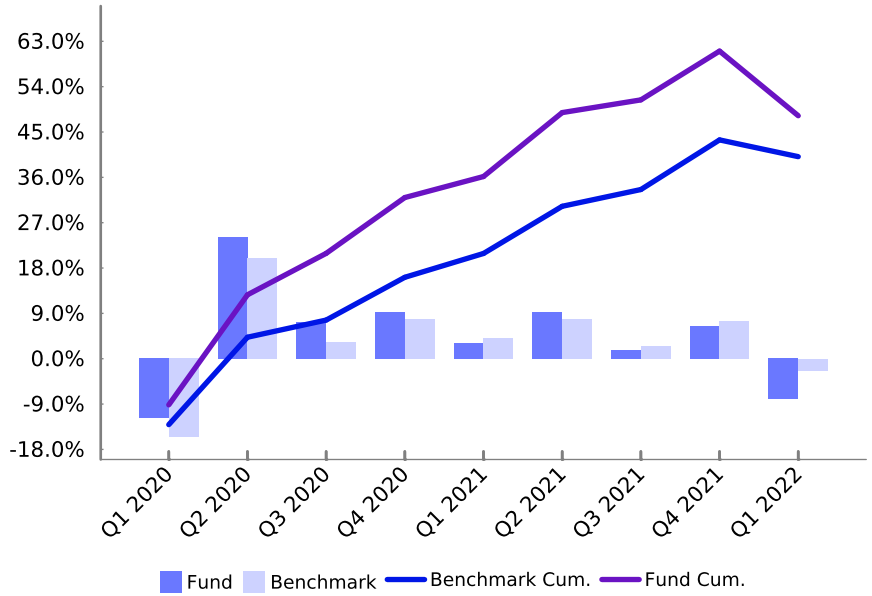
Overview

	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:	£3,307,742,119

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-8.0%	-2.3%	-5.7%
Fiscal YTD	8.9%	15.9%	-7.0%
1 Year	8.9%	15.9%	-7.0%
3 Years			
5 Years			
10 Years			
Since Inception	18.5%	15.7%	2.8%

Rolling Performance*



* Partial returns shown in first quarter

Global developed equities (as proxied by the MSCI World index) returned -2.3% over the quarter. This was the first negative quarterly performance since the onset of the covid pandemic in Q1 2020 and was characterised by a particularly high dispersion in the performance of underlying securities.

The portfolio returned -8.0% over the quarter, underperforming the benchmark by 5.7%. The portfolio's consistent style tilts to Growth and Quality and away from Value, alongside a lower exposure to carbon-intensive companies than the benchmark, were all headwinds to relative performance. Brunel analysis (highlighted in the listed markets commentary) showed that, unless you were invested in companies with the highest levels of carbon exposure, positive sensitivity to short-term interest rates, or Value exposure, it was very difficult to outperform equity markets in the quarter.

Attribution analysis shows negative stock selection as the main driver of quarterly relative performance. A number of the largest contributors support the narrative around the impact of the market environment and external factors impacting individual stock performance.

• Two of the largest detractors were Aptiv and Nidec (both suppliers of components to the auto industry), which are overweight in the portfolio and fell 25%

and 30%, respectively. Both companies suffered from concerns that supply-chain disruptions would curtail current sales and increase costs, and that rising interest rates may curb future demand.

• The four largest contributors to relative return included three materials companies – Steel Dynamics, Anglo American and Reliance Steel – and Suncor Energy, which returned 39%, 36%, 17% and 36% respectively, as commodities and energy prices soared.

Sector allocation also detracted due to the portfolio's largest active sector positions both working against the portfolio. Energy was the largest underweight in the portfolio and was the best-performing sector, whilst Consumer Discretionary was the worst-performing sector and the largest sector overweight. Both relative sector positions have been consistent since the launch of the portfolio and largely an outcome of the ESG integration and Growth / Quality style tilt of the portfolio.

The extreme style environment is also reflected in the divergent performance of the underlying managers. Those with a Growth style (Baillie Gifford and AB) both underperformed significantly whilst Harris and RLAM, two managers with a strong Value focus, outperformed.

Looking back further, the quarter completed a challenging 12 months for the portfolio, a period over which the prior trend in favour of Growth stocks reversed, as economies reopened and as the likelihood of rising rates increased. The portfolio returned 8.9%, underperforming the benchmark by 7.0%. From inception to quarter-end, the portfolio outperformed the benchmark by 2.8% p.a., in line with the performance target.

During the quarter, £54m was redeemed from the portfolio by two clients to meet drawdowns for private market investments. The outflows were used to rebalance the underlying manager allocations back towards target.

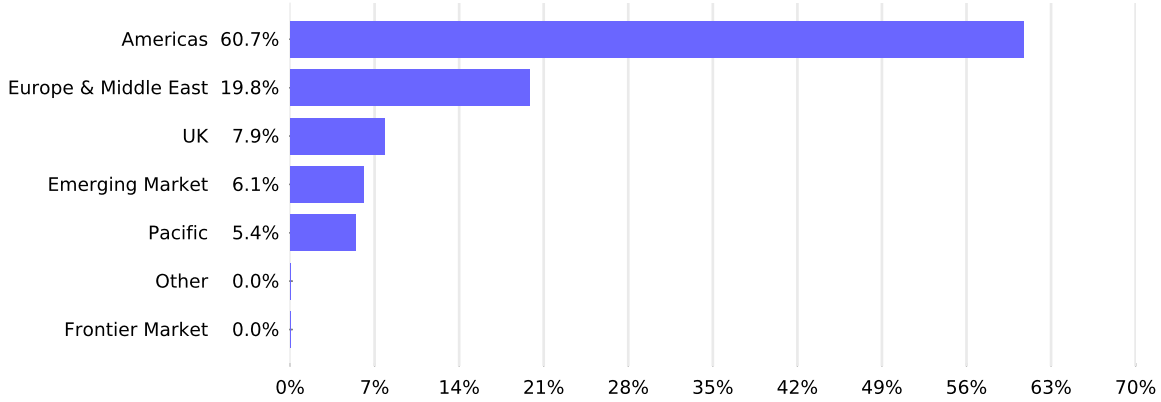
Brunel Global High Alpha Equity – Region & Sector Exposure

BRUNEL Pension Partnership

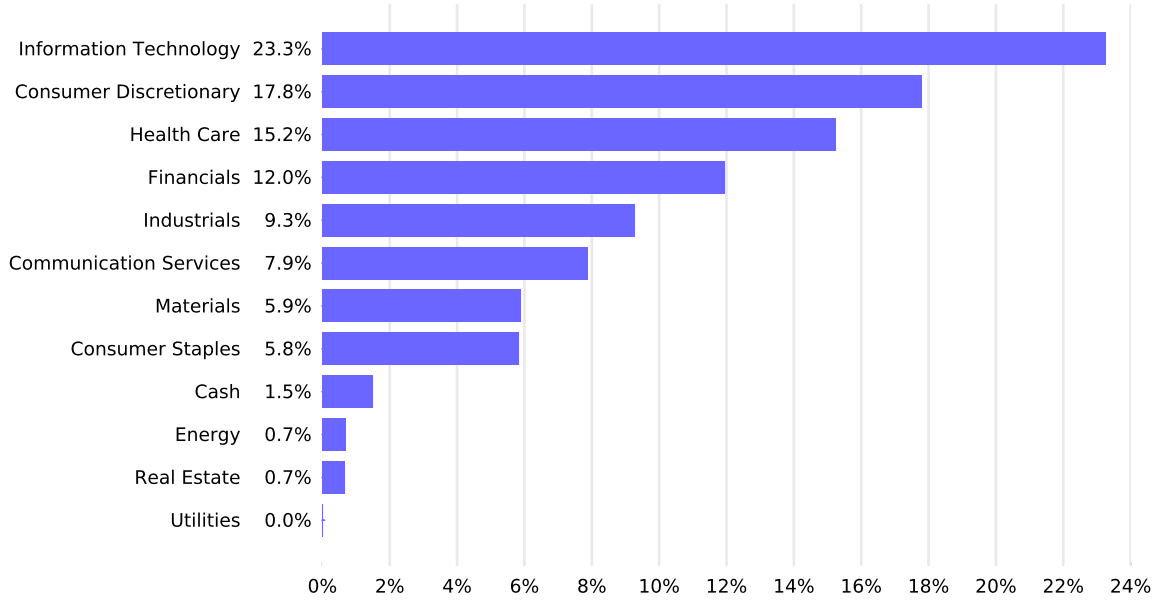
Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	168,099,682
ALPHABET INC-CL A	122,571,772
AMAZON.COM INC	104,656,842
MASTERCARD INC - A	95,325,943
NESTLE SA-REG	65,453,561
MOODY'S CORP	64,339,626
TAIWAN SEMICONDUCTOR-SP ADR	58,780,021
UNITEDHEALTH GROUP INC	58,022,082
NIKE INC -CL B	53,280,283
ASML HOLDING NV	53,081,374
SCHWAB (CHARLES) CORP	52,691,126
TJX COMPANIES INC	52,562,356
AUTOZONE INC	42,833,101
JOHNSON & JOHNSON	40,880,383
META PLATFORMS INC-CLASS A	39,144,725
AUTOMATIC DATA PROCESSING	38,387,282
CAPGEMINI SE	38,020,924
NVIDIA CORP	36,476,138
IQVIA HOLDINGS INC	33,909,694
ROCHE HOLDING AG-GENUSSCHEIN	33,132,607

Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. RECRUIT HOLDINGS CO LTD	72.7	76.0
2. ASML HOLDING NV	61.6	29.3
3. NESTLE SA	59.8	60.9
4. CAPGEMINI SE	63.7	50.0
5. TAIWAN SEMICONDUCTOR MANUFACTURIN	59.6	31.6
6. DIAGEO PLC	63.2	73.2
7. MSCI INC	63.0	78.3
8. CARRIER GLOBAL CORP	66.3	59.9
9. SAP SE	63.5	45.3
10. ADMIRAL GROUP PLC	76.1	77.7

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. BECTON DICKINSON AND CO	43.3	41.6
2. PROGRESSIVE CORP/THE	40.7	18.3
3. AUTOZONE INC	45.6	81.5
4. AMAZON.COM INC	50.4	59.8
5. NIKE INC	46.5	44.1
6. META PLATFORMS INC	42.4	52.1
7. JOHNSON & JOHNSON	36.3	21.6
8. ALPHABET INC	45.7	59.5
9. TJX COS INC/THE	32.8	19.6
10. MICROSOFT CORP	46.1	31.6

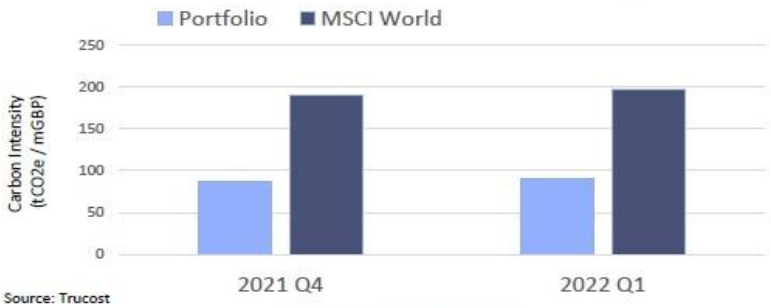
Weighted Average ESG Score	2021 Q4	2022 Q1
Portfolio	54.7	54.2
MSCI World	54.6	54.5

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	0.9	0.6	1.8	2.0
MSCI World	2.6	2.6	5.1	6.5

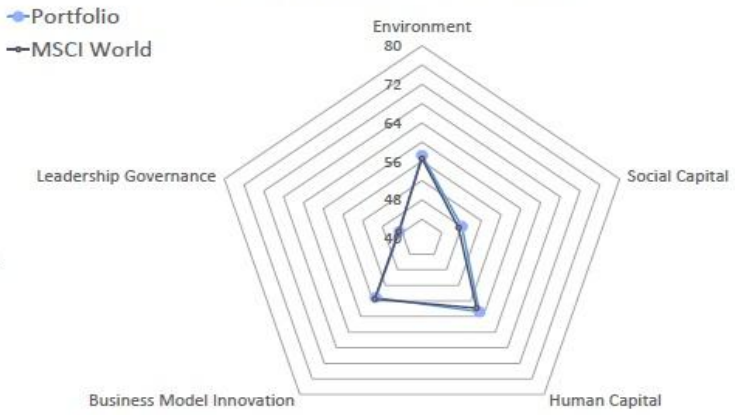
1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Brunel Assessment:

- **Amazon** (Consumer goods) has increased its renewable capacity in Spain to 1.4GW with five new projects. The E-commerce giant has also launched its first ever electric heavy goods vehicle fleet in the UK as it continues to work towards Amazon Fresh being the first Net-Zero carbon grocery store.
- **Johnson and Johnson** (Pharmaceuticals) has settled a litigation by West Virginia for $99 million to settle claims that it helped fuel an opiod addiction crisis in the state.
- **Nestle's** (Food and beverage) health science division is buying a majority stake in Orgain, a maker of protein powders, shakes and bars, for an undisclosed amount. nestle has undergone a transformation in recent years to increase growth in healthier food and products.
- **Diageo** (Food and beverage) ramps up investment into production of packaging plants. An additional £40 million investment to expand two of its existing plants is to commence immediately in order to meet demand for canned Guinness in both the domestic and export markets.

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 and the extractives value of holdings are less than half that of its benchmark.

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Global Sustainable Equities

BRUNEL
Pension Partnership

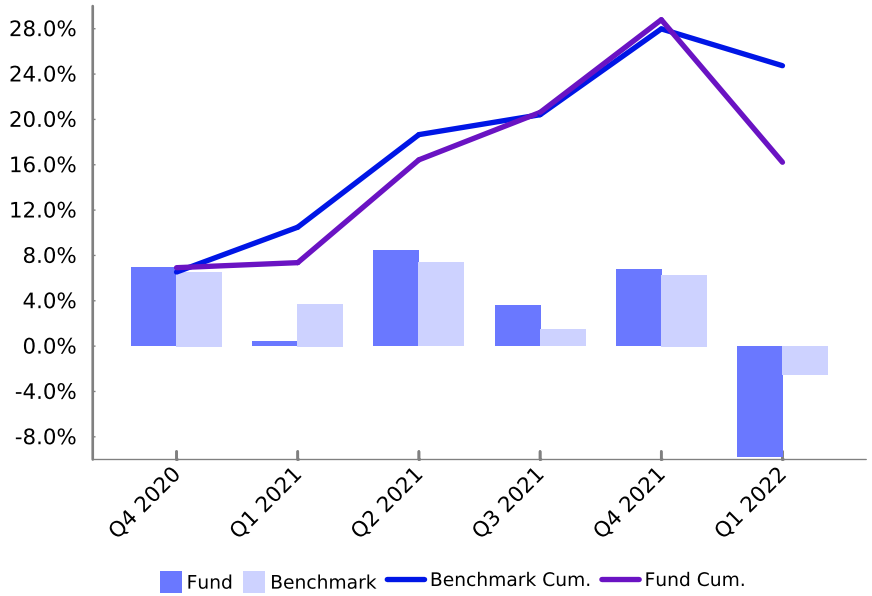
Overview

	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:	£3,132,478,438

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-9.8%	-2.5%	-7.2%
Fiscal YTD	8.2%	12.9%	-4.6%
1 Year	8.2%	12.9%	-4.6%
3 Years			
5 Years			
10 Years			
Since Inception	11.0%	16.5%	-5.6%

Rolling Performance*



* Partial returns shown in first quarter

As per the listed markets commentary, this quarter was defined by the expectation of increased rate rises and by the Russian invasion of Ukraine, leading to consequential sanctions and a decreasing supply of oil and commodities. This market environment favours a Value style of strategy, as the decreasing supply of commodities increases the value of the 'old economy' Energy companies. Moreover, Value companies have a smaller proportion of their cash flows discounted from the future. The increase in interest rates has meant the future growth in cash flows for a growth company are now being valued as less in the present. The Sustainable Fund naturally has a bias towards the Growth/Quality parts of the market, as the Value style is heavily influenced by unsustainable companies.

Global equities (as proxied by the MSCI All Countries World Index) returned -2.5% this quarter. The Sustainable Equity fund returned -9.7%, underperforming the benchmark by 7.2% (MSCI All Countries World Index).

• Much of this quarter's underperformance (-6.2%) can be attributed to the month of January. We saw the first signs of a rate rise to combat inflation, and saw a huge disparity between sectoral returns, favouring Value Sectors, notably Energy.

Brunel Global Sustainable Equities

BRUNEL
Pension Partnership

• From a country perspective, the underperformance was almost exclusively driven by stock selection in the US. The underlying US Style attribution shows underperformance being driven by the allocation and the selection to the US Growth parts of the market. Being underweight the top decile of Value had a negative effect on performance, as it returned 15% over the quarter.

• Four of the five managers underperformed the index over the quarter. Jupiter, the only manager to outperform, was brought into the fund on 17 February 2022 and has therefore only been measured on a part of the period. Whilst it is disappointing that the managers have underperformed the benchmark, it is in line with the sustainable peer group. 90% that applied for the EOI stage of the process and have data available in Morningstar underperformed the benchmark. Those that did outperform had a high exposure to the Value style (as defined by Morningstar) and contained holdings that would not align to what we believe to be a sustainable company.

• From inception to end-March, the portfolio underperformed the benchmark by -5.6% on an annualised basis. All of which can be attributed to this most recent quarter.

• The Sustainalytics and TruValue Labs ESG scores for the Sub-Fund remain superior to that of the MSCI ACWI benchmark, and we continue to see a carbon intensity reduction in comparison to the benchmark.

• There were a number of client trades over the quarter and a net inflow of £710m. The inflows allowed the portfolio to meet the target allocation specified in our 2021 portfolio construction update.

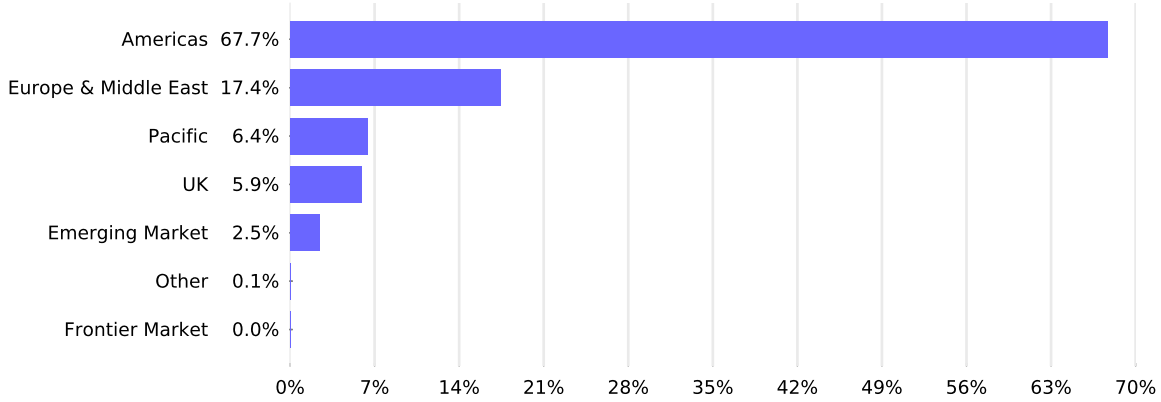
Brunel Global Sustainable Equities – Region & Sector Exposure

BRUNEL Pension Partnership

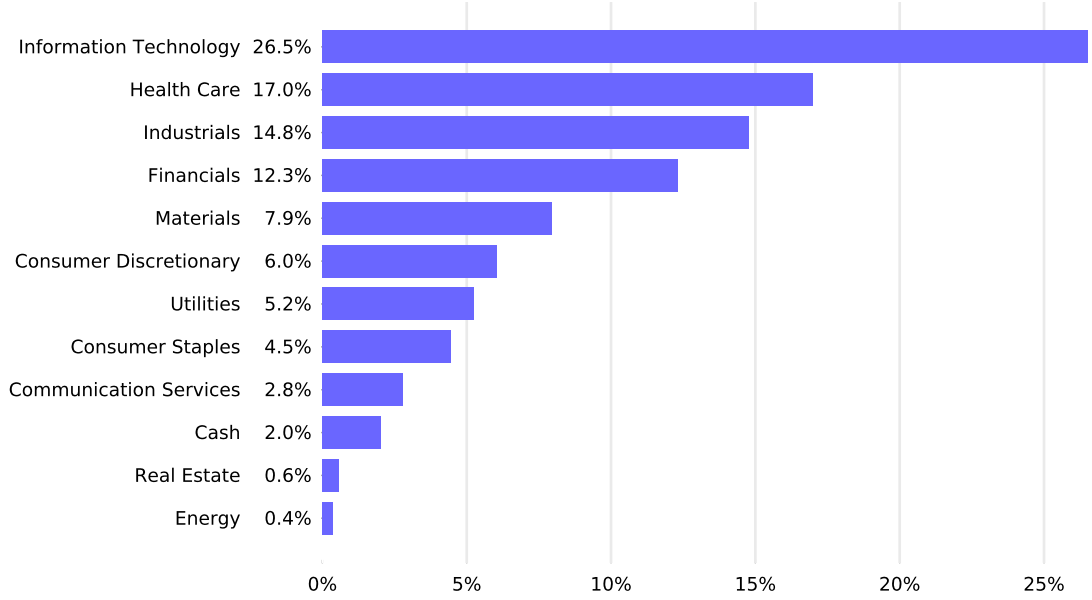
Top 20 Holdings

	Mkt. Val.(GBP)
MASTERCARD INC - A	82,162,302
MICROSOFT CORP	78,532,998
ADYEN NV	60,409,723
ANSYS INC	55,999,131
DANAHER CORP	55,660,147
WORKDAY INC-CLASS A	52,869,995
MARKETAXESS HOLDINGS INC	52,866,356
ALPHABET INC-CL A	50,894,827
EDWARDS LIFESCIENCES CORP	49,850,871
INTUIT INC	48,921,358
TRADEWEB MARKETS INC-CLASS A	48,915,888
UNITEDHEALTH GROUP INC	47,124,418
TAIWAN SEMICONDUCTOR-SP ADR	45,514,040
ROCHE HOLDING AG-GENUSSCHEIN	43,968,641
ASML HOLDING NV	43,871,772
AIA GROUP LTD	43,026,435
TYLER TECHNOLOGIES INC	41,475,883
NVIDIA CORP	40,585,826
SYNOPSYS INC	39,824,425
ILLUMINA INC	38,227,529

Regional Exposure



Sector Exposure



Brunel Global Sustainable Equities – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ABIOMED INC	80.3	86.4
2. ANSYS INC	67.6	79.4
3. ORSTED AS	73.7	65.5
4. WORKDAY INC	66.3	25.2
5. ECOLAB INC	69.2	32.9
6. FORTIVE CORP	70.8	76.3
7. KERRY GROUP PLC	68.6	35.6
8. ZEBRA TECHNOLOGIES CORP	76.1	75.0
9. ASPEN TECHNOLOGY INC	70.5	40.0
10. LINDE PLC	66.8	72.7

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MUENCHENER RUECKVERSICHERUNGS-GESEI	42.8	68.6
2. CIA DE SANEAMENTO BASICO DO ESTADO DE	37.7	17.0
3. CENTRAL JAPAN RAILWAY CO	34.4	17.8
4. ADOBE INC	41.9	17.5
5. T-MOBILE US INC	45.2	32.9
6. ROCHE HOLDING AG	50.4	50.0
7. ILLUMINA INC	46.4	20.8
8. ALPHABET INC	45.7	59.5
9. MARKETAXESS HOLDINGS INC	42.1	8.9
10. MICROSOFT CORP	46.1	31.6

Weighted Average ESG Score	2021 Q4	2022 Q1
Portfolio	59.7	58.9
MSCI ACWI	54.9	54.8

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

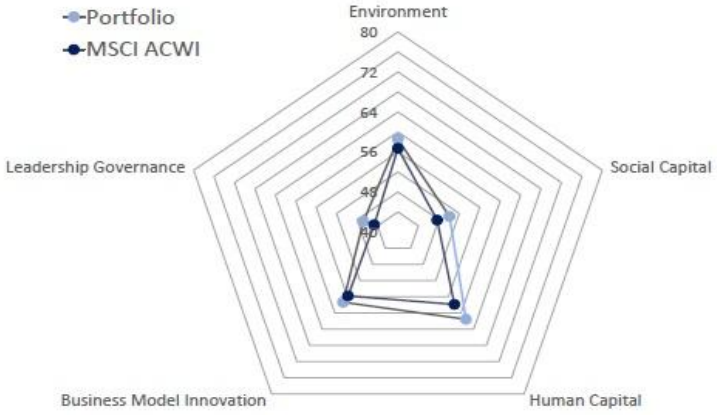
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	2.9	2.5	3.3	3.1
MSCI ACWI	2.6	2.6	5.4	6.6

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



uValue Labs & SASB

Brunel Assessment:

- **Microsoft** (Technology) agreed to buy video game company, Activation Blizzard, in an all-cash deal valued at $68.7 billion. The acquisition will make it the world's third largest gaming company by revenue (behind Tencent and Sony Group).
- **Orsted** (Energy) has started construction on a 50-50 venture with Eversource on New York's first offshore wind farm. The site is set to be fully operational by 2023 and will comprise of 12 Siemans Games turbines, each with a 11 MW capacity.
- **Ecolab** (Chemicals) has agreed to acquire Purolite, a leading and fast-growing global provider of high-end ion exchange resins for the separation and purification of solutions. The resins are critical to safe, high quality drug production and biopharma product purification.
- **Alphabet** (IT) says it will replenish 120 percent of the water it consumes by 2030. In its efforts to replenish more water than it consumes, the company says it will also invest in community projects working to address local water and watershed challenges in places where the company has data centers and offices.

90% 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.

Brunel Diversifying Returns Fund

BRUNEL Pension Partnership

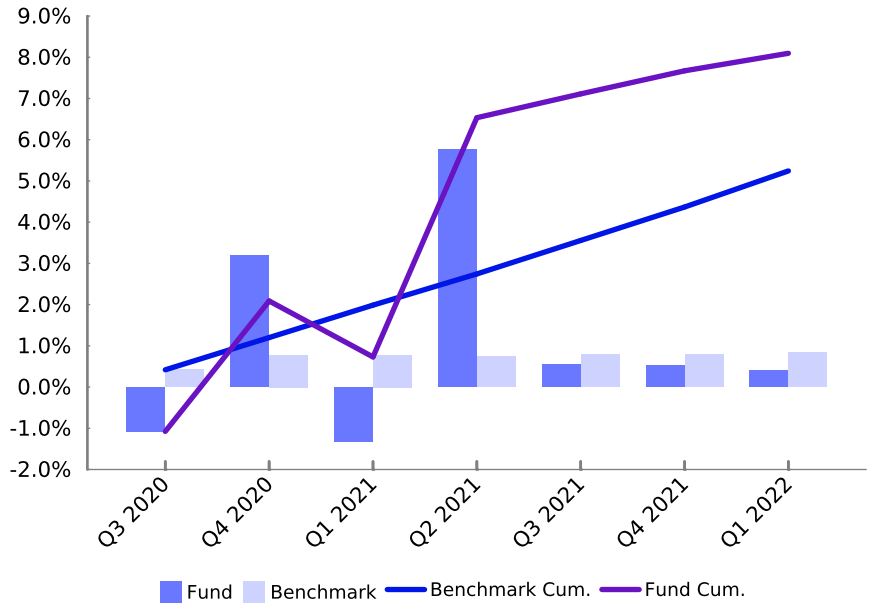
Overview

	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:	£1,691,673,310

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	0.4%	0.8%	-0.4%
Fiscal YTD	7.3%	3.2%	4.1%
1 Year	7.3%	3.2%	4.1%
3 Years			
5 Years			
10 Years			
Since Inception	4.9%	3.2%	1.7%

Rolling Performance*



* Partial returns shown in first quarter

The Diversifying Returns Fund returned 0.4% over the first quarter of 2022. The benchmark return was 0.8%. The portfolio returned 7.3% for the year ending 31 March 2022, outperforming the benchmark, which returned 3.2%. The individual managers all made a positive contribution to returns over the year. It is pleasing to note different managers have performed well at different times, as market conditions have changed.

• JPM returned 2.1% for the quarter. The largest positive contributions to return came from the equity value and fixed income trend signals. Commodity trend and carry signals also delivered positive performance. With the exception of value, equity signals contributed negatively to returns, as did the fixed income carry signals.

• Lombard Odier returned -2.3% over the quarter. Commodity exposure generated positive returns for the period, but performance was negative across other asset classes. Sovereign bond and developed market equity exposure made the largest negative contributions to performance.

• UBS had a strong quarter, returning 8.2%. The biggest contributor to performance was the long position in the Brazilian real. A long position in the

Norwegian kroner also contributed positively to performance. Positive exposure to the Japanese yen detracted from performance. Short exposure to the US, Canadian, New Zealand and Australian dollars also made a negative contribution to returns.

• William Blair lost 3.0% in the fourth quarter, with beta exposure to equities and fixed income contributing to the negative performance. The security selection component of the strategy, which has a pro Quality/Growth tilt, also made a negative contribution to returns as the back-up in rates helped Value outperform Qualityand Growth. Long exposure to emerging market currencies made a positive contribution to returns.

Brunel Multi-Asset Credit

BRUNEL
Pension Partnership

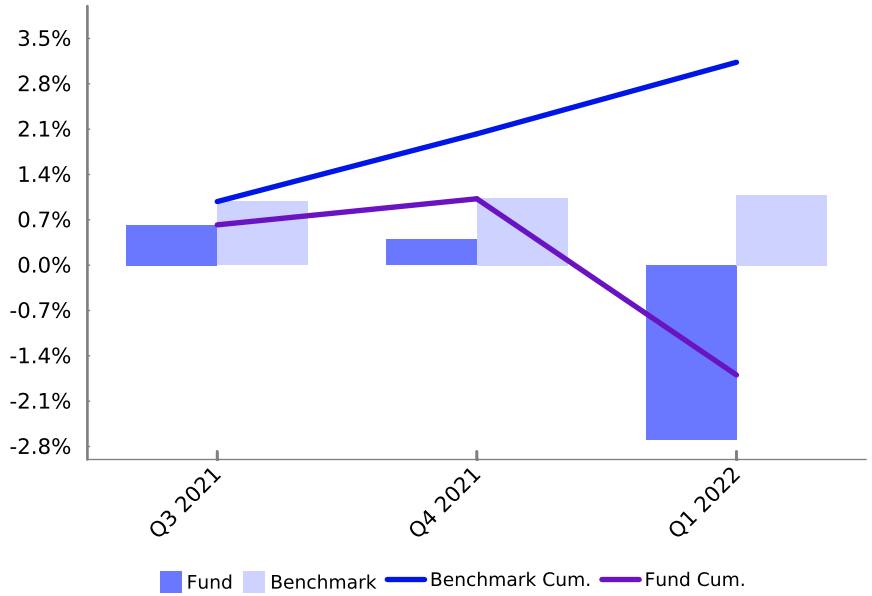
Overview

	Description
Portfolio Objective:	To gain exposure to a diversified portfolio of enhanced credit opportunities with modest exposure to interest rate risk.
Investment Strategy & Key Drivers:	Exposure to specialised, higher yielding bond sectors which provide diversified credit driven returns.
Liquidity:	Managed liquidity
Risk/Volatility:	Moderate absolute and relative risk with high relative risk vs cash.
Total Fund Value:	£2,318,327,115

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-2.7%	1.1%	-3.8%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	-1.7%	3.1%	-4.8%

Rolling Performance*



* Partial returns shown in first quarter

The beginning of 2022 proved torrid for most risk assets. Equities and corporate credit sold off simultaneously, whilst sovereign bonds – normally a safe haven – followed suit and depreciated in value. The driver of this risk-off environment was twofold. Firstly, the market reacted to the impact of Russia's invasion of Ukraine, which placed economic and inflationary uncertainties on corporates; secondly, increasingly hawkish monetary policy actions were announced by the US to combat persistently high levels of inflation observed, which impacted sovereign yields. Inflation levels rose to alarmingly high levels across developed markets during Q1 2022; the United States and United Kingdom had year-on-year CPI prints of +7.9% and +6.1%, respectively.

The invasion of Ukraine increased volatility in corporate and sovereign credit. Spreads widened across most sub-investment grade corporate credit in the immediate aftermath of the invasion. Most notably, emerging market corporates – proxied by Bloomberg Emerging Markets USD Aggregate Corporates – saw option-adjusted spreads widen by over 100bps to a peak of around 480bps by early March.

Monetary policy fuelled large increases in yields during the last quarter, particularly in the United States. With inflation rising, the Federal Reserve became increasingly hawkish despite the mounting geopolitical risk. In March, the central bank not only hiked the federal funds rate by +25bps, the first time since

Brunel Multi-Asset Credit

2018. It also indicated that it would consider increasing interest rates by a greater magnitude at future meetings and soon begin to reduce its $9 trillion balance sheet, which has ballooned since the onset of the pandemic. In all, these moves resulted in the US 2-year treasury yield – a policy-sensitive rate – moving from 0.73% to 2.29% in a single quarter. An upward move of this magnitude has rarely occurred in the last 20 years. Market participants were also alarmed by the change in shape of the US yield curve, as the 10-year minus 2-year yield spread collapsed to zero; this fuelled speculation of an imminent recession. It was a similar story in the United Kingdom, albeit in lower magnitude, where the 2-year gilt yield moved from 0.67% to 1.37% during Q1 2022, after the Bank of England hiked the base rate by 50 basis points to 0.75%. The portfolio has large exposure to the shorter end of the yield curve; hence, the movement in short rates detracted from fund performance, despite the modest duration of 2.7 years heading into the quarter.

All major asset classes within the sub-investment grade space fell during Q1 2022. There was a clear distinction between fixed and floating rate assets, with the latter performing significantly better, given the rising rate environment. Global High Yield - proxied by Bloomberg Global High Yield Corporates - fell roughly 5% in local terms over the quarter. Shorter durations in this space accompanied by slightly wider spreads – an increase of roughly 40bps - proved highly detrimental. Loans, a floating rate asset with near-zero duration, were relatively flat on the quarter; the S&P/LSTA US Leveraged Loan Index – a loan proxy - ended the quarter down 0.2% in GBP-hedged terms. Some of the more niche areas in sub-investment grade credit also struggled; notable examples included emerging market debt, subordinated bank capital and convertible bonds, which fell by over 5%.

The portfolio was fairly well-positioned heading into this environment, given the significant exposure to floating rate assets and underexposure to some of the worst-performing areas in credit like emerging market debt and convertible bonds. The fund held roughly a third of its assets in floating rate securities in the form of loans and collateralised loan obligations. Emerging market debt and convertibles were held in modest amounts, totalling approximately 7% and 1%, respectively. However, the portfolio was not immune from the impacts of rising rates; this was most notable in the high yield bond portion of the portfolio, which accounted for approximately 40% of the portfolio, going into Q1 2022.

The fund returned -270bps during Q1 2022 in GBP terms, which was behind the SONIA+4% benchmark, which returned +108bps. This is not surprising, given that all credit assets fell simultaneously during the last quarter. The secondary benchmark – a 50:50 split of loans and high yield – fell by 272 basis points (bps) over the same period, which was almost exactly in line with the portfolio. All three managers produced negative returns in this environment, but there were significant differences between them. Neuberger, CQS and Oaktree fell by 318bps, 170bps and 222bps respectively. CQS's stronger performance was driven by its larger floating rate allocation, which totalled over 60% going into Q1 2022. In contrast, Neuberger Berman holds far more fixed rate assets, which sold off as a result of rate rises; Neuberger has the largest allocation to high yield – a fixed rate asset – as it made up approximately 50% of their portfolio heading into the quarter.

Since-inception performance is now -170bps, behind the SONIA+4% benchmark, which returned +313bps. The portfolio remained comfortably ahead of the secondary benchmark at quarter-end; the latter had returned -246bps since inception.

Passive Dev Eq Paris Aligned

BRUNEL Pension Partnership

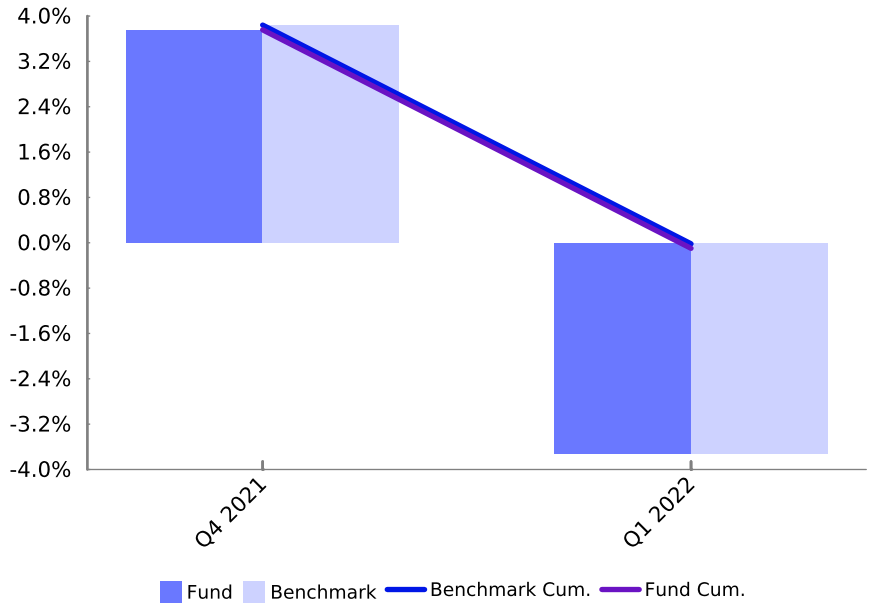
Overview

	Description
Portfolio Objective:	Provide global equity market exposure, reduce carbon exposure and align to the Paris Agreement.
Investment Strategy & Key Drivers:	Portfolio is invested in global equities in accordance with FTSE Global Developed PAB Index.
Liquidity:	High
Risk/Volatility:	Volatility: high. Relative/active risk: very low.
Total Fund Value:	£2,180,859,826

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-3.7%	-3.7%	0.0%
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	-0.1%	0.0%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

• Confronted by the significant and varying macroeconomic risks posed in Q1 2022, the FTSE Developed Paris Aligned (PAB) benchmark, like many global indices, performed negatively in absolute terms over the period, returning -3.7%. From its November 1 inception to end-March, the benchmark performance was -0.1%. The Passive Paris Aligned Developed Equities fund closely replicated the benchmark over both these periods.

• Sterling depreciated in value relative to several other global currencies over the period, falling by 2.5% against the US dollar and by 1.5% against the euro. The hedged portfolio consequently underperformed the unhedged portfolio over the quarter, returning -5.7%.

• Utilities and Financials were the only positive contributors to performance, although performance in these sectors over the quarter was volatile. Materials was the most significant performance drag, but there was significant dispersion of performance between the materials' industries. Metals and Mining performed particularly well, but this contribution was outweighed by negative performance in the more significantly weighted materials industries of the index, like Chemicals and Construction Materials.

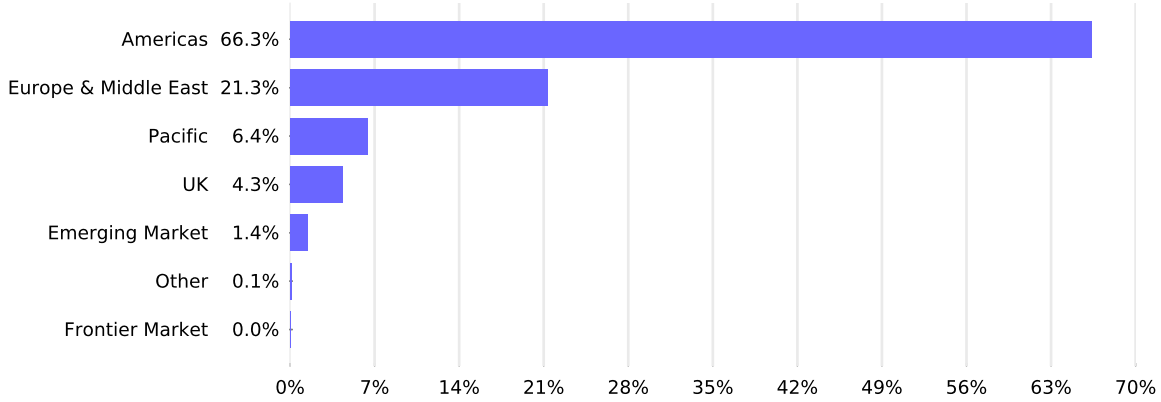
Passive Dev Eq Paris Aligned – Region & Sector Exposure

BRUNEL Pension Partnership

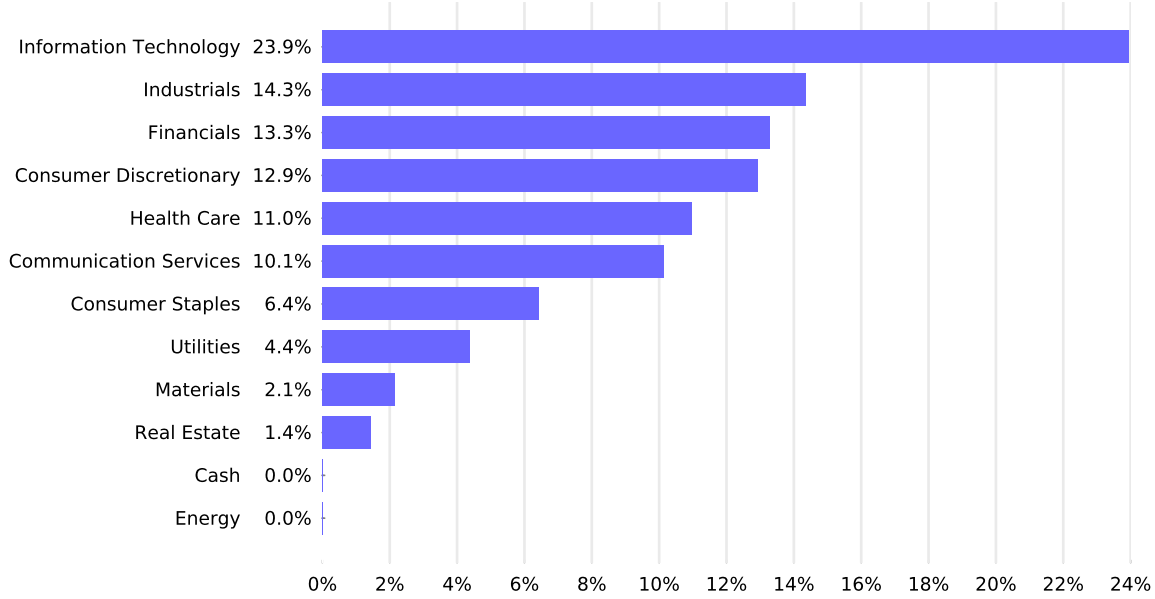
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	156,715,372
MICROSOFT CORP	139,578,326
AMAZON.COM INC	125,056,738
ALPHABET INC-CL A	68,844,734
ALPHABET INC-CL C	64,496,897
HONEYWELL INTERNATIONAL INC	51,985,866
TESLA INC	47,101,315
SCHNEIDER ELECTRIC SE	39,517,345
UNILEVER PLC	36,235,119
NESTLE SA-REG	34,325,230
THERMO FISHER SCIENTIFIC INC	29,726,027
UNITEDHEALTH GROUP INC	29,709,347
VERIZON COMMUNICATIONS INC	24,542,620
NVIDIA CORP	23,531,128
LVMH MOET HENNESSY LOUIS VUI	21,216,747
MASTERCARD INC - A	19,857,515
SAP SE	18,988,432
INTL BUSINESS MACHINES CORP	18,415,642
SAMSUNG ELECTRONICS CO LTD	18,340,358
JPMORGAN CHASE & CO	18,129,899

Regional Exposure



Sector Exposure



Passive Dev Eq Paris Aligned – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. HONEYWELL INTERNATIONAL INC	71.3	78.6
2. SCHNEIDER ELECTRIC SE	71.5	50.0
3. SIEMENS AG	67.0	71.5
4. TEXAS INSTRUMENTS INC	65.4	68.6
5. UNILEVER PLC	59.7	62.2
6. ORSTED AS	73.7	65.5
7. SAP SE	63.5	45.3
8. NESTLE SA	59.8	60.9
9. ENGIE SA	69.2	65.4
10. GENERAL ELECTRIC CO	66.3	72.9

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. PFIZER INC	46.7	42.4
2. ADOBE INC	41.9	17.5
3. AT&T INC	46.8	71.8
4. TESLA INC	52.0	26.5
5. ABBVIE INC	38.3	18.6
6. CHUBB LTD	35.5	56.9
7. AMAZON.COM INC	50.4	59.8
8. APPLE INC	47.7	61.5
9. ALPHABET INC	45.7	59.5
10. MICROSOFT CORP	46.1	31.6

Weighted Average ESG Score	2021 Q4	2022 Q1
Portfolio	55.6	55.4
FTSE Dev. World	54.7	54.5

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

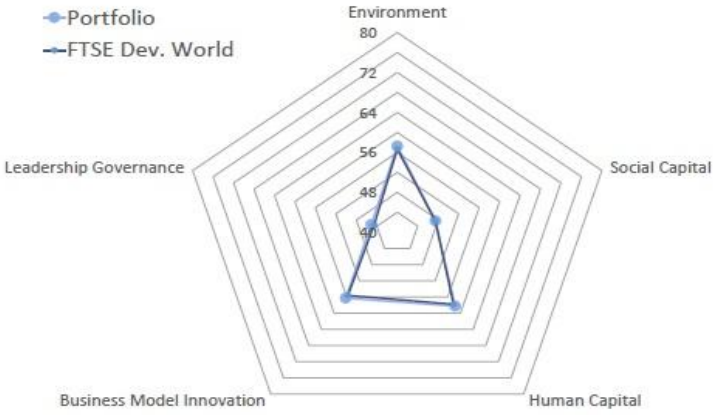
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q4	Q1	Q4	Q1
Portfolio	1.0	1.0	1.7	1.6
FTSE Dev. World	2.6	2.6	5.1	6.4

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



uValue Labs & SASB

Brunel Assessment:

- **Amazon** (Consumer goods) has increased its renewable capacity in Spain to 1.4GW with five new projects. The E-commerce giant has also launched its first ever electric heavy goods vehicle fleet in the UK as it continues to work towards Amazon Fresh being the first Net-Zero carbon grocery store.
- **Nestle's** (Food and beverage) health science division is buying a majority stake in Orgain, a maker of protein powders, shakes and bars, for an undisclosed amount. nestle has undergone a transformation in recent years to increase growth in healthier food and products.
- **Apple** (Technology) announced the use of low-carbon aluminion for its latest iPhone SE to further its goal of being carbon neutral by 2030 across its entire business including manufacturing supply chain and product life cycle. The company will also directly invest into renewable projects around the world and announced more than 213 of its suppliers have committed to using clean renewable energy.
- **Microsoft** (Technology) agreed to buy video game company, Activation Blizzard, in an all-cash deal valued at $68.7 billion. The acquisition will make it the world's third largest gaming company by revenue (behind Tencent and Sony Group).

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The Passive Developed Paris Aligned Portfolio has a carbon intensity and extractive exposure significantly below that of its reference index, the FTSE World Developed Index.

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA- 853744

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 27th May 2022

Author: Nathan Rollinson
Report Title: Review of Investment Performance for Periods Ending 31 March 2022 **List of attachments to this report:** Appendix 1 – Mercer Performance Monitoring Report Appendix 2 - Brunel Quarterly Performance Report **Exempt Appendix 3** – Quarterly Portfolio Monitoring Summary Appendix 4 – Brunel Presentation: Multi Asset Credit Portfolio

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 appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

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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.

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

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Brunel Update

Daniel Spencer, Portfolio Manager

May 2022

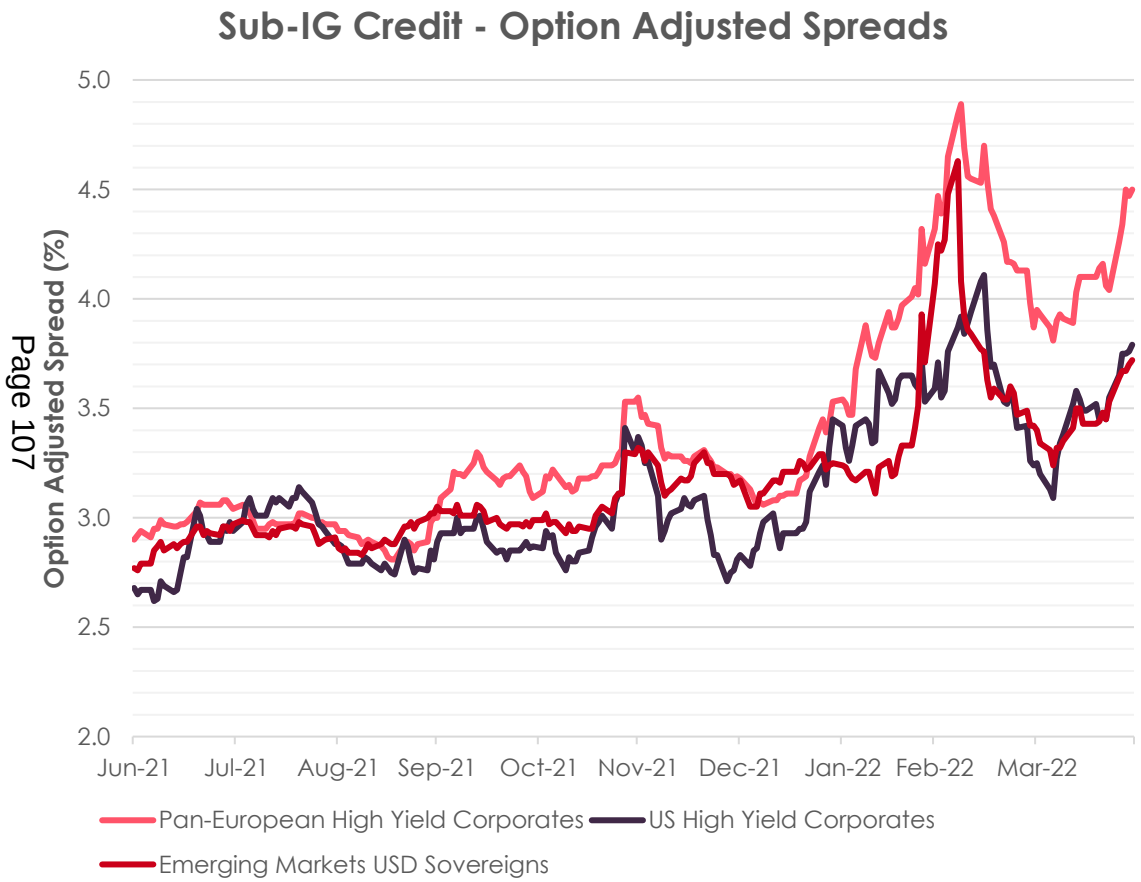
BRUNEL
Pension Partnership

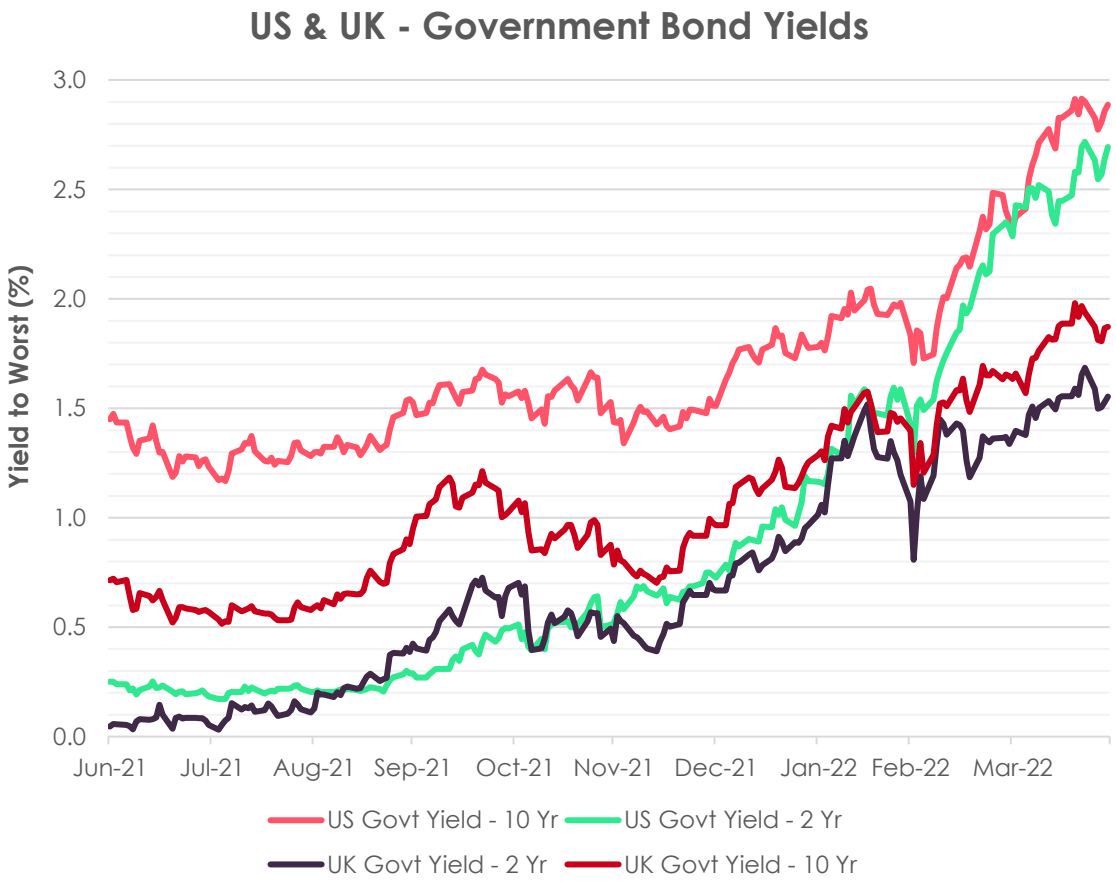
Brunel Update

Agenda

1. General credit update
2. Credit - Current themes
3. Multi Asset Credit - Asset types and managers
4. Multi Asset Credit - Progress on ESG integration
5. Listed markets - Performance

Credit Update – Interest rates and credit spreads under pressure





Source: Brunel & FactSet

BRUNEL Pension Partnership

Current Credit Themes

Inflation

- Sticky inflation?
- Energy independence?
- Defence spending impact?

COVID

- Zero-covid policy in China?
- Future outbreaks?
- COVID impacted businesses?

Global growth uncertainty

- Commodities and geo-politics?
- Recession or stagflation?

Rising credit volatility

- Position for 2-way markets?
- Spreads peaked?
- Increased opportunities?

Central bank tightening

- Normalised interest rate volatility?
- Pace of quantitative tightening?

Brunel Multi Asset Credit – Managers & Portfolio

CQS

- ✓ Loans and ABS strength
- ✓ Good diversifier for US assets
- ✓ Specialist asset classes
- ✓ Strong pipeline in RI

20%

Neuberger Berman

- ✓ Broad asset coverage
- ✓ Strong track record
- ✓ Distinctive asset allocation
- ✓ Leader in RI

60%

Oaktree

- ✓ Specialist asset class strength
- ✓ Large global credit analyst team
- ✓ Distinctive asset allocation
- ✓ Strong pipeline in RI

20%

Brunel Multi Asset Credit

- ✓ Broad asset coverage
- ✓ Highly diversified
- ✓ Specialist asset classes
- ✓ Distinctive asset allocation
- ✓ Strong credentials in RI
- ✓ Backed by large resources

Brunel Multi Asset Credit – Asset Types & Return Drivers

Lower Risk

Typically < 10% of returns

- DM Sovereigns
- Cash
- Investment Grade

Moderate Risk

Typically 60–80% of returns

- Asset Backed Securities
- Senior Loans
- Higher Quality High Yield
- Real Estate Debt

Higher Risk

Typically 10-20% of returns

- Lower Quality High Yield
- EM Sovereigns
- EM Corporates
- Junior Loans

Specialist

Typically 5-10% of returns

- Convertible Bonds
- Collateralised Loan Obligations
- Bank Capital

Floating Rate | Fixed Rate

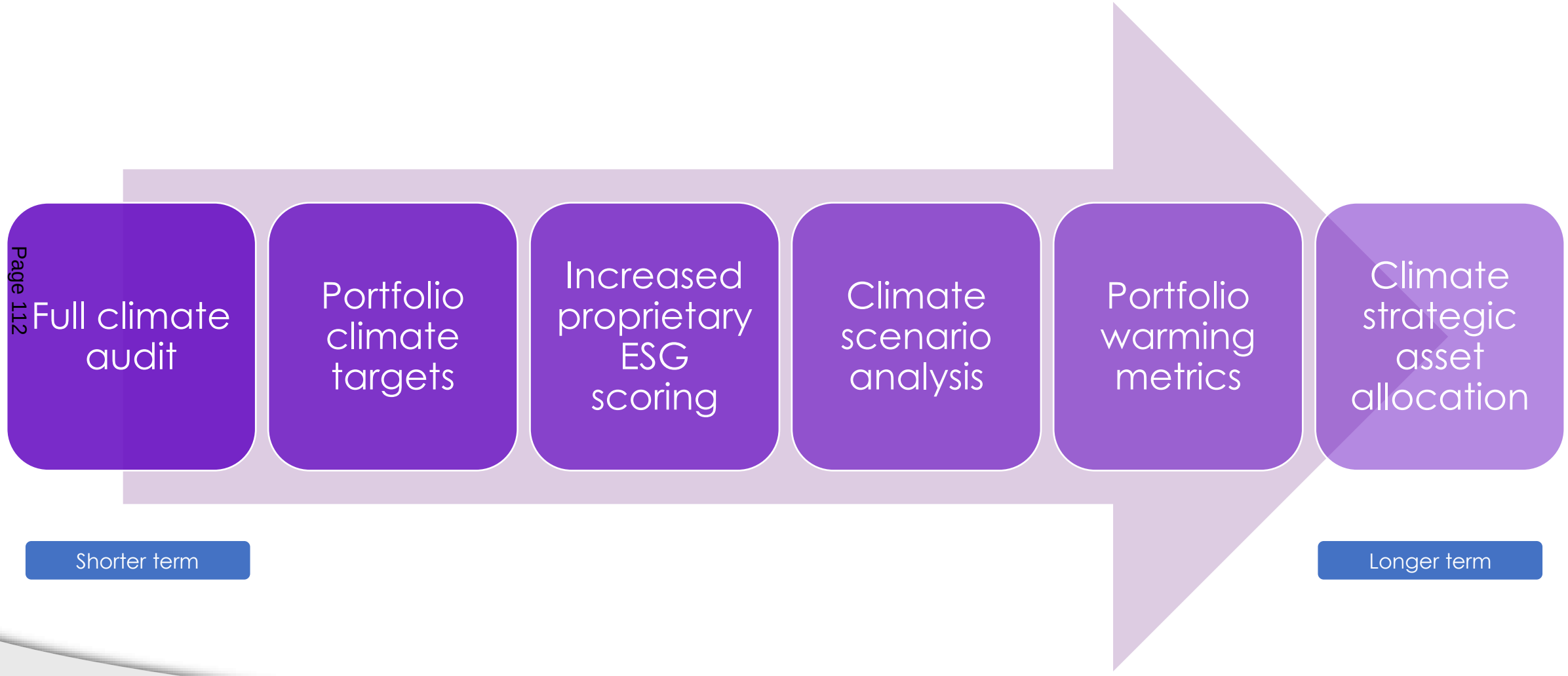
Brunel Multi Asset Credit - ESG progress to date

- ✓ Portfolio climate audit
- ✓ TCFD reporting
- ✓ SDG case studies
- ✓ Net zero framework

- ✓ Net zero framework
- ✓ Emissions & intensity targets
- ✓ Company alignment targets
- ✓ Climate Value at Risk reporting (CVaR)
- ✓ Engagement case studies

- ✓ Net zero framework
- ✓ Carbon footprinting
- ✓ Design TCFD reporting
- ✓ Expand RI team

Brunel Multi Asset Credit – Responsible Investment Forward Look



Short term headwinds for Responsible Investing

Source: Brunel & FactSet

The Invasion of Ukraine spurred on existing inflationary trends, previously driven by Covid bounce back demand and supply bottle necks. The continued lockdown policies of China added to this last issue.

Oil price rose from $66 to $123

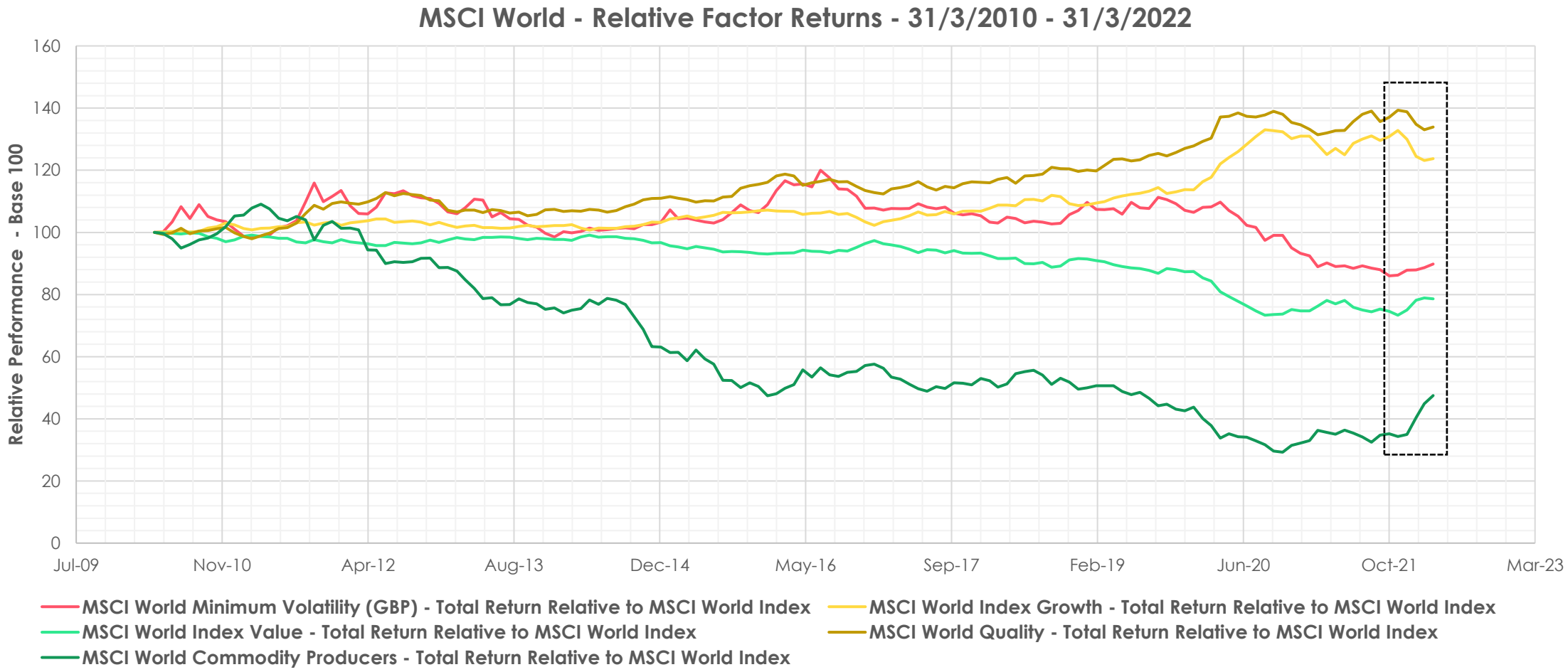
Russian and Ukraine accounted for: 33% of world's wheat, 25% of world's maize
30% of Iron and steel, 25% of battery grade Nickel, 40% palladium and 50% in Neon, (gas needed for chip manufacturing)

Russia also accounts for 28% of Europe's fertilizer imports

Interest rate expectations increased aggressively as the Fed and other CB's signalled a willingness to get ahead of inflation expectations.

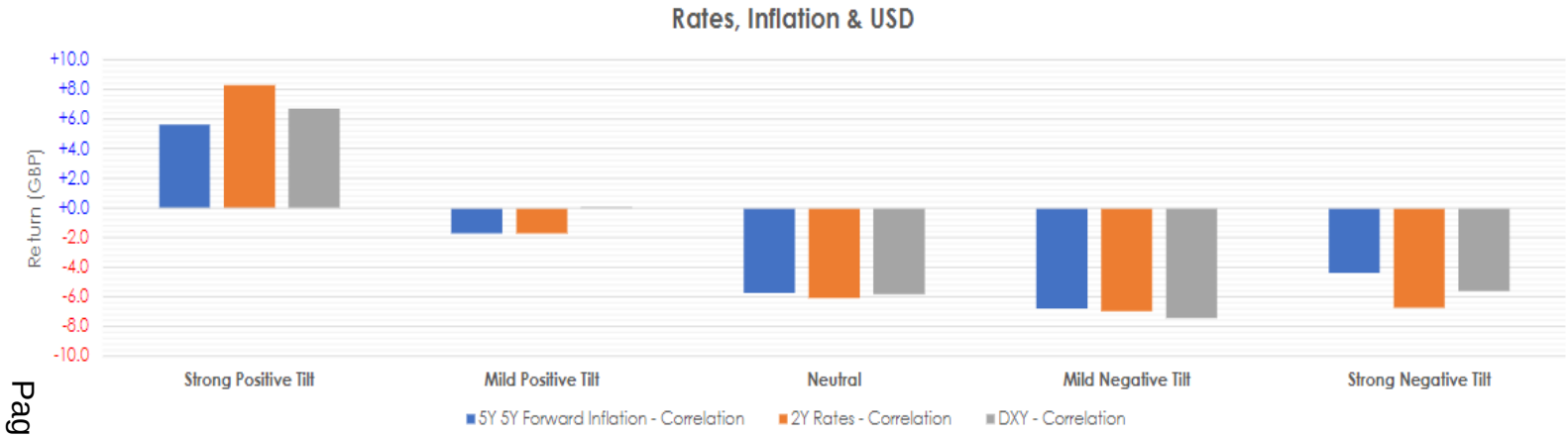
Stagflation is feared more than Recession

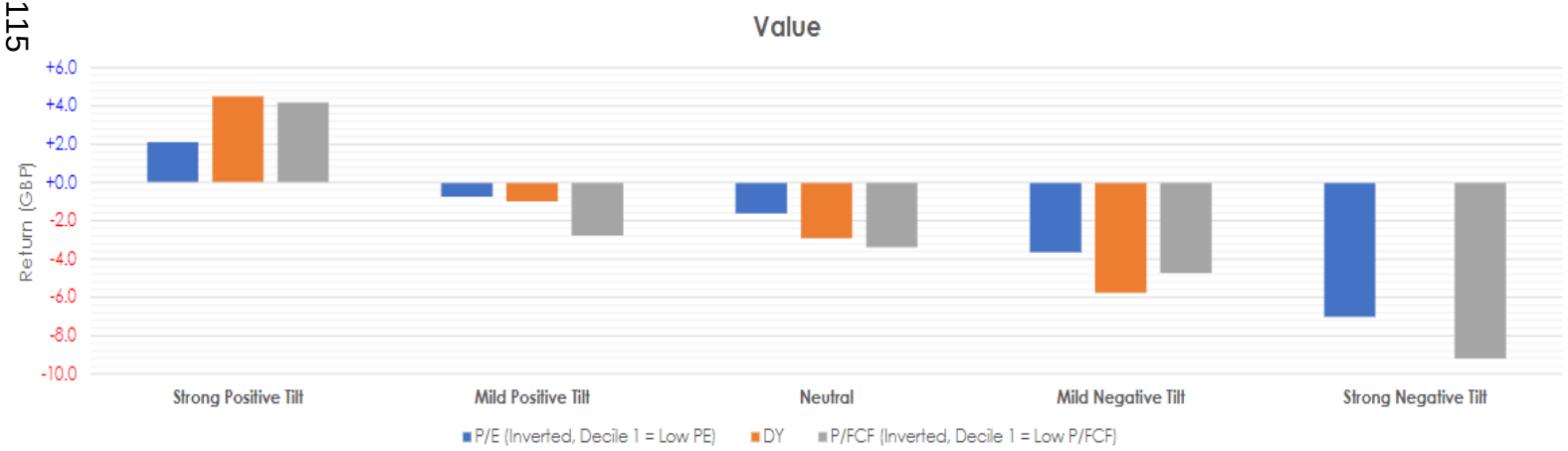
A sharp reversal of long established trends



Source: Brunel & FactSet

Drivers of markets in Q1





Source: Brunel & FactSet

Stocks positively correlated to inflation and thus interest rates rises prospered.

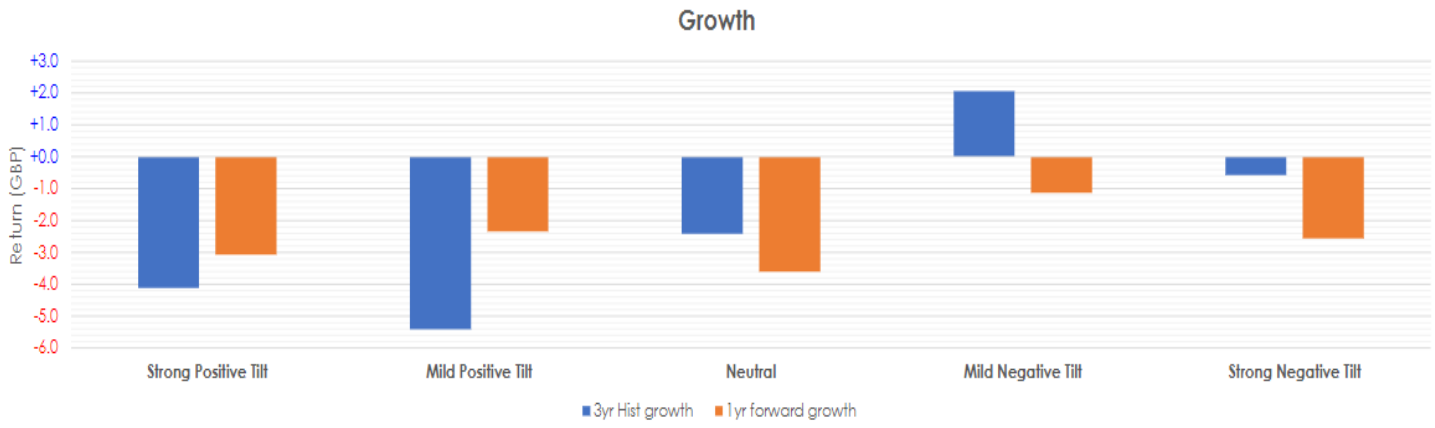
UK Government Bond prices (an inverse reflection of expected interest rate rises) fell By 7% of Q1

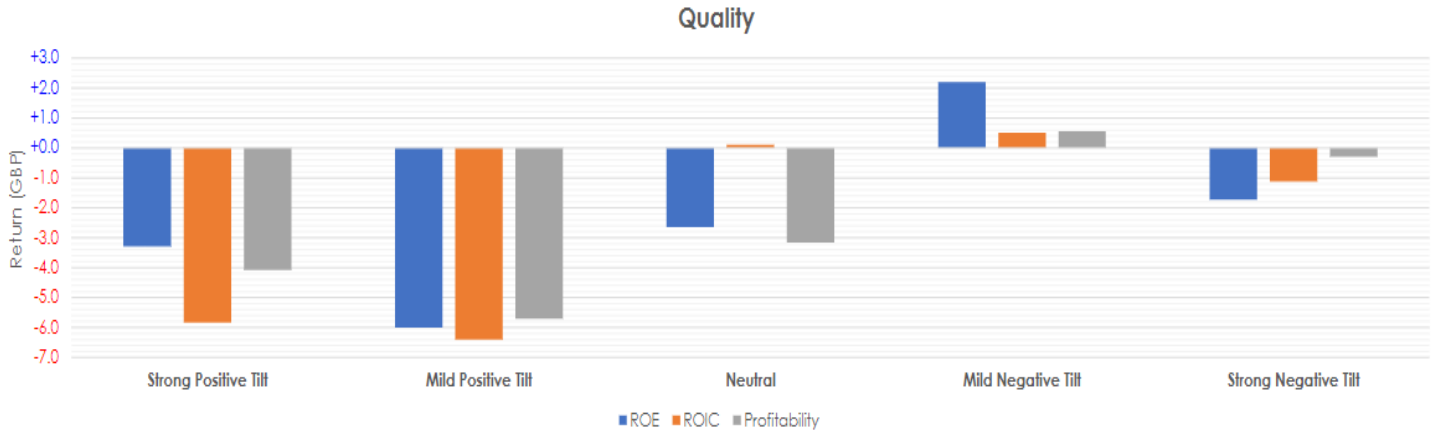
A good example are banks whose Net Interest Margin on their loan book benefits from higher rates

Previously cheap(er) value stocks, unloved for over a decade also performed well. Banks, energy and commodity stocks in particular.

Global value stocks posted a **positive** return of 2.4% versus a broad MSCI return of -2.3%

Drivers of markets in Q1





Source: Brunel & FactSet

At the other end of the Spectrum. Growth stocks suffered from price falls.

Global growth stocks posted a **negative** return of -7% versus a broad MSCI return of -2.3%

Their future earnings and thus valuation is sensitive to the discount factor that is applied to them in order to calculate their Net Present Value. (The higher that discount the lower todays value)

Despite some high profile earnings misses like Netflix (down 50%) earnings reports largely beat consensus

Quality stocks also suffered from the perception of expensiveness and general rotation into value stocks.

Global quality stocks posted a **negative** return of -5.9% versus a broad MSCI return of -2.3%

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**27 MAY 2022**	**AGENDA ITEM NUMBER**
TITLE:	**Climate Policy update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Exempt Appendix 1 – Mercer Paper: Analytics for Climate Transition (ACT) Analysis – TO FOLLOW** **Appendix 2 – IIGCC Paris Aligned Investment Initiative: Net Zero Asset Owner Commitment**		

1 THE ISSUE

1.1 The Fund's approach to managing climate risk is threefold. Firstly, it measures its financial risk using carbon metrics that inform the Committee of the carbon exposure and intensity and thus the potential financial impact on the Fund. Secondly, it proactively invests in the transition to a low carbon economy through its capital allocation decisions. Thirdly, through its engagement with companies and public policy makers it is driving change to positively impact the real economy. It does this as the Fund believes that such actions will generate sustainable returns that meet the Fund's overriding investment objective.

1.2 To support its strategic investment objective the Fund has set climate targets that require regular monitoring so we can evaluate progress and to develop our policy as improved data emerges and new investment solutions are developed.

1.3 The Fund has committed to achieve net zero alignment by 2050 or sooner by drawing on IIGCCs Net Zero Investment Framework (see Appendix 2). Critically, the commitments set out under this framework include setting interim decarbonisation targets, increasing investment in climate solutions and implementing a stewardship and engagement strategy consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner.

1.4 Brunel, and a number of underlying partner funds, have signed up to the same commitments independently creating a strong alignment of principles and ambition to meet the objectives set out in the framework.

1.5 The Fund is using Mercer's Analytics for Climate Transition (ACT) analysis to monitor progress against its climate commitment and targets. The analysis also suggests further actions the Fund could take which will be considered as part of its strategic review later in 2022/23 and provides input for Brunel's 2022 Climate Stocktake. This paper reports on progress made in 2021.

1.6 Section 6 of this report updates Panel on the key discussion points from the first client workshop held on 17 May 2022 and workstreams being developed by Brunel as part of the 2022 Climate Stocktake.

2 RECOMMENDATION

2.1 **The Panel notes the outcomes of the ACT analysis as summarised in Exempt Appendix 1 and further notes the proposals for additional climate targets that will be considered as part of the 2022/23 strategic review.**

2.2 **The Panel notes the summary of the first Brunel 2022 climate stocktake workshop.**

3 FINANCIAL IMPLICATIONS

3.1 The budget for the strategic review includes a provision for climate analysis. The costs arising from any changes to the asset allocation as a result of such analysis is not provided for in the current year budget.

4 OUTCOMES OF 2021 ANALYSIS FOR CLIMATE TRANSITION (ACT)

4.1 To monitor progress against our climate commitments the Fund commissioned Mercer to undertake Analytics for Climate Transition (ACT) analysis on the Fund's listed equity portfolio last year as part of the equity allocation review. The outcomes of that analysis helped advance the Fund's existing climate objectives by adding two interim targets, namely, a 43% absolute emissions reduction by 2025 and a 69% absolute emissions reduction by 2030 relative to a 2020 baseline, for its listed equity portfolio.

4.2 In order to monitor progress and, over time expand the scope of what is covered under our climate objectives, the Fund agreed to undertake ACT analysis on an annual basis. The analysis presented at Exempt Appendix 1 (TO FOLLOW) includes details of how the Fund has decarbonised since it first undertook the analysis, how the transition alignment of the portfolios has evolved and a progress check against the Fund's overarching 2050 net zero flightpath.

4.3 The ACT analysis will also be used as part of the 2022/23 investment strategy review to explore setting more granular targets across climate solutions and stewardship, which will include identifying the most strategically important companies from a climate perspective. Furthermore, key outcomes and insights will be fed into the Brunel climate stocktake process.

4.4 Future iterations of ACT will seek to expand the net zero approach beyond listed assets to real estate and infrastructure (data permitting) and will also serve to enhance the Fund's climate-related disclosures, noting that further work is still required on data consistency, and the adoption by industry of common definitions of net zero 'aligned' or 'aligning' companies and 'climate solutions'.

4.5 **The outcomes of the 2021 analysis are as follows:**

4.6 **Decarbonisation progress versus the 2020 baseline:** The equity portfolio has decarbonised across all three metrics measured as part of the analysis. On an absolute emissions basis the equity portfolio has decarbonised by c.6.3% despite having increased the strategic allocation to equities in the period covered by the analysis (from 37.5% to 41.5%). Progress versus the 2020 baseline was also

observed across metrics that are normalised to account for the increased allocation to equities. On a carbon footprint basis the equity portfolio saw a 24.7% reduction in intensity, while Weighted Average Carbon Intensity (WACI) saw an 11.4% decrease.

4.7 **Transition alignment of portfolio:** The analysis also measures how aligned the portfolios are to the low carbon transition by taking a number of backward- and forward-looking inputs to arrive at a ranking, where 'grey' assets represent those least prepared for the transition and, for instance, exhibit a high carbon intensity and low green revenues, to 'green' assets which are typically climate solutions oriented and have a high transition capacity. 20.5% of the Fund's listed equities are invested in so-called 'green' assets; a significant increase from 5.7% in the baseline year.

4.8 **Decarbonisation pathway to 2050:** Since the initial analysis was undertaken, the Fund's listed equity portfolio has decarbonised faster than the decarbonisation flightpath used to determine emissions reductions required to meet net zero by 2050.

5 SCOPE FOR DEVELOPMENT AS PART OF 2022/23 STRATEGIC REVIEW

5.1 The results of the analysis will be considered as part of the strategic investment review later in 2022/23 and to inform the 2022 Brunel Climate Stocktake. Specifically, it will assist in reviewing our current climate targets, whether they could be changed, or new ones introduced. For example;

(I) Further decarbonising the portfolios. For instance, the current results show that a high proportion of 'grey' assets are held in the passive BlackRock mandate, which is used for collateral purposes as part of the Fund's Risk Management Framework (RMF). Officers are working with BlackRock, Brunel and Mercer to identify efficient ways of replacing the legacy equity index with a solution that would allow the Fund to gain exposure to a Paris-aligned index compliant with the regulatory requirements of the RMF.

(II) Identifying assets with the highest transition capacity and consider adopting a Climate Solutions Target that sits within the existing commitment to invest at least 30%of total assets in sustainable and net-zero transition aligned investments by 2025.

(III) Developing further our Stewardship and Engagement approach by working with Mercer and Brunel to ensure engagement is focussed on the companies that are most material to the Fund's decarbonisation objectives and to work toward the IIGCC recommendation which states that 70% of financed emissions in material sectors such as energy and utilities should either be aligned to net zero or part of an active engagement programme.

6 UPDATE ON 2022 CLIMATE STOCKTAKE

6.1 The 2022 Stocktake is now underway and the first of several client group workshops took place earlier this month. This first workshop covered:

(I) Scene setting in terms of

a. Wider landscape of Climate change
b. How the current Climate Policy has been implemented
c. A summary of the stakeholder perspectives
d. How the investment environment affects the policy

(II) Initial discussion of

a. The use of a benchmark to monitor/measure implementation of the policy (this would not replace portfolio benchmarks but be a secondary benchmark)
b. The engagement framework including evaluation for escalation where engagement is not delivering as expected

6.2 In addition Brunel is asking clients for feedback on specific aspects of the climate Policy to feed into the next stage. Once we have these, we will circulate for discussion at the Panel meeting so we can provide feedback from the Fund.

6.3 Meanwhile Brunel's analysis and proposals for policy development is ongoing with the intention to review the full analysis and proposed policy changes towards the end of 2023. Some of the aspects being analysed and developed are:

a) Analysis of green revenues/climate solutions within portfolios – this will help us understand our exposure, monitor against some of our targets and also help explain our impact.
b) The ambition to have 70% of material emissions being aligned to net zero or have engagement in place across the equity portfolios.
c) What climate stress testing modelling can be done so we are able to demonstrate we have scenario tested our portfolio (disclosure requirement).

7 RISK MANAGEMENT

7.1 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.

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. 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 EQUALITIES

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

10 OTHER OPTIONS CONSIDERED

10.1 None.

11 CONSULTATION

11.1 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	Mercer papers
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

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Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA- 853795

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 27th May 2022

Author: Nathan Rollinson
Report Title: Analytics for Climate Transition (ACT) Analysis **List of attachments to this report:** **Exempt Appendix 1 –** Mercer Paper: Analytics for Climate Transition (ACT) Analysis

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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The Paris Aligned Investment Initiative Net Zero Asset Owner Commitment

Commitment

As asset owners with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement and strongly urge governments to implement the actions that are needed to achieve the goals of the accord, with utmost urgency.

Recognising the need to address the risks that investors and their beneficiaries face from climate change, investors are taking action, but we acknowledge that there is an urgent need to accelerate the transition towards global net zero greenhouse gas emissions and do our part in helping deliver the goals of the Paris Agreement.

In this context, my institution commits to the following consistent with our fiduciary obligations:

1. Transitioning our investments to achieve net zero portfolio GHG emissions by 2050, or sooner
2. Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework
3. Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the Intergovernmental Panel on Climate Change special report on global warming of 1.5°C
4. Where offsets are necessary where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.
5. Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner
6. Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner
7. Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

8. Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.
9. Disclosing objectives and targets, and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.
10. Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Our institution's commitment recognises that investors across the globe have different opportunities, constraints and starting points for achieving net zero emissions and there are a range of methodologies and approaches available to investors to set targets and implement strategies. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. We will, therefore, work to address these challenges, including through the Paris Aligned Investment Initiative.

Our commitment is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations.

Any institutional asset owner may sign the Net Zero Asset Owner Commitment and use the Net Zero Investment Framework. To be recognised and showcased as making a net zero commitment under the Paris Aligned Investment Initiative an asset owner must complete and submit a signatory form to one of the four regional investor networks (AIGCC, Ceres, IGCC, IIGCC) indicating their CEO has approved signing on.

Asset owners that are members of AIGCC, Ceres, IGCC, IIGCC will have access to activities to support implementation of the commitment provided by the networks.

A separate Q&A document is available upon request and will be updated as relevant to provide further explanation and clarification of the commitment.

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**27 MAY 2022**
TITLE:	**Risk Management Framework Review for Periods Ending 31 March 2022**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 31 March 2022** **Exempt Appendix 2 – Mercer Paper: Collateral Management Plan**	

1. THE ISSUE

1.1. The Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's risk management framework thereby ensuring that strategic objectives continue to be met. This report informs Panel of issues considered and decisions made by FRMG as well as any recommendations.

1.2. Since the last Panel meeting there has been two meetings of the FRMG; most recently on the 6 May 2022 where the group considered the current collateral position, risks that would result in depletion of collateral and what steps should be taken to guard against this scenario. At its meeting in March, FRMG agreed to consider the impact of different higher risk investment strategies on the actuarial valuation outcome in the context of risk and contributions, as well as giving further thought to future inflation as part of the valuation. Panel will be notified of any strategic issues or concerns arising from this discussion in due course.

1.3. Exempt Appendix 1 summarises the risk management strategies at 31 March 2022. No LDI triggers were breached during the period. The Equity Protection Strategy (EPS) is currently 'amber' (under review) as it has underperformed unhedged equities, creating a drag on performance. At the end of the period the Fund had sufficient collateral to support the risk management strategies.

1.4. Mercer will present the paper "Collateral Management Plan" (Exempt Appendix 2) at the meeting.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to:

2.1. **Note the current funding level and LDI hedging position**

2.2. **Note the impact and performance of the equity protection strategy**

2.3. **Note the current collateral adequacy position**

2.4. **Approves the proposed collateral plan as set out in Exempt Appendix 2 and further delegates the implementation of the plan to FRMG**

3. FINANCIAL IMPLICATIONS

2.5. The risk management strategies have been implemented to provide greater certainty that the funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

4. UPDATE ON RISK MANAGEMENT STRATEGIES AND FUNDING LEVEL

4.1. FRMG reviews the performance of each strategy each quarter ahead of the Panel meeting. FRMG will continue to monitor the risk of persistent high inflation on the Fund's asset portfolio, along with the potential impact on the funding position and expected returns in the run up to the 2022 valuation.

4.2. The **funding level** was estimated to be 100% (net of the impact from the equity protection strategy) at the end of March 2022. This shows that the Fund's position was ahead of the expected funding level by c.5%.

4.3. **The Liability Driven Investment (LDI)** strategy seeks to hedge the impact of inflation and interest rates on the value of the Fund's liabilities. The liability hedging component of the risk management framework delivered a return of 3.7% over the quarter due to changes in inflation expectations. No interest rate or inflation triggers were breached over the quarter and based on the current liability benchmark the hedge ratios are estimated to be 10.2% and 39.0%, respectively. The mandate has performed as expected and the manager is in compliance with investment guidelines.

4.4. **The Equity Protection Strategy (EPS)** protects the fund's equity assets from a material fall in value whilst allowing the Fund to participate in equity gains sufficient to support the actuarial valuation assumptions. The underlying equities returned -5.78% over the quarter and the EPS detracted -0.04% to produce a net return of -5.82%. Periodic returns are included on pages 8-9 of Exempt Appendix 1.

4.5. **The Corporate Bond Buy-and-Maintain Strategy** seeks to reduce the funding risk in respect of the 'low risk' bucket of liabilities, which are valued on a corporate bond discount basis. There has been minimal change in the cashflow matching within the portfolio over the period and credit spreads have returned to pre-pandemic levels. No further action is required in respect of this portfolio at this stage.

4.6. **Collateral and Counterparty Position.** When interest rates rise, inflation falls or the EPS declines in value the investment manager is required to post collateral to maintain the strategies. An 'early warning' and 'top up' trigger allow the Fund time to source collateral from elsewhere in the portfolio. As a secondary line of defence, the investment manager has access to a pooled fund of listed equities that they can sell to generate cash collateral should the need arise. At 31 March 2022 the Fund's existing pool of collateral was within guidelines and could sustain a 2.5% rise in interest rates, a 0.4% fall in inflation or a 16% decline in the value of the EPS before triggering the 'early warning' test.

5. COLLATERAL MANAGEMENT PLAN

5.1. The paper at Exempt Appendix 2 seeks to formalise how the Fund would source additional collateral in order to maintain its risk management strategies and avoid the risk of counterparties closing out the hedging positions. FRMG has reviewed the proposal and recommend it to Panel.

5.2. The analysis makes no allowance for increasing the interest rate or inflation hedge ratios if triggers were met through rising interest rates or falling inflation, both of which would impact the collateral position.

5.3. The point at which the Fund would need to source additional collateral is unknown and therefore Panel are asked to delegate the implementation of the collateral plan to FRMG, who will report to Panel following any activity to source additional collateral.

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

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

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

Contact person	Nathan Rollinson, Investments Manager (Tel. 01225 395357)
Background papers	FRMG papers
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA- 849839

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 27th May 2022

Author: Nathan Rollinson
Report Title: Risk Management Framework Review for Periods Ending 31 March 2022 **List of attachments to this report:** **Exempt Appendix 1 –** Mercer Report: Risk Management Framework Review to 31 March 2022 **Exempt Appendix 2 –** Mercer Paper: Collateral Management 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 appendices 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 appendices contain 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.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**27 MAY 2022**	**AGENDA ITEM NUMBER**
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 2022/23. 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
9 Sept 2022	**Strategic** • Blackrock Equity Fund in QIF • Cashflow/Liquidity Review • TCFD Statement **Monitoring** • Investment performance • Risk Management Framework
25 Nov 2022	**Strategic** • Update on 2022 Stocktake project **Monitoring** • Investment performance • Risk Management Framework
Feb 2023 (TBC)	**Strategic** • Update on Brunel's revised Climate Policy **Monitoring** • Investment performance • Risk Management Framework

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8 OTHER OPTIONS CONSIDERED

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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	
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