Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee

Date: Friday, 17th December, 2021
Time: 9.30 am
Venue: Council Chamber - Guildhall, Bath

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

Co-opted Voting Member: Charles Gerrish (Academies)

** COVID alert: From the 6 May 2021 all formal Council meetings of whatever nature must take place physically. However, we are constrained by health & safety considerations and social distancing measures. This means that room capacities are significantly reduced, and the visiting public may be prevented from entering a meeting room if it is at capacity. **

With the above measures in mind this meeting of the Committee will involve a quorum of the membership on this occasion.

Mark Durnford
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
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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.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

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

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

Further details of the scheme can be found at:

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

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

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

Avon Pension Fund Committee - Friday, 17th December, 2021

at 9.30 am in the Council Chamber - Guildhall, Bath

<u>A G E N D A</u>

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 5.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to 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.

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: : 24TH SEPTEMBER 2021 (INFORMAL) & 4TH OCTOBER 2021 (PUBLIC & EXEMPT) (Pages 7 - 30)

8. PENSION BOARD DRAFT MINUTES: 30TH NOVEMBER 2021 (Pages 31 - 40)

   The Committee are asked to note the minutes of the Pension Board held on 30th November 2021.

9. INTERIM ACTUARIAL VALUATION 2021 (Pages 41 - 74)

Local Government Pension Scheme Regulations 2013 require the Fund to carry out an actuarial valuation every three years, the next is due as at 31 March 2022. The interim valuation provides an update to the current funding plan.

10. ANNUAL RESPONSIBLE INVESTMENT REPORT (Pages 75 - 136)

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

11. BRUNEL PENSION PARTNERSHIP - UPDATE (Pages 137 - 160)

This report updates the Committee about Brunel and the wider pool covering delivery of service, performance, governance and risk management aspects of the pool.

12. INVESTMENT PERFORMANCE & STRATEGY MONITORING (Pages 161 - 286)

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

13. UPDATE ON LEGISLATION (Pages 287 - 322)

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

14. PENSION FUND ADMINISTRATION (Pages 323 - 360)

The purpose of this report is to present the Fund's performance for the three months to 30th September 2021 against its key performance indicators (KPI's) in relation to the administration of pension benefits.

15. ANNUAL INTERNAL AUDIT REVIEW (Pages 361 - 414)

The purpose of this report is to provide an update on Internal Audit activity.

16. PENSION FUND ADMIN - EXPENDITURE & CASHFLOW (Pages 415 - 424)

The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the year to 31 October 2021.

17. WORKPLANS (Pages 425 - 434)

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

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 24th September, 2021

Bath and North East Somerset Councillors: Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Bruce Shearn, Chris Dando and Paul May

Co-opted Voting Members: Councillor John Cato (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), Charles Gerrish (Academies), William Liew (HFE Employers), Richard Orton (Trade Unions), Shirley Marsh-Hughes (Independent Member), Pauline Gordon (Independent Member) and John Finch (Independent Member)

Also in attendance: Tony Bartlett (Service Director for Financial Control and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Geoff Cleak (Pensions Manager), Carolyn Morgan (Governance and Risk Advisor), Chris Crozier (Brunel) and Helen Price (Brunel)

Advisor: Steve Turner (Mercer)

18 WELCOME & INTRODUCTIONS

The Chairman welcomed everyone to the meeting.

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Wendy Weston, Councillor John Goddard and Michael Rumph had all sent their apologies to the Committee.

20 DECLARATIONS OF INTEREST

There were none.

21 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

The Chairman advised the Committee that agenda item 8 would now be a presentation from Brunel. He explained that the Pension Board had only met on Tuesday this week (21st September) and that their minutes have not yet been completed.

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

Alasdair Yule, B&NES UNISON Branch Green Officer, addressed the Committee on behalf of B&NES UNISON Branch, Bristol UNISON Branch, North Somerset UNISON Branch, South Gloucestershire UNISON Branch, Bath Spa University UNISON, Bath University UNISON Branch and the University of the West of England

UNISON Branch. A copy of his statement is attached as an online appendix to these minutes, a summary is set out below.

The UNISON branches want the Committee to know that we recognise and acknowledge that Avon Pension Fund and Brunel are striving to be at the forefront of the actions to tackle climate change within the pensions/ finance sector, as demonstrated by the thorough responses you have provided.

We have been made aware that Brunel Pensions Partnership is carrying out a consultation this Autumn for the 2022 Paris Stocktake. We would like to make the Committee aware that the West of England UNISON Branches will be expecting to participate as stakeholders in this consultation.

The Chairman thanked him for his statement on behalf of the Committee.

23 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

24 MINUTES: 28TH JUNE 2021

The members of the Committee were minded to advise that the minutes be approved as a correct record.

25 BRUNEL PRESENTATION

Helen Price, Brunel Pension Partnership addressed the Committee and gave a presentation on Responsible Investment. A copy of the presentation is attached as an online appendix to these minutes, a summary is set out below.

She said that she felt that the Partnership had come a long way in the past four years and had now been identified as a leader in the work of addressing Climate Change by winning Pension Fund of the Year for 2020 in the Environmental Finance – Sustainable Investment Awards.

<u>Brunel's approach to Responsible Investment</u>

To deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

This would be achieved through the three pillars of Responsible Investment.

- Integration
- Collaboration
- Transparency

Climate beliefs

We believe that:

- Climate change presents a **systemic and material risk** to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our Clients, their beneficiaries and **all portfolios holdings.**

- Investing to support the **Paris goals that deliver a below 2C°** temperature increase is entirely consistent with **securing long-term financial returns** and is aligned with the best long-term interests of our clients.

- For society to achieve a net-zero carbon future by 2050 (or before) requires **systemic change in the investment industry,** and **equipping and empowering our Clients** (and other investors) is central to this change.

Brunel's Climate Change Policy

Integrating climate risk and opportunities in all we do
- Engaging on public policy – making markets work
- Portfolio design – Investing where it matters
- Manager selection & monitoring – Designing climate transition solutions
- Engaging with companies – Convincing others to change
- Positive investment – Delivering and evidencing progress

Net Zero
- Net Zero for financed emissions (investments) by 2050, or before.
- Net Zero on operational emission by 2030, or before

Engagement by Brunel – Banks

- Brunel co-filed a shareholder resolution at Barclays in December 2019. The first ever shareholder climate resolution at a major European bank

- In 2020 Brunel co-filed a climate resolution at HSBC, Europe's second largest financier of fossil fuels

- Joined IIGCC Banking Sector Workstream - Aligning the Banking Sector with the Goals of the Paris Agreement

Climate Stocktake

The purpose of the climate stocktake is to review Brunel's approach to managing climate risk. It will seek to address the following questions:

- Did we deliver on our overall Climate Policy objectives –Was it effective? Was it efficient?

- Does it meet clients and beneficiaries' expectations and needs?

- Is it best practice? What do third party assessments e.g. EY and Principles for Responsible Investment tell us about any current or future gaps? Where are there opportunities for further leadership?

- How does our current approach stack up in light of new research and evidence? Are there outcomes of the Net Zero Investment Framework, International Panel on Climate Change or International Energy Agency (IEA) Net Zero Road map that need to be reflected in our approach going forward?

- Is the way our various asset managers are addressing climate risk, in the context of their mandates, consistent with our policy? Do we have any concerns?

- Are there any specific holdings that are cause for concern? Companies that not responding to engagement?

November 2021: COP26

November 2021: Stocktake process starts

December –September 2022
•Public policy achievements review
•Stakeholder engagement

May/ October 2022: Client workshops

November 2022: Stocktake complete

January 2023: Updated climate change policy

Cyber Security

- Alphabet - has published a set of principles to promote the responsible use of AI

- Netease – published its ESG report in June 2020 and included data privacy and protection, and GDPR compliance

- Baidu – put in place robust corporate structure and measures to protect the privacy of users' data

Diversity

Diversity Charter - This is a commitment by signatory firms to work together to build an investment industry which represents a more balanced and fair representation of diverse societies.

- Who has the responsibility and oversight for the diversity strategy and targets? If there are no targets, explain why?

- How do you ensure you operate an equal opportunity development and promotion process?

- How are you fostering inclusivity? Do you undertake staff surveys, ensure policies are accessible?

Shirley Marsh-Hughes commented that some companies within the Emerging Markets may find the issue of climate change difficult to address.

Helen Price replied that across all portfolios they would look to use their Transition Pathway Initiative Manager ratings to identify companies that we need to engage with. She added that they need to be mindful of local policies whilst seeking further disclosure / progress.

Councillor Steve Pearce asked if there was any opportunity to produce impact investment vehicles for addressing climate change issues.

Chris Crozier, Brunel replied that finding a consistent definition of impact was being looked at. He added that they do have some Private Market Portfolios that are impactful in terms of housing and renewable energy vehicles that do offer opportunities. He said that they would be willing to discuss the issue further with local officers.

Councillor Pearce asked if the Committee could receive a report on this issue at some point in the future.

The Group Manager for Funding, Investment & Risk commented that within the Fund there was likely to be a myriad of different opportunities and said that it does have impactful investments.

The Chairman thanked Brunel for the presentation on behalf of the Committee.

26 EQUITY PORTFOLIO REVIEW

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

27 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

The Investments Manager introduced this report to the Committee. He informed them that the report was for noting as there were no recommendations to change the Risk Management Strategies.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Avon Pension Fund Committee is asked to note the following:

(i) The Risk Management Strategies are all achieving their strategic objectives.

(ii) There are no strategic changes required to any of the strategies.

(iii) There is adequate collateral to support the strategies.

28 BRUNEL UPDATE

The Group Manager for Funding, Investment & Risk introduced this report. She explained the report was for noting and that the last transition of our liquid/listed assets, the Multi Asset Credit Portfolio, had now completed. She added that the transition costs were slightly higher, but that the process had been efficiently done.

She informed the Committee that Brunel would be holding two Investor Days that will take place on 27th September and 6th October respectively.

The Service Director for Financial Control and Pensions added that there are seven new Pension Chairs on the Brunel Oversight Board following the Local Elections in May. He said that the Chair of the Board is expecting to address issues, particularly climate change on an ongoing basis.

Shirley Marsh-Hughes commented that this was a milestone and offered her congratulations to Brunel and the Avon Executive Team.

The Chairman stated that he was intending to make a statement to Full Council on 18th November regarding climate change and investments and that he would circulate this to the Committee in advance.

Councillor Paul May said that he was pleased to see that the Fund was doing well, but asked if this could be shown in context with any comparative figures from other organisations.

The Service Director for Financial Control and Pensions replied that this was difficult to evidence.

Steve Turner, Mercer added that they have experience and anecdotal evidence through clients that they work with. He said that the Environment Agency were considered to be leaders in the market place, but Avon were not hugely behind in terms of the work done so far.

He added that Mercer have recently developed a new Internal Benchmarking Exercise tool to assess how far our clients have progressed on climate change. He said that in respect of this Avon were in the top 10% of their client base on this matter.

The Service Director for Financial Control and Pensions said that Unison have looked at the LGPS Funds and reported this in some way and showed that we are near the top along with the Environment Agency.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

That the Committee notes the information set out in the report and appendices.

29 INVESTMENT PANEL ACTIVITY

The Investments Manager introduced this report. He said that a lot of the content of the report was covered in other items on the agenda today.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes the draft minutes of the Investment Panel meeting on 17th September at Appendix 1 and Exempt Appendix 2.

30 INVESTMENT PERFORMANCE

The Investments Manager introduced this report. He said that it had been a strong quarter for Growth Assets as evidenced by the funding level and stable deployment of capital into Private Market Strategies.

He added that as of 30 June 2021 86% of the Fund’s £345m commitment to the Secured Income portfolio had been deployed.

Steve Turner, Mercer addressed the Committee and highlighted the following points from within Appendix 2 (Mercer Performance Report).

- The funding level is estimated to have improved from 97% to 101% over Q2 as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 9% over the year to 30 June 2021.

- Fund returns over the quarter were driven by the continued strength in growth assets.

- Central banks starting to talk more about an increase in Interest Rates. This has a potential major risk to financial markets and therefore a knock-on effect on other markets, including equities.

He said that the benefit of now having a Dynamic Equity Protection Strategy would be that the protection will evolve in line with the markets. He added protection would be in place from the first -10% move in equities and that permanent protection would be in place if markets fell from -10% to -30%.

William Liew asked for clarification in terms of the word 'permanent'. He also asked if the portfolio was well balanced in terms of inflation risks.

Steve Turner replied that the portfolio was well positioned with indirect inflation protection for the exposure to real assets. He said that there was also potential to rebalance inflation hedging within the risk management mandate.

He added that the permanence of the protection before was time specific and that it now would evolve in line with market conditions.

He said that the protection would now only come off if a decision were taken to remove the Equity Protection Strategy.

Pauline Gordon commented that in terms of Corporate Pensions there would be more of a journey plan and funds would de-risk if overfunded would take risk away from Growth Assets and place it within matching assets. She asked if this could be considered for the Fund as part of the Strategy Review next year.

Steve Turner replied that this has been on their mind for future work and could discuss with officers and members.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes the information set out in the report and appendices.

31 UPDATE ON LEGISLATION

The Pensions Manager introduced this report. He said that there had been no significant changes since the previous report. He added that developments on the exit payments cap was still awaited but expected during Q4 potentially. He said that the introduction of any new cap is likely to have administrative implications for the Fund depending on how it is structured.

Shirley Marsh-Hughes asked if external support had been considered to help with the work relating to McCloud and the Pensions Dashboard.

The Pensions Manager replied that he felt that external support was available to the Fund if required and that teams were in place for the work of both of those projects. He added that he would look into whether it would be possible to have a collaboration of officers from across the South West.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes the current position regarding the developments that could affect the administration of the fund.

32 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager introduced this report and highlighted the following areas from within it.

The Member Services team has seen an increase in new monthly tasks over the previous 18 months from circa 1,800 to 2,200 tasks per month with the current outstanding cases totalling 4,841 (an increase of 58% since March 2020). He said that the main volume of work is with member refunds, active member retirements and retirements from deferred status. He added that Member estimate requests have increased by 35% over the same period and general enquiries also remain high in volume and a number of these identified as duplicate chasers.

As previously agreed by the Pensions Committee a managed phased recruitment process across pensions admin has been in operation since July 2020. During this time twenty-two officers have either been recruited new to post or have moved internally within APF. This process has been manged remotely by senior officers with training and support provided by the new officer training program.

A number of vacant posts remain across the service. (i) As part of the ongoing phased recruitment there are 4.2 fte posts to backfill. (ii) Recruitment of the Technical & Compliance Advisor remains outstanding following the recent advertising campaign. (iii) Recruitment of Transformation Manager and Project Manager – currently being reviewed by Mercer consultant.

Referring to Appendix 1 (Fund Performance against SLA – KPI's) he said that officers were aware that steps need to be made to address performance and workload.

He said that a project had been developed with service managers and staff to put in place two teams from October with specific focus on (i) Backlog clearance and (ii) Business as usual. He added that these teams would look to be in place for six months, with a review of progress to take place after three months.

He said that members of the Pension Board had raised concerns around the delivery of IT equipment to staff and when they would be able to return to the office.

Richard Orton asked if working from home was hampering efficiency why have staff not returned to the office sooner.

The Pensions Manager replied that there was currently limited access to the offices within Keynsham Civic Centre and that officers have to abide by the current rules that have been put in place by B&NES.

Councillor Shaun-Stephenson McGall asked if the figures stated in relation to Member Self Service (MSS) were good in comparison to other Funds and how were we looking to increase its use.

The Pensions Manager replied that he believed these figures to be around par, possibly slightly above other Funds. He said that and additional resource had now been recruited to assist the Communications & Marketing Manager to maximise member sign up to MSS. He added that they will triage incoming member enquiries/requests to identify and signpost members to use MSS which will assist the reduction to the workload on the Member Services team.

He said that a good target over the next 18 months would be to increase usage from 35% to 60%.

William Liew suggested that the Fund uses employers where possible in helping to spread the messages regarding online use and to consider holding seminars online for members on this matter.

Councillor John Cato asked if any usability evaluations of MSS had been carried out.

The Pensions Manager replied that there hadn't and said that they could consider approaching members via a survey to see if the system requires any development.

The Service Director for Financial Control and Pensions commented that digital developments do need to be progressed and that it was acknowledged that we need to encourage the use of MSS and expand its possibilities.

He added that Keynsham Civic Centre was undergoing refurbishment following the pandemic and that the Pensions Teams were looking to have as much space as possible within the building when that work has been completed.

Councillor Paul May asked if the Chairman could make representation on behalf of the staff regarding their return to the Keynsham Civic Centre.

The Chairman replied that he would along with discussing whether their access to the new Council laptops could be accelerated within the rollout programme.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes:

(i) The Fund performance for the three months to 30th June 2021.
(ii) The current Risk Register.

33 BUDGET & CASH FLOW MONITORING

The Group Manager for Funding, Investment & Risk introduced this report. She said that the Pension Fund's Statement of Accounts will be approved by the Corporate Audit Committee at their December meeting.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes:

(i) The administration and management expenditure incurred for the year to 31 March 2022.
(ii) The Cash Flow report for the year to 31 March 2022.
(iii) The Going Concern Statement for the Pension Fund as currently drafted.

34 WORKPLANS

The Governance & Risk Advisor introduced this report. She said that attached to the report was the work plan for the Committee and a separate one for the Investment Panel which sets out provisional agendas for forthcoming meetings.
She added that a provisional training programme for 2021/22 was also included.

The members of the Committee were minded to advise that the following resolution should be made on Monday 4th October.

The Committee notes the Committee & Investment Panel work plans and training programme for the relevant period.

The meeting ended at 3.57 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 AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Monday, 4th October, 2021

Present:- Councillors Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Bruce Shearn, Chris Dando and Paul May

Also in attendance: Tony Bartlett (Service Director - Financial Control and Pensions), Nathan Rollinson (Investments Manager), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

35 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

36 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

The Democratic Services Officer announced that this meeting was being held with only a quorum of the Committee due to ongoing social distancing measures resulting from Covid-19.

He said that an informal virtual meeting of the Committee had been held on Friday 24th September for all members where they had agreed provisional recommendations.

37 DECLARATIONS OF INTEREST

There were none.

38 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

40 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

41 MINUTES: 28TH JUNE 2021

The minutes were approved as a correct record.

42 PENSION BOARD MINUTES: 21ST SEPTEMBER 2021

The Committee noted the draft minutes of the Pension Board from their meeting that took place on September 21st 2021.

43 EQUITY PORTFOLIO REVIEW

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

44 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

The Committee **RESOLVED** to note the following:

(i) The Risk Management Strategies are all achieving their strategic objectives.

(ii) There are no strategic changes required to any of the strategies.

(iii) There is adequate collateral to support the strategies.

45 BRUNEL UPDATE

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

46 INVESTMENT PANEL ACTIVITY

The Committee **RESOLVED** to note the draft minutes of the Investment Panel meeting on 17th September at Appendix 1 and Exempt Appendix 2.

47 INVESTMENT PERFORMANCE

The Investments Manager introduced this report. He gave a brief summary of the discussion from the Informal Virtual Meeting held on 24th September.

- The funding level is estimated to have improved from 97% to 101% over Q2 as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 9% over the year to 30 June 2021.

- The benefit of now having a Dynamic Equity Protection Strategy would be that the protection will evolve in line with the markets. The protection would be in place from the first -10% move in equities and that permanent protection would be in place if markets fell from -10% to -30%

- The portfolio was well positioned with indirect inflation protection for the exposure to real assets and there was also potential to rebalance inflation hedging within the risk management mandate.

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

48 UPDATE ON LEGISLATION

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

49 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Service Director for Financial Control and Pensions informed the Committee that following a representation from the Chairman some staff within the service were now due to receive laptops sooner than expected through the rollout programme.

Councillor Shaun Stephenson-McGall asked if there was any update with regard to staff being able to return to work within Keynsham Civic Centre.

The Service Director for Financial Control and Pensions replied that a remodelling of the River Suite was also planned as part of the refurbishment and that a walkabout of the site was due to take place next week to assess the feasibility for staff within the service to use this space once work had been completed.

The Committee **RESOLVED** to note:

(i) The Fund performance for the three months to 30th June 2021.
(ii) The current Risk Register.

50 BUDGET & CASH FLOW MONITORING

The Committee **RESOLVED** to note:

(i) The administration and management expenditure incurred for the year to 31 March 2022.
(ii) The Cash Flow report for the year to 31 March 2022.
(iii) The Going Concern Statement for the Pension Fund as currently drafted.

51 WORKPLANS

The Committee **RESOLVED** to note the Committee & Investment Panel work plans and training programme for the relevant period.

The meeting ended at 9.40 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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BATH AND NORTH EAST SOMERSET

PENSION BOARD

Tuesday, 30th November, 2021

Present:- Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative) and David Yorath (Member Representative)

Observers: Stuart Anstead and Alison Wyatt

Also in attendance: Tony Bartlett (Service Director - Financial Control and Pensions), Jeff Wring (Service Director - One West), Geoff Cleak (Pensions Manager), Anna Capp (Member Services Manager), Claire Newbery (Employer Services Manager), Carolyn Morgan (Governance and Risk Advisor) and Jason Morel (Communications & Marketing Manager)

29 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting. He informed those present that Pete Sloman had now stood down as a Board member due to retiring from Weston College.

He explained that Stuart Anstead was to be his replacement and that he and Alison Wyatt were attending as observers ahead of becoming Board members on 1st December 2021 and 1st May 2022 respectively.

30 APOLOGIES FOR ABSENCE

Tony Whitlock and Mark King had both sent their apologies to the Board for this meeting.

31 DECLARATIONS OF INTEREST

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

33 ITEMS FROM THE PUBLIC

There were none.

34 ITEMS FROM MEMBERS

There were none.

35 MINUTES OF PREVIOUS MEETING - 21ST SEPTEMBER 2021

The Board approved the minutes of the previous meeting.

36 UPDATE ON LEGISLATION

The Pensions Manager introduced this report to the Board and highlighted the following areas from within it.

Public Sector Exit Payments Cap

He gave a brief summary of the process so far.

On 10th April 2019, HMT launched a consultation called ‘Restricting exit payments in the public sector: consultation on implementation of the regulations’. The key points in the consultation were as follows:-

On 4th November 2020 implementation of the £95k cap began.

On 12 February 2021, HMT published the Exit Payment Cap Directions 2021 disapplying parts of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect, meaning the exit cap no longer applies to exits that take place on or after 12 February 2021.

A new consultation in relation to the Public Sector Exit Payments Cap is expected to be released in early 2022. However, unlike the previous exit cap, there won’t be a single set of regulations from HMT that will apply and there will be different solutions across the Public Sector, including for the LGPS.

Statutory guidance in relation to “special severance” payments that apply to local authorities is expected soon following the consultation that ended in August.

McCloud Judgment

The Public Sector Pensions and Judicial Offices Bill got its second reading in the House of Lords in September and moved to the Committee Stage on 11 October 2021, followed by the Report Stage on 29 November.

Fund to continue work on collating/analysing data from employers in relation to implementing the remedy.

Outside of the LGPS, a framework set out by the FBU and LGA in relation to the McCloud Judgment in the Firefighter Schemes requires “Immediate Detriment” cases to be processed in the coming weeks.

Fund to consider resource implications of the need to process Immediate Detriment cases in the Firefighter Scheme.

General

At a recent Pension Manager’s Conference it was highlighted that there are around 15 items coming through for the LGPS to deliver.

He informed the Board that the Ministry for Housing, Communities and Local Government (MHCLG) will become the Department for Levelling Up, Housing and Communities (DLUHC).

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

37 PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT

The Pensions Manager introduced this report to the Board and highlighted the following points to them.

Workload

There has been an increase in new monthly tasks over the previous 18 months from circa 1,800 to 2,200 tasks per month with the current outstanding cases totalling 4,980 (an increase of 87% since March 2020). The main volume of work is with member refunds, active member retirements and retirements from deferred status. Member estimate requests have increased by 40% over the same period. General enquiries also remain high in volume and a number of these identified as duplicate chasers.

As outlined in the previous quarterly report a project has now been set up to manage the outstanding workload. The project will run for a period of 6 months from October to March with the aim being to clear down all ‘backlog’ cases. Some degree has been cleared already, around 40%.

Resource Recruitment & Training

Recruitment and retention remain a key factor impacting business operations. With a further 2 resignations in the past quarter the administration team is currently carrying 8.5 vacancies across both employer and member services teams in addition the Technical & Compliance post remains vacant and posts identified to support service transformation are still in development. The team is also carrying four maternity leave absences across the service at this time.

As such the agreed phased recruitment plan is behind schedule as staff movement continues to impact progress. Recruitment continues to backfill vacant posts, maternity cover and secondment to projects and overstaffing is being considered at Assistant Pensions Officer level to mitigate the impact of further staff movement.

Annual Summary of Fund Membership Data Quality

This report shows the movement in the Fund's data from when it was first reported on in 2017 against this year’s interim valuation data as at 31 March 2021. There has been continuous growth in the Fund over the last 12 months and a significant increase of 62 new employers since the last valuation in 2019.

The Liability Impact table shows the financial impact of missing or incorrect data and the direct cost to scheme employers. Since 2017, the Fund has managed to achieve a reduction in the overall pension liabilities for employers of over £30 million. The Employer Services team will be using the data from the 2021 report to target data areas that are causing a significant impact on liability and smaller employers with poor data.

Address Tracing

The members that have been previously written to but no response received have been sent a reminder letter in October 2021 and replies are starting to be received. The members that have not been found by the first 2 levels of tracing will shortly be sent to the tracing agency (via Mercer) for a third and final “premium batch” trace service.

After this 3rd level of tracing a process will be agreed in place to deal with untraced members and to review cases again at Normal Pension Age. Tracing pension members and keeping member addresses up to date is a key requirement of the TPR and data cleansing must continue to form part of our BAU processes.

McCloud

The initial project started in December 2020 and to date we have completed data collection for just under 50% of APF employers. The membership completed number is proportionately lower as we have seen returns in the main from smaller employers. Two larger Unitary Authority employers that require data remedy are yet to make a data return which covers just over 7,000 members. We are working with these UA’s to ensure they make data returns by 31/12/2021.

Service Plan

Digital Transformation – Not quite where we want to be and this is likely to have an impact on delivery timetable. A number of other key projects are in progress.

Accommodation

Positive meetings held over the past month with regards to alternative long term office space. Redevelopment of Keynsham Civic Centre has commenced with access only to one single floor currently. Short term allocation of six work-stations, with potential to use between an additional 2-10 daily through agreement with other service areas.

Information Technology

Expecting to be part of the next phase laptop rollouts.

i-Connect

Since Year End progress has been made to push all small employers to use Online Returns within IC. We now have 100 employers using online returns. We have identified 19 groups of employers including payroll providers to onboard, 4 of which would cover the majority of our active membership. These 4 groups (payroll providers) are now the focus of the project for extract development and onboarding.

Alison Wyatt asked what main issues behind the delay were in receiving new IT equipment, was it funding, priority or supply.

The Service Director for Financial Control and Pensions replied that there had been supply issues initially, but these had now been resolved. He added that a phased rollout across the Council had been agreed and that they were expected to be within the third phase which would take place around February / March. He said that it had been possible to advance receipt in some cases for team members.

Helen Ball commented that she found the Mercer report informative and that she was pleased with the progress of the address tracing project. She also praised the work of the backlog project.

Stuart Anstead asked what consideration the team has given to automation technology such as digital post.

The Pensions Manager replied that a gap analysis was being undertaken to see what processes can be utilised. He said that during the pandemic some automation had taken place, but further work was needed to progress requirements.

The Chair asked how the team decides what to prioritise and how can the Board support the decisions that are made.

The Pensions Manager replied that they do look to prioritise their workload as much as possible and that there is regular contact between the managers and the service teams. He added that he felt there may be a consideration needed to outsource some work to consultants over the next 6 – 12 months.

The Chair asked if support was available for internal staff to progress their career.

The Pension Manager replied that there was and they have always tried to promote and retain staff as much as possible within the team.

The Service Director for Financial Control and Pensions said that it was probably going to be towards the middle of 2022 before a ‘new normal’ was in place. He said that certain pressures will probably remain on the team for some time as even pre-pandemic it took around two years to fully train a Pensions Officer.

He added that they do review the Service Plan on a regular basis and that capacity within the team was required to implement any new available technology.

Stuart Anstead asked if a long-term outsourcing relationship should be put in place to try to smooth out the current problems.

The Service Director for Financial Control and Pensions replied that they do have some framework arrangements in place but was aware that they also have their own delivery challenges.

Alison Wyatt commented that from viewing a recent advert she felt that team members were being asked to do quite a lot within their roles for the salary. She asked where were job adverts mainly advertised.

The Pensions Manager replied that they were advertised on the Council's website and they are also posted on the LGA website to advertise more widely.

Alison Wyatt asked if they had considered using an agency to advertise posts.

The Pensions Manager replied that they have done so in the past, although not on a regular basis.

The Chair commented that on behalf of the Board he would like to thank all the staff for the work they have done and continue to do.

The Board **RESOLVED** to note the Fund performance for the three months to 30th September 2021.

38 BRUNEL UPDATE (VERBAL ITEM)

The Service Director for Financial Control and Pensions addressed the Board.

He said that Brunel had recently launched their Paris aligned Fund that includes companies with active plans to decarbonise.

He stated that following COP 26 they were awaiting the intentions of the Government with interest and would be monitoring investments in renewables and green energy.

He said that they were implementing a new reporting system and that performance had been strong, achieving its objectives in benefits and cost savings.

The Board **RESOLVED** to note the update.

39 BREACHES REPORT

The Governance & Risk Advisor introduced the report to the Board. She explained that between November 2020 and October 2021 no incidents were reported to the Information Commissioner's Office (ICO) or The Pensions Regulator (TPR).

Stuart Anstead commented that the figure relating to 5 year refunds seemed quite high.

The Governance & Risk Advisor replied that this not just an issue within our Fund and it was a case of finding / gaining a response from the members in question. We are also expecting a change to legislation so that such cases are not treated as a breach in future.

Alison Wyatt asked if the refund could be generated when their leaver's form is completed.

The Governance & Risk Advisor replied that the member needs to provide their bank details as the money belongs to the Fund not the employer.

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

40 STATUTORY REPORTING AND YEAR END

The Pensions Manager introduced this report to the Board and highlighted the following areas from it.

In preparation the Fund must undertake an annual exercise to reconcile member data supplied by employers at each 31st March year end. There are 459 active employers of which 273 provide member data digitally to the Fund on a monthly basis covering 76% of active scheme membership. The remaining employers continue to provide data annually.

For the purpose of data accuracy, the digital monthly employer returns undergo a reconciliation process on a continuous basis. Where the employer annually submits a data return it invariably will require further scrutiny and employer engagement to reconcile. The Fund is aiming to digitalise all employer returns as part of its published Administration Strategy.

Public service schemes have a legal obligation to supply the Pensions Regulator (TPR) annually with certain information via a scheme return. The information required includes scheme details, employer details and governance details. All information is completed and submitted to TPR via the online service exchange.

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

41 APF COMMUNICATIONS UPDATE (PRESENTATION)

The Communications & Marketing Manager addressed the Board and gave a presentation, a copy of which will be available as an online appendix to these minutes and a summary is set out below.

<u>Climate Emergency ESG communications</u>

- Member newsletters distributed in Spring / Summer 2020 and Spring / Summer 2021
- Climate change targets / equity review press release

<u>Climate Emergency animation</u>

- Climate Emergency animation - accessible explanation of our actions and future strategy for responsible investment
- Over 500 views so far - distributed via LinkedIn, email, website and staff newsletters

<u>ESG eZine - Climate Emergency</u>

- Includes: Our Climate Action, About COP26 and a Case Study

- Distributed via LinkedIn, email and website

Members' ESG survey

- 41,365emails delivered - 3,668completed surveys (8.8%)

APF LinkedIn account

- APF LinkedIn account launched November - Communication channel to reach scheme employers

APF 2021 Annual Benefit Statements

- June 2021 - Deferred members ABS available online for the first time
- 810 members accessed their ABS digitally
- As part of the digital transformation process this facility will be extended to Active MSS members in August 2022

The Chair thanked the Communications & Marketing Manager for his presentation on behalf of the Board.

42 RISK MANAGEMENT UPDATE - RISK REGISTER

The Governance & Risk Advisor introduced this report to the Board. She informed them that following the quarterly review of the risk register the following changes were made:

(i) R66 - Pensions Dashboard

A new risk was added to the register to represent the risk to the Fund of not being ready for the implementation of the Pensions Dashboard. The Fund will be in breach of the regulations if it is not able to go live by the compulsion date, likely to be between Sept 2023 & March 2024. The risk of not being ready is currently a relatively low risk as preparations have started. A Project lead officer has been appointed & a project plan is in place. The focus of the project will be data quality, reducing backlogs and ensuring resources & processes are in place to deal with the expected increase in member queries following the implementation date. A data protection impact assessment will also be carried out.

(ii) R63 – McCloud/Sargeant Judgements

The impact of the McCloud risk has been increased to (5) almost critical, to represent the significant additional workload to the administration team caused by the fire immediate detriment decision.

(iii) R28 – Recruitment of Staff

Although phase 3 of the recruitment project is complete, the risk has been retained at its current high level due to the continuing difficulties of recruiting staff. The Technical & Compliance Advisor role has not been filled, two other resignations have been received and there are still a few posts to backfill due to internal promotions.

(iv) R08 – Internal Controls

There was no change to the risk score but following the completion of the last year's internal audit work, reports on IConnect, Scheme of delegation, Altair IT System, Risk Management & COP14, all received an assurance level of 4 'Good'. A full report was reported to the Pension Board in September 2021 and will be reported to the Pensions Committee in December 2021.

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

43 PENSION BOARD - TRAINING AND WORK PLAN UPDATE

The Governance & Risk Advisor introduced this report to the Board and highlighted the following points to them.

Modern Gov & Library

- The proposal is to ask all Pension Board members to access meeting papers via Modern Gov from January 2022 onwards.
- It is intended that some of the more routine monitoring reports will be available on the Modern Gov library and will not form part of the meeting reports pack.

Hyman's LGPS Online Learning Academy (LOLA)

- The SAB's Good Governance Review is expected to include additional knowledge and skills requirements for Committee, Pension Board and Officers. Hymans Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).
- The training has been designed so that it can be done in bite sized chunks, including supplementary information, such as definitions of common jargon, links to additional learning material and a short quiz at the end of each module.
- The Fund has arranged for Hymans to do a short demonstration of LOLA on 17th December 2021 at 2pm.

The Chair asked if Board papers would remain accessible to the public.

The Governance & Risk Advisor replied that they would, however the reports on the library would be private. If something from the library needed to be discussed at the meeting it would be included in the meeting report.

The Service Director for Financial Control and Pensions commented that these proposals would be monitored on an ongoing basis.

The Board **RESOLVED** to:

(i) Note the workplan & training plan for 2021/22
(ii) Note the changes to accessing future meeting reports
(iii) Agree the proposal to complete modules from the Online Training Academy

The meeting ended at 11.58 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**10 DECEMBER 2021**
TITLE:	**INTERIM ACTUARIAL VALUATION 2021**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – **2021 Funding review report**	

1. THE ISSUE

1.1 Local Government Pension Scheme Regulations 2013 require the Fund to carry out an actuarial valuation every three years, the next is due as at 31 March 2022. Between these mandatory valuations, the Fund periodically requests interim valuations to assess whether the funding strategy is on track and to begin the discussions with the actuary, committee and employers about the 2022 valuation.

1.2 The Fund commissioned an interim valuation as at March 2021 (but also considered the results as at 31 August 2021) which provides the current context for the 2022 valuation.

1.3 The interim valuation provides an update to the current funding plan. Current employer contribution rates and deficit payments are not revised as a result of this update; however, it provides an indication of rates at 2022. **It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time.**

1.4 The Actuary presented the interim valuation report at a Committee workshop on 01 December 2021. The report used at the workshop is in Appendix 1.

2. RECOMMENDATION

That the Avon Pension Fund Committee notes:

2.1 The outcome of the 2021 interim valuation and 2022 valuation timetable.

3. FINANCIAL IMPLICATIONS

3.1 The actuarial valuation sets the contribution rates and deficits payments required from scheme employers for the three years following the valuation. The Interim valuation provides some insight into how the funding position has progressed against the funding strategy set out at the 2019 valuation and an indication of the potential changes in contributions required at the 2022 valuation which will set the employer contributions from 1 April 2023.

3.2 The cost of the valuation is included in the budget for 2021/22.

4. THE REPORT

4.1 The Interim Valuation Report from the Actuary is in Appendix 1. The key points are as follows:

a) The funding level has improved since 2019 indicating a reduction in deficit contributions at the total Fund level

b) However the asset outperformance assumption used in the discount rates has fallen due to the lower expected returns from the investment portfolio; this negatively impacts the future service rate in particular

c) Inflation as measured by CPI has risen, increasing liabilities

d) The 2019 valuation assumption for short term pay of 2% maybe too low given current wage pressure in some sectors; employers will need to consider carefully what level is included in their valuation

e) There is as yet no change to the longevity assumption to reflect impact of COVID as too early to understand longer term health implications; a full demographic analysis will be undertaken as part of the 2022 valuation

4.2 The interim valuation updates the 2019 valuation using updated membership data as at 31 March 2021, actual cash flow data since 2019, updated financial assumptions to reflect changes in market values, updated the 2019 longevity assumptions to broadly incorporate recent national trends and used the same other demographic/actuarial assumptions used in 2019. A short term pay assumption of 2% (for the 3 years of the 2022 valuation period, 2023-26) has also been used for this interim exercise. The actuary initially estimated the position at March 2021 and then updated with financial market levels at 31 August 2021 for the Committee workshop.

4.3 The key assumption which drives the value of the pension Fund liabilities (the future benefit payments) is the discount rate. This is set by the Actuary to reflect the overall investment return which we expect to achieve on the Fund's assets over the long term with a suitable allowance for prudence. In terms of setting contributions, the relationship of the expected investment return compared to the rate of expected future increases in benefit payments i.e. CPI inflation, is critical (in other words we need to reflect the "real" investment return expected on the Fund assets).

4.4 Given the strong performance of asset prices since the 2019 valuation, the expected return on assets for our investment strategy has fallen when modelled by the actuary. In 2019, the best estimate for expected returns per annum (representing a 50% chance of achieving the return on our strategy) was CPI +2.7% i.e. a real investment return over inflation of 2.7% per annum. By 2021 this has fallen to CPI +2.2%. At 2019 the discount rate was CPI +1.75% for past service; indicative for 2022 is CPI +1.50 which in isolation increases the value of the past liabilities. The fall in the asset return expectations will have greater impact on the Future Service Rate (FSR) given its greater sensitivity to future investment returns. In 2019 the FSR discount rate was CPI +2.25% whereas indicative for 2021 is CPI +2.0% resulting in an increase in the FSR.

4.5 Inflation has risen since 2019 with market derived CPI increasing from 2.4% to 2.9% currently.

4.6 The interim valuation outcome shows the funding level has risen to c.101% on a consistent basis to 2019 valuation; it falls to 99% on the proposed 2022 basis. The improvement is driven primarily by excess investment returns causing the deficit to narrow to £65m (on the proposed basis), c. £219m ahead of the 2019 funding plan.

4.7 The objective of the Fund is to keep contributions as stable and affordable as possible. Therefore, the aim in 2022 will be to maintain the 2019 overall contribution levels and depending on the actual outcome, allow reductions in contributions where they are supported by the employer covenant assessment and deficit recovery periods.

4.8 A key discussion for the 2022 valuation will be the level of 'prudence margin' in the discount rate assumptions which enables the contribution rates to be smoothed over time. The Fund has two investment strategies purely to reduce investment risk within the portfolio (the Liability Driven Investing strategy and the Equity Protection strategy) with the objective to increase the certainty of achieving the target investment return. As a result the actuary can 'release' some of the prudence within the discount rate assumptions given the greater certainty of achieving the investment return. If these strategies had not been implemented, the discount rates used would be c. 0.25% lower than those currently proposed.

4.9 The actuary discussed the interim position in detail at the workshop on 01 December 2021. It has also been discussed with large employers (UAs and HFE employers) to provide a context for budget planning for contribution rates from 1 April 2023.

5. 2022 VALUATION TIMETABLE

5.1 The indicative timetable for the 2022 Valuation is as follows:

a) The actuary and officers will develop the funding strategy during 1Q22 and assess the impact of the market derived financial assumptions in 2Q22. At this stage the membership data as at 31 March 2022 will not have been processed.

b) A Committee workshop will be held in June 2022 prior to the June Committee meeting to review the Funding Strategy Statement (FSS) and initial valuation outcome, updated only for financial assumptions. The draft FSS which sets the parameters for the valuation including the actuarial assumptions and the deficit recovery policy will be agreed at the June Committee meeting. The draft FSS will then be circulated to employers for consultation (as required in the regulations).

c) The final Funding Strategy Statement will be agreed at the September 2022 Committee meeting following which the individual employer results will be calculated by the actuary and disseminated to employers.

d) 2022 valuation report to be presented at March 2023 committee meeting.

6. RISK MANAGEMENT

6.1. The funding strategy is key to ensuring pension liabilities can be met in the future and therefore the strategy must be regularly monitored so that the Fund and employers are aware as to whether the current funding level deviates from the long term funding plan and the scale of any shortfall / surplus. Such information can assist employers in planning their medium term budgets and assist the Fund officers in managing those employers that pose a greater financial risk to the Fund.

7. CLIMATE CHANGE

7.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change addresses this through its strategic asset allocation to Sustainable and Paris Aligned Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8. EQUALITIES

8.1. An Equalities Impact Assessment has not been completed as the report is for information only.

9. OTHER OPTIONS CONSIDERED

9.1. N/a, for noting only.

10. CONSULTATION

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

Contact person	Julia Grace, Funding and Valuation Manager, 01225 395392
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1537/21

Meeting / Decision: Avon Pension Fund Committee
Date: 10th December 2021

Author: Liz Woodyard
Report Title: INTERIM ACTUARIAL VALUATION 2021 Exempt Appendix Title: Exempt Appendix 1 – 2021 Funding review report (Workshop presentation)

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

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

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

PUBLIC INTEREST TEST

If the Committee 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.

Weighed against this is the fact that the exempt appendix contains strategic and financial information about the proposal, which 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 Committee 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 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 COMMITTEE**
MEETING DATE:	**10 DECEMBER 2021**
TITLE:	**ANNUAL RESPONSIBLE INVESTMENT REPORT**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft Responsible Investment Annual Report 2020/21 Appendix 2 – Draft Taskforce on Climate-related Financial Disclosures (TCFD) Report Appendix 3 – Mercer Responsible Investment Total Evaluation (RITE) Analysis	

1. THE ISSUE

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

1.2. Given that transparency and disclosure of the RI policy and activities is an important element of being a responsible investor, the Fund publishes an annual report demonstrating how the policy has been implemented during the year. This year the report covers periods to September 2021 as significant RI work was undertaken in 3Q21 including the equity allocation review which saw the Fund adopt two new interim decarbonisation targets as well as a number of strategic asset allocation changes.

1.3. Brunel are our strategic partner for developing, implementing and monitoring our RI polices and priorities. For the year ending December 2020 Brunel have published their second Responsible Investing and Stewardship Outcomes Report – elements of this report have been incorporated into the Fund's Annual RI report which contains links to the full Brunel document.

1.4. Appendix 2 is the Fund's first TCFD report. The Report will form an appendix to the RI Annual Report and is designed for public consumption.

1.5. The Responsible Investment and TCFD report for periods up to and including 3Q21 will be published on the Fund's website once it has been approved by the Committee.

1.6. Appendix 3 is a climate change strategy peer group comparison prepared by Mercer. Mercer will present the analysis at the meeting.

2. RECOMMENDATION

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

2.2. **Approves the Taskforce on Climate-related Financial Disclosures Report for publication.**

2.3. **Agrees the RI priorities for 2022/23.**

3. FINANCIAL IMPLICATIONS

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

4. RESPONSIBLE INVESTMENT REPORT

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

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

a) Successfully achieving one of the Fund's interim decarbonisation objectives (to be 30% more carbon efficient than the benchmark) two years ahead of plan.

b) Setting additional absolute emissions reductions targets.

c) Implementing a revised strategic equity allocation designed to help the Fund move toward its 2050 net zero goal by (1) removing the dedicated emerging market listed equity allocation and increasing the allocation to global developed and sustainable equities, and (2) switching the legacy low carbon passive equities into a new Paris-aligned benchmark.

d) The submission of the application to become a signatory to the 2020 FRC Stewardship Code.

e) To produce a report in line with the recommendations of the TCFD.

f) Continued collaborative work with strategic partners including LAPFF, ClimateAction100+ and IIGCC, which saw the Fund participate in high profile engagements, shareholder resolutions and policy advocacy work calling on domestic and international governments to increase their nationally defined contributions (NDCs) ahead of COP26.

4.3. The Fund participated in over 3,500 shareholder meetings and engaged with over 600 companies in its active equity portfolio on a range of ESG issues. In general terms, there was an increase in environmental-related proposals winning voter support, with companies increasingly setting carbon reduction targets. The so-called 'say-on-climate' resolution which calls for companies to disclose emissions on an annual basis and publish a plan to manage those emissions which shareholders can then vote on, gained traction. In the UK and US markets executive remuneration and board structure continued to be a focus for shareholder resolutions.

4.4. The Fund is 30% less carbon intensive on a Weighted Average Carbon Intensity (WACI) basis than its benchmark. The year-on-year improvement in carbon metrics is due to a combination of factors including decarbonisation of the underlying portfolios (driven by investment managers allocating capital to less carbon intensive sectors and/or companies) and the Fund's own strategic asset allocation; principally the replacement of the oil & gas heavy UK equity allocation (and reduction in global equities) with the allocation to the Brunel global sustainable equity portfolio - which as can be seen from the report - has a nil exposure to future emissions from reserves. Future analysis will highlight the impact of recent asset allocation changes and how the Fund is progressing towards its aim of reducing carbon intensity of the equity portfolio over time.

4.5. The RI report explains how Brunel and its third-party providers have delivered against policy. Among other things, the report includes engagement highlights, examples of policy advocacy work that Brunel has either led or participated in and voting data generated by Federated Hermes.

4.6. The Fund's RI priorities for 2021/22, contained in the final section of the report, have been updated to ensure consistency with Brunel's seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. In addition to these themes the Fund works with Brunel and the other partner funds to identify emerging themes such as sustainable land use, biodiversity and fast fashion that are fed into EOS at Federated Hermes' annual engagement plan. The Committee are asked to agree these priorities:

a) Climate change including pollution, waste and plastics
b) Human capital
c) Diversity and inclusion
d) Cyber security
e) Cost and tax transparency
f) UK policy frameworks
g) Supply chain management

5. DRAFT TCFD REPORT (Taskforce on Climate-related Financial Disclosures)

5.1. The TCFD was established in 2015 by the Financial Stability Board (FSB), a body set-up by the G20 to monitor and make recommendations about the global financial system. It was created following a review into how the financial sector can take account of climate-related issues and the need for better information to support informed investment.

5.2. In 2017 the TCFD issued initial recommendations for reporting to help stakeholders in financial markets understand their climate risks and opportunities. This covers the areas of Governance, Strategy, Risk and Metrics & Targets and Avon Pension Fund has now adopted this guidance and set out its own disclosures.

5.3. Although not yet compulsory for Local Government pension funds, the Fund is a strong supporter of these disclosures. This critical framework not only helps us to deliver on our own climate change objectives but is also a way of signalling to investee companies, managers, partners and pension fund members how important climate risk transparency is if the Fund is to achieve real world emission reductions.

5.4. This is the first time the Fund has reported against these standards and reporting has been completed to the fullest extent we are able. While data is not always available in the quantity or quality desired, through lack of scope 3 emission information or due to the difficulty of reporting against certain asset classes, this should become more readily available over time. It is hoped that the level of detail and number of areas covered can increase with each future reporting period as the industry makes positive steps forward and as more disclosures become mandatory.

5.5. This report covers work undertaken outside of the financial year including the outcomes of the most recent equity allocation review. The Report will form an appendix to the RI Annual Report and is designed for public consumption. The draft report to be approved is in Appendix 2.

6. RISK MANAGEMENT

6.1. Responsible investing issues can have a material impact on investment risk and return in the long term. The Fund's Responsible Investment Policy seeks to ensure the long-term RI risks to which the Fund is exposed are fully incorporated into strategic and operational (i.e. the investment manager's) decision making, and that the Fund carries out its duties as a responsible investor and shareholder.

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 and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

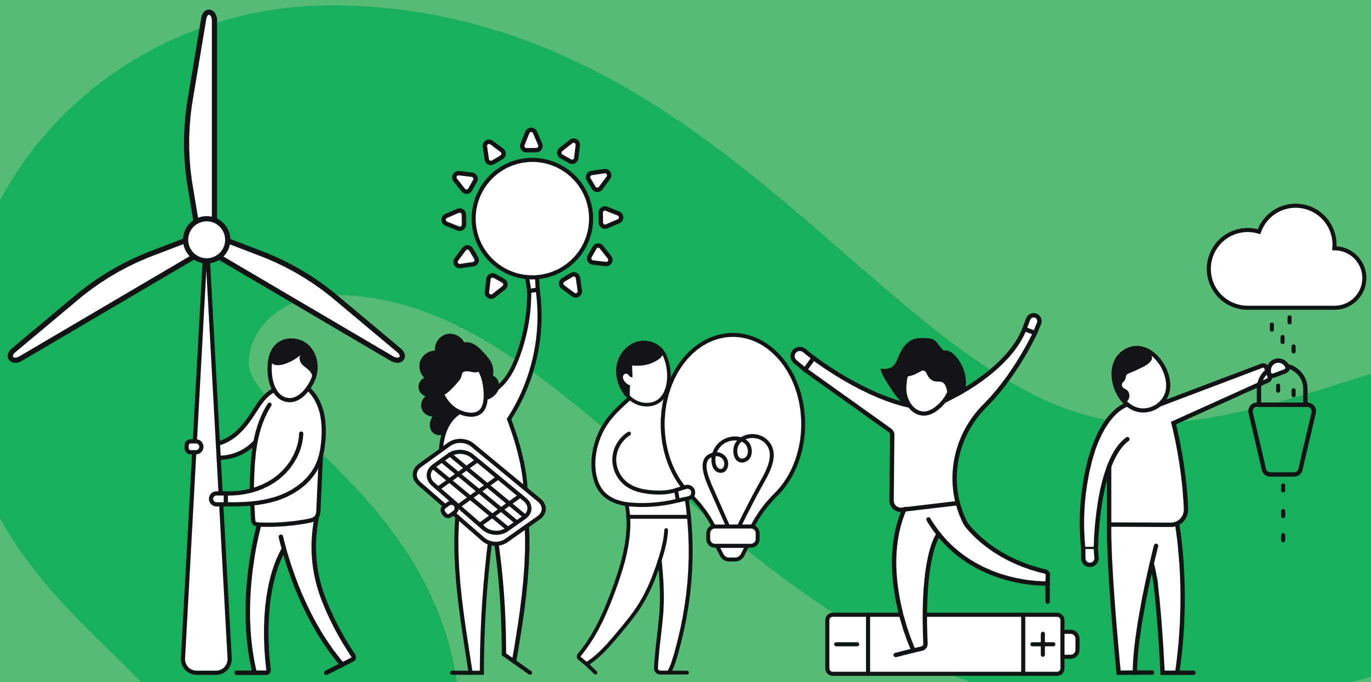
9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

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

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



Draft Responsible Investing Annual Report

Avon Pension Fund

2021/22

Bath & North East Somerset Council
for you, for now, for the future lgps 2014
AVON PENSION FUND

Executive Summary

With the conclusion of COP26 and some of the most significant changes to the Fund's strategy on climate change taking place in the final months of 2021 the content included in this year's Responsible Investing Annual Report extends beyond the twelve months to March 2021 and serves to update stakeholders on what steps are being taken by the Fund to deliver on our financial and environmental, social and governance (ESG) obligations.

Over the past 18 months we were pleased to see the changes to our investment strategy yield tangible results including a **22% year-on-year reduction in the carbon intensity** of our listed equities. The review of our equity portfolios undertaken in September allowed us to build on the progress made to date by introducing two **new interim decarbonisation targets** and increasing our allocation to **sustainable equities**.

Brunel continued to demonstrate leadership in the field of responsible investment and climate strategy by working with a major index provider to launch a Paris-aligned passive equity product, which the Fund allocated over **£0.5 billion** to on launch.

We continue to invest capital in **renewable energy** projects and have noted major steps being taken by some of the world's largest greenhouse gas emitters to position themselves for the low carbon transition as a direct result of intensive investor engagement.

Details of the steps the Fund is taking to address the climate emergency were presented as part of our first standalone **Taskforce on Climate-related Financial Disclosures Report** and in October we submitted our first report under the 2020 **FRC Stewardship Code**.

We have seen a significant increase in contact with our members on environmental, social and governance (ESG) issues and have welcomed the opportunity to share the progress we have made as part of a wider digital communications programme, which included our first dedicated **ESG member survey**.

Elsewhere, the Fund collaborated with other investors on a plastics pollution initiative and pledged its support for a new charter developed by the **Diversity Project** which, seeks to formalise a set of actions designed to improve diversity, in all forms, across the asset management industry. As part of our UK property portfolio, we committed £10m to an **affordable housing fund.**

The Fund took steps to integrate ESG into is risk management framework by switching cash collateral into an **ESG-focussed cash fund** and in the credit space benefitted from the strong ESG credentials of the Brunel **Multi Asset Credit** portfolio, which launched in July 2021.

Over the coming year the Fund will focus on its seven priority ESG themes and take the necessary action to accelerate progress towards our **net zero** goal as well as advocate for a supportive policy environment that will facilitate change ultimately for the benefit of our members.

Contents

Section 1 – Responsible Investment Policy and Strategic Developments

Responsible Investment Policy

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

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

- We are a long-term investor, with liabilities stretching out for decades to come, and seek to deliver long-term sustainable returns.
- The identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- We integrate ESG issues at all stages of the Fund's investment decision-making process, from setting investment strategy to monitoring our investment managers.
- We recognise that climate change is one of the ESG factors that poses a long-term financial risk.
- We seek to identify innovative and sustainable investment opportunities, in-line with our investment objectives.
- We apply evidence-based decision-making in the implementation of our approach to RI.
- We have a duty to exercise our stewardship and active ownership responsibilities (voting and engagement) effectively by using our influence as a long-term investor to encourage responsible investment behaviour.
- We recognise the importance of collaboration with other investors in order to achieve wider and more effective outcomes.
- We aim to be transparent and accountable by disclosing our RI policy and activity.

The RI Policy sets out our approach to RI and how the policy is implemented. The policy document is available to read in full here.

Climate Change

Climate Change has remained sharply in focus over the past year; both in terms of the risk presented to businesses by the transition away from fossil fuels and physical risks to operating models, for example, the operating viability of real assets such as infrastructure under extreme climate conditions.

We believe that investing to support the objectives underpinning the Paris Agreement that deliver a below 2°C temperature increase is entirely consistent with securing long-term financial returns and is in the best interests of our members.

Carbon Reduction Targets

To help our progress towards Net Zero and in recognition of the need to accelerate our trajectory towards this goal over the next 10 years, **the Fund has set new targets to reduce the absolute emissions in our equity portfolio by 43% by 2025 and 69% by 2030 compared to its 2020 levels.** As part of our commitment to the IIGCC framework, we will be setting further dedicated 'climate solutions' targets across different asset classes that build on the allocation decisions we have already made. These will sit alongside our existing climate targets set out below. **Our goal of becoming 30% less carbon intensive than our benchmark by 2022 has been met**, which means we have achieved one of our key interim climate goals two years ahead of plan.

• Implement a <2°C aligned portfolio by committing to net zero emissions by 2050 or earlier	***+ To reduce the absolute emissions within the equity portfolio by 43% by 2025 and 69% by 2030 compared to the 2020 baseline***
• Reduce the carbon intensity of the equity portfolio over time with the aim of being 30% less carbon intensive than the benchmark by 2022	• Invest sustainably to support a 'just transition'[1] to the low carbon economy with the aim of investing at least 30% of the total assets in sustainable and transitioned aligned investments by 2025

[1] A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement. The concept builds on well-established global frameworks in terms of climate change, human rights, labour standards and inclusive growth. It focuses attention on the need to anticipate and manage the social and economic implications of the shift to a low-carbon economy and the increasing physical impacts of climate change.

Strategic Changes within the Equity Portfolio

A key outcome of the last investment strategy review was a longer-term ambition to invest all equity assets in sustainable[1] and low carbon strategies.

The review concluded in September 2021 and included bottom-up climate scenario analysis of our equity portfolios which ranked individual companies based on their ability to transition to a low carbon economy. It was able to determine the Fund's current and projected weighted average carbon intensity (WACI) as well as its absolute emissions and implied temperature pathway.

The below points summarise the main outcomes of the equity review:

- Switching all the active equities into sustainable and low carbon portfolios would significantly reduce diversification within the portfolio (to managers, investment styles and underlying stocks) and increase unrewarded risk.
- Due to the high carbon and therefore financial risk in developing regions, **the Fund opted to remove its dedicated 5% allocation to emerging market equities and invest the proceeds in the global high alpha and sustainable equity portfolios.**
- **The Fund's 10% strategic allocation to passive low carbon equities was switched to a new passive equity index** that complies with the EU's official Paris Aligned Benchmark standards and better achieves the Fund's climate objectives. Further details of the systematic decarbonisation rules implemented by the new Paris-aligned index can be found under Section 2 of this report.

These strategic changes serve to increase Fund resilience to temperature changes while also helping push companies towards the Paris goals, thus steering the world away from more extreme climate outcomes. Periodic scenario analysis and other

[1] Sustainable equity portfolios seek to maximise exposure to companies that are responding positively to the challenges of climate change, environmental sustainability or social well-being, whilst maintaining financial returns

science-based metrics will continue to be utilised in future reporting periods and will shape ongoing investment policy decisions.

Taskforce on Climate-related Financial Disclosures

Transparent reporting and climate-specific disclosures are critical if we are to make real progress. **Over the year the Fund voluntarily committed to producing its first report in line with the guidance issued by the Taskforce on Climate-related Financial Disclosures (TCFD).** This critical framework not only helps us to deliver on our own climate change objectives but is also a way of signalling to investee companies, managers and partners how important climate risk transparency is if the Fund is to effectively decarbonise.

The Report, which can be found here [LINK] has been completed to the fullest extent possible. While data is not always available in the quantity or quality desired, through lack of consistent emission information or due to the difficulty of reporting against certain asset classes, this should become more readily available over time. It is hoped that the level of detail and number of areas covered can increase with each future reporting period as the industry makes positive steps forward and as more disclosures become mandatory.

2020 UK Stewardship Code

At the beginning of the year the Fund engaged the services of a third-party Stewardship provider to undertake gap analysis on our stewardship process and policies. The analysis mapped the Fund’s stewardship activities reporting to the 12 principles of the 2020 UK Stewardship Code and indicated areas where enhancement was required in order to meet compliance. **Our Statement was submitted in October with a response from the FRC on signatory status expected in 2022**.

Risk Management Strategies

Elsewhere, the Fund has sought to integrate RI into areas of the portfolio that do not lend themselves to well established forms of ESG measurement such as emissions disclosures, carbon footprinting and proxy voting. The Risk Management Framework utilises derivatives and operates a pool of cash collateral which is used to support the strategies as they rise and fall in value. During the year we began investing this cash in a ‘green’ liquidity fund. This fund invests in short-term debt securities that meet specific environmental criteria while maintaining a AAA credit rating (meaning there is a very low risk of default by the companies issuing the debt).

Looking forward, the Fund will explore further ways of integrating climate change into its risk management framework by, for instance, including a more environmentally aware benchmark and weighing the potential to build its exposure to green gilts in a cost-effective way as issuance increases.

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

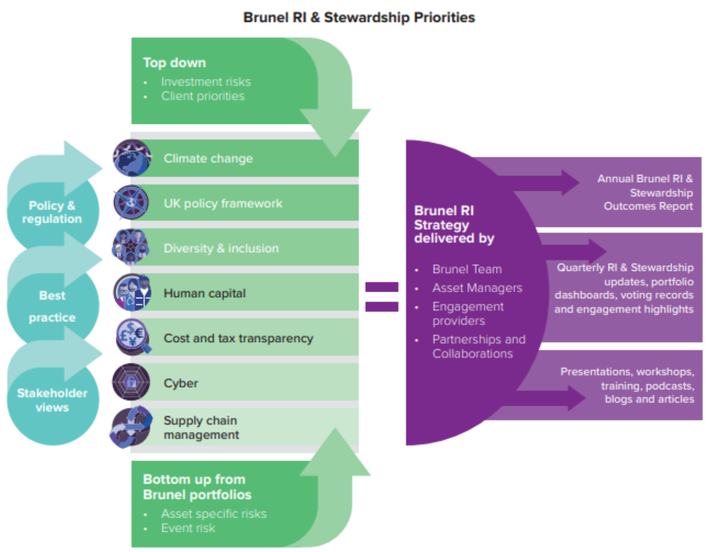
Section 2 – Pooling of Assets with Brunel

During the financial year the Fund's Global Sustainable Equity and Diversified Returns Fund assets transitioned to Brunel. Shortly after the conclusion of the financial year the Fund transitioned its Multi Asset Credit portfolio which marked the completion of the transition of listed assets to Brunel.

In terms of private markets, all new allocations to Secured Income, Renewable Infrastructure and Private Debt are managed by Brunel and legacy mandates are being wound down as required to fund these new investments. At the end of September Brunel managed over £4.5 billion of the Fund's £5.7 billion assets.

Brunel policies span climate change, stewardship and responsible investment more broadly and determine how the Fund's own approach to RI is implemented and monitored. Brunel's policies and priorities are informed by its investment beliefs which have been developed with all partner funds together with regulations and statutory guidance. Brunel's guiding principle is to deliver stronger investment returns over the long-term and to protect its clients' interests by contributing to a more sustainable and resilient financial system, which supports sustainable economic growth.

Brunel's seven priority themes as part of an integrated responsible investment process are illustrated in the diagram below:



While addressing climate change through our investment strategy has remained our focus this year, our exposure to best-in-class investment managers in addition to Brunel's internal dedicated team has allowed Avon to make a contribution in all of below areas. Further details can be found in Brunel's second annual Responsible Investment & Stewardship Outcomes Report.

(I) Climate Change

Central to Brunel's approach to climate change is maintaining a comprehensive and robust policy framework that supports a 2050 net zero ambition by delivering significant reductions in greenhouse gas emissions, accelerating progress towards the low carbon economy and enabling effective adaptation to the impacts of climate change.

Since launching a dedicated climate change policy last year, Brunel have made significant progress in a number of areas:

- Investment in innovative climate solutions in private markets portfolios (see Section 4)
- Significant milestones achieved in climate risk related corporate engagement, particularly in the finance sector where Brunel have worked collaboratively with initiatives such as ShareAction and ClimateAction100+ to address **fossil fuel financing**. Further details of engagements undertaken by EOS on our behalf across the listed equity portfolios can be found at Appendix A to this report and in our 2020 Annual Engagement Highlights Report.
- Breaking new ground in the integration of climate risk into manager selection and appointment. For instance, The Fund has a 6% strategic allocation to **Multi Asset Credit**, which invests in an array of different debt instruments. Here, a comprehensive responsible investment policy is key as the underlying managers are lending directly to organisations that can either be aligned or not to the transition and debt holders do not have the same ability to influence corporate boards as shareholders have. As part of the Brunel selection process, prospective managers were assessed on how integrated responsible investment practices were in their business model and if they could adopt Brunel's Climate Change Policy. Those managers that stood out understood the goal of becoming Net Zero, knew which assets were 2°C aligned and showed thought leadership in this area.

> Brunel's Metrics & Targets for Listed Equities
>
> - Portfolio decarbonisation by no less than 7% per year from a fixed 2019 baseline
> - Fossil fuel revenues and exposure no greater than that of each respective benchmark
> - Climate governance using TPI, targeting all material holdings to be at TPI level 4 or above by 2022
> - Engagement with material holdings to persuade them to advance at least one level (up to level 4) per year against the TPI Management Quality Framework

- Active involvement with the IIGCC in the development of the **Paris Aligned Investment Initiative and the Net Zero Investment Framework**, which aims to set a global standard for investors to demonstrate they are Paris-aligned. As part of the project, the Fund provided data to help model the valuation impact on a 'test portfolio' of UK real estate assets under different climate change scenarios.
- Inaugural Climate Action Report published based on the recommendations of the TCFD.

Paris Aligned Benchmarks

In the final months of 2021, the Fund switched its 10% (£575m) allocation to low carbon passive equities into a new passive benchmark co-developed by Brunel and FTSE Russell. The new product is designed to:

- Halve the carbon emissions generated by standard, market cap weighted equity funds
- Systematically reduce carbon emissions by 7% each year in line with a 2050 net zero trajectory
- Exclude investment in the highest emitting companies and sectors, including coal and tar sands companies and companies whose primary business function relates to the exploration, extraction or distribution of oil.
- Increase investment in companies generating green revenues.
- Limit the number of banking stocks we invest in, a move designed to restrict the amount of capital channelled into the fossil fuel industry.
- Exclude tobacco producers, controversial weapons manufacturers and companies that have been identified as breaching the UN Global Compact.

(II) Tax & Cost Transparency

During the year to December 2020, Brunel:

- Championed tax transparency and reported on support of the Tax Engagement Programme coordinated by the Principles for Responsible Investment (PRI).
- As a signatory to the LGPS Code of Transparency (CTI), engaged with private markets managers to promote fair and transparent fee structures. The Fund discloses its fees including those relating to portfolio investment activity and transaction costs, ongoing charges, and performance fees in its Annual Report [update link]

(III) Diversity & Inclusion

Brunel seek to promote fair, diverse and inclusive business environments and practices across the companies in which they invest on our behalf. Over the year to December 2020 Brunel took the following actions:

- Updated voting principles to say: “We will consider voting against the chair of the board of FTSE 100 companies that do not have at least one director from an ethnic minority background and have no credible plan to rapidly achieve this”
- Established a baseline for monitoring and reporting the percentage of women on Boards. Year-on-year an increase in the percentage of women on boards was noted in the UK, emerging market and high alpha active equity portfolios.
- Co-led the **Asset Owner Diversity Working Group** with an objective to formalise a set of actions that asset owners can commit to in order to improve diversity, in all forms, across the investment industry.

- Contributed to 'Addressing Barriers to Diversity in Portfolio Management' thought leadership piece.
- Co-signed letters to two Japanese companies which fell behind the 10% board diversity 2020 target of the 30% Club in Japan.

(IV) Human Capital

Brunel seek to promote strong human resources and sustainable remuneration policy frameworks across the companies in which they invest. Over the year to December 2020 Brunel took the following actions:

- Joined a group of 39 investors, representing $3 trillion, that approached 54 companies in the Gulf, focussing on sectors predisposed to modern human slavery issues, asking that they (I) engage independent specialists to perform exit interviews (II) commit to reimbursing recruitment fees and adopt the 'employer pays principle' and (III) perform due diligence on labour outsourcing companies.
- Supported the 'Find it, Fix it, Prevent it' engagement programme designed to target UK businesses to encourage them to identify instances of modern human slavery in their supply chains and to remediate the issue.
- Joined an investor coalition targeting FTSE 350 companies identified as non-compliant with meeting the Modern Slavery Act 2015, calling on them to publish a modern-day slavery statement.
- Signed letters to the CEOs of all FTSE 100 companies asking that formal mental health workplans are established following the period of disruption brought about by the Covid crisis.

(V) Cyber

Brunel seek to promote corporate awareness and action on cyber security, the responsible use of personal data, and the use of artificial intelligence (AI) in order to protect commercial risks and reputational damage. Highlights during the year included:

- Continued support for, and application of, the Ranking Digital Rights Corporate Accountability Index to assess investee companies on freedom of expression and data privacy policies. The companies contained within Brunel active equity portfolios on average rank higher than the wider index on freedom of expression and privacy scores.
- As part of the Cybersecurity Coalition, Brunel wrote to 25 companies to better understand respective approaches to cyber security, which led to eight follow-up meetings and ongoing engagement.

(VI) Supply Chains

During the year Brunel extended their work on the broad-based issues that come from globalised supply chains. The focus remains on tailings dams, plastics pollution, palm oil, animal welfare, water scarcity and biodiversity including deforestation and indigenous rights. Further information on how Brunel address these themes can be found in their 2021 Responsible Investment and Stewardship Outcomes Report.

Section 3 – Carbon Metrics Reporting

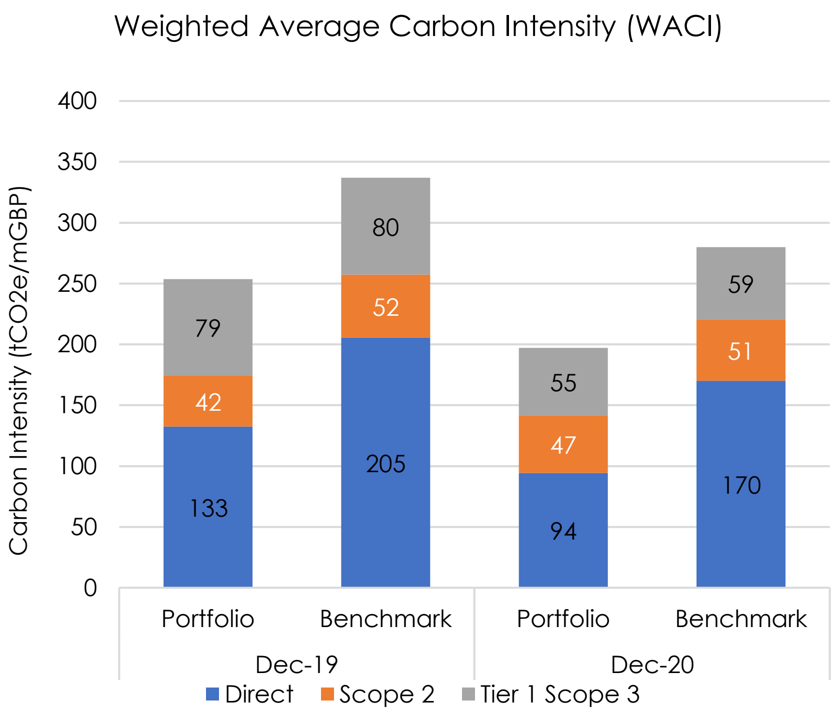
Our Carbon Metrics Report (for periods ending December 2020) details the weighted average carbon intensity (WACI)[1], fossil fuel related revenues, reserves exposure and the disclosure rates among companies within the Fund's listed equity portfolio. A summary of the key findings can be found below. The Report is available to read in full here.

(I) WACI

WACI is one of the measures recommended by the Taskforce on Climate-related Financial Disclosures (TCFD) and formed the basis of our target to reduce the carbon intensity across our equity portfolio by 30% relative to the benchmark by 2022.

The Report shows:

- All active listed equity portfolios that the Fund invests in exhibit a lower WACI than their respective benchmarks.
- The portfolio saw a 22% year-on-year reduction in carbon intensity, based on WACI.
- Relative to the industry benchmark the aggregate portfolio was 30% more efficient (less carbon intensive) than the benchmark, which means we hit the above referenced interim decarbonisation target significantly ahead of plan.

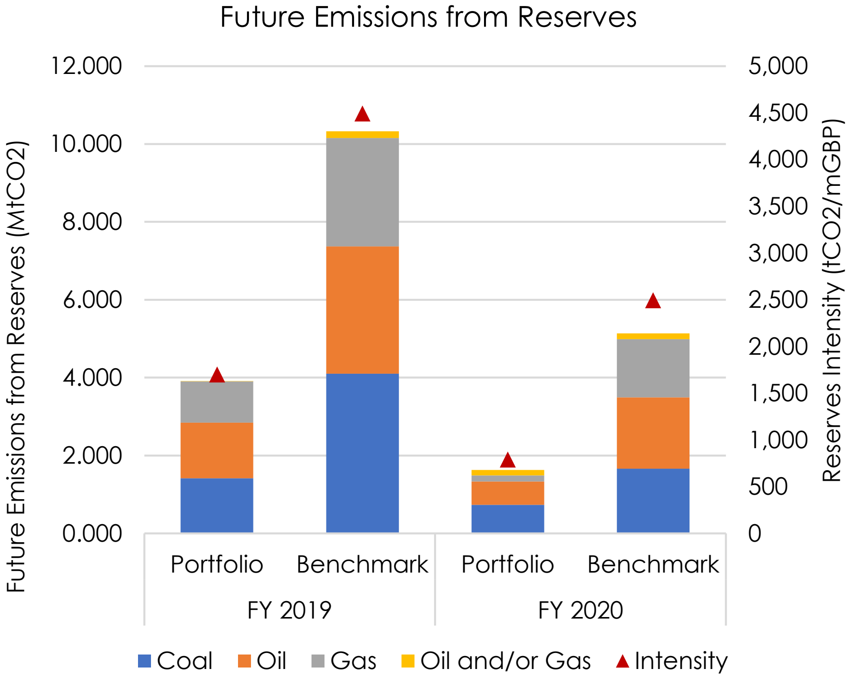


(II) Stranded Assets

To assess 'stranded asset' risk we look at metrics that highlight companies with business activities in extractive industries as well as companies that have disclosed both proven and probable fossil fuel reserves in the portfolio.

[1] Weighted Average carbon Intensity or 'WACI' quantifies a portfolio's exposure to carbon intensive companies. The metric takes the carbon intensity (total carbon emissions divided by total revenue) of a company and multiplies it by its weight in the portfolio.

- Weighted fossil fuel revenues exposure represents 0.79% of the aggregate portfolio relative to benchmark exposure of 1.76%.
- Future emissions from reserves are 1.6MtCO2 versus 5.1MtCO2 for the benchmark.

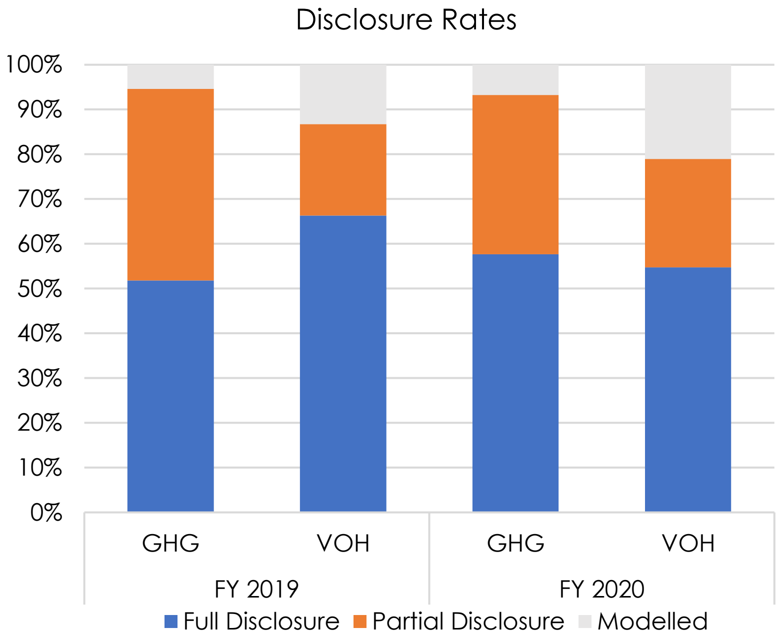


The year-on-year improvement in future emissions from reserves is due to a combination of factors including decarbonisation of the underlying portfolios (driven by investment managers allocating capital to less carbon intensive sectors and companies) and the Fund's own strategic asset allocation; principally the replacement of the oil & gas heavy UK equity allocation (and the reduction in global equities) with the allocation to the Brunel global sustainable equity portfolio – which as can be seen from the report – has a nil exposure to future emissions from reserves.

(III) Disclosure Rates

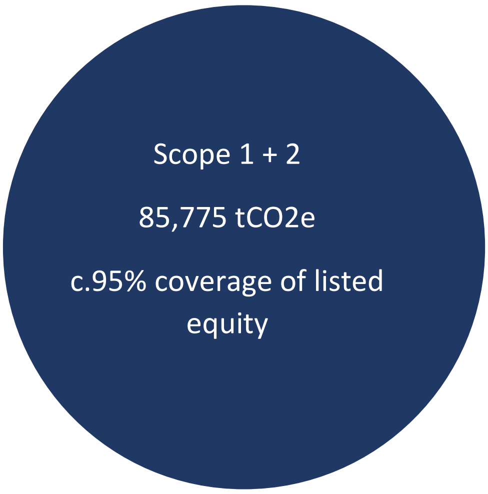
The level of carbon disclosure is based on each company's direct Scope 1 emissions and can be classified as fully disclosed, partially disclosed or, where data is lacking, modelled.

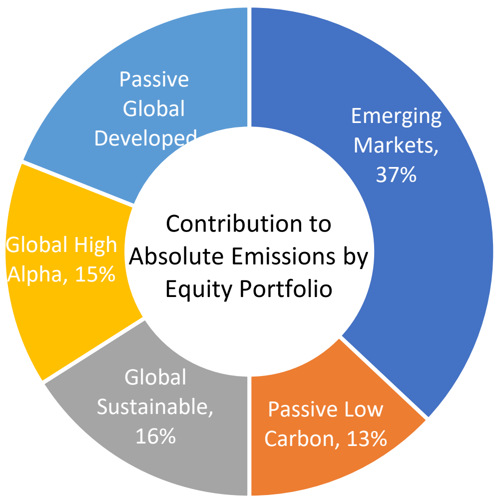
- On a carbon-weighted basis, the rates for full disclosure of carbon data were 58% compared to 52% in the prior year, which indicates disclosure rates among companies with high levels of emissions have increased over the past 12 months.
- On an investment-weighted basis, the rates for full disclosure of carbon data were 55% compared to 66% in the prior year. This outcome is attributed to the increased exposure the Fund has to small-cap companies within the sustainable equities portfolio. Smaller companies do not tend to have the same resource to provide full and comprehensive disclosure relative to large-cap companies. However, these rates do indicate scope for improved reporting among investee companies, which is a core aim of the engagement work adopted by the Fund, Brunel and its strategic partners.



(IV) Absolute Emissions

Whilst WACI based measures of emissions intensity gives very valuable carbon risk information, in order to create "real world" impact the Fund recognises the need to reduce absolute emissions. The September equity review analysed the absolute emissions of our listed equity holdings, in carbon dioxide equivalents to represent individual companies' greenhouse gas emissions (GHGs). Expressing emissions in carbon dioxide equivalents helps for consistent reporting across GHGs. The analysis to the year ending December 2020 calculated that the absolute Scope 1[2] and 2[3] emissions for the Fund's listed equity portfolios were 85,775 tCO2e. As this is the first year we have calculated our absolute emissions, the 2020 data will be used as a valuable baseline to measure further reductions in subsequent years. In future years we will look to include more asset classes and extend the analysis to capture Scope 3[4] emissions as the relevant data becomes available.





[2] Scope 1: "direct" emissions from owned or controlled sources
[3] Scope 2: "indirect" emissions from the generation of purchased energy
[4] Scope 3: indirect emissions arising from a company's value chain

Next year our carbon metrics reporting will include the impact of the removal of the dedicated emerging market allocation (and the subsequent 5% increase to global equities) as well as the switch to the new Paris-aligned benchmark from the Fund's legacy low-carbon strategy, which has been efficient at reducing portfolio emissions but maintains a high weighting to oil and gas support activities.

Section 4 – Positive Impact in Private Markets

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

(I) Infrastructure

Over the year, as investors looked beyond the pandemic, market conditions improved with significant deal flow noted particularly in the renewables space. Increasing demand for renewables driven primarily by regulation and political interest has acted to increase investor demand, and in turn, compress yields making it more difficult to source attractively priced assets and restricting the opportunity set somewhat. Supply chain constraints following the pandemic compounded the issue by pushing up key raw material costs globally. However, pace of deployment of committed capital has remained steady through the year, which is reflective of the fact the Brunel portfolio focuses on high-quality, essential services assets which have been impacted by the pandemic to a lesser extent than discretionary infrastructure assets.

Infrastructure Case Study: Energy from Waste

A new multifuel facility located in Slough which uses waste as an energy source will have a generating capacity of 50MW and use up to 480,000 tonnes per year of pre-processed waste-derived fuel. The project is already supplying electricity to the grid. Once fully on-stream, the facility will power around 100,000 households. It will save around 5.2 million tonnes of CO_2 through the project lifetime, equivalent to permanently removing 70,000 cars from the road. The Fund gained exposure to this asset through its £120 million Cycle 2 commitment to Brunel's renewable infrastructure portfolio.

During the year our core infrastructure manager, IFM, announced a net-zero target and published ambitious interim targets along with details of a review of their asset management processes, which will see them working closely with the underlying portfolio companies to implement emission reduction initiatives. For example, IFM worked with a major US oil and gas pipeline company to complete a series of acquisitions including a leading North American clean energy development, allowing the company to accelerate its growth plans and position itself to participate in the energy transition. In addition, IFM committed to phasing out thermal coal exposure by 2030 and have agreed to make no new investments in assets that derive over 20% of revenues from thermal coal.

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

(II)Secured Income

The Fund committed £48 million (in addition to the £94 million existing commitment) to the operating infrastructure component of the Cycle 2 Secured Income portfolio, which invests in wind, solar, bioenergy, and opportunistic investments in other renewable infrastructure assets, such as renewable heat. Further capital was deployed into a project that will see the construction and operation of two of the UK's largest commercial greenhouses, warmed by waste heat from nearby water treatment facilities. We reported on this project in our 2019/20 RI Report.

(III) Property

Our UK Property portfolio is given a sustainability score by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio may be compared to its peers and hence it's potential climate change resilience. Our 2020 portfolio results showed that we exceeded the benchmark average in overall ESG performance. Details of projects that have contributed to the GRESB rating can be found in the Fund's TCFD Report here [LINK].

Property Case Study: UK Affordable Housing

During the year the Fund committed £10 million and began deploying capital into a newly launched UK Affordable Housing Fund via Brunel. The Fund, managed by PGIM, is designed to invest in and develop affordable homes for working people and families across the UK. It targets a total return of 6-9% and aims to help alleviate the supply and demand imbalance in this underserved sector.

(IV) Private Debt

Fixed income markets have lagged equities in the application of ESG criteria. This likely reflects a range of factors, principally; bondholders do not have the control rights shareholders do. To account for this, Brunel have been working with their underlying managers within the Private Debt portfolio, which we have committed £245 million to, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis.

Section 5 – Stewardship

(I) Engagement

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

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

Organisation/Initiative	Remit
BRUNEL Pension Partnership	To address climate risk, the partnership published its Climate Change Policy in January 2020. This policy is already delivering real-world impacts, using its influence to challenge the asset management industry with a five-point plan "to build a financial system which is fit for a carbon-zero future". To best identify and respond to market-wide and systemic risks, Brunel engages with wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Consultation responses are published on the Brunel website here: Policy advocacy. Brunel is involved in a number of industry initiatives including: IIGCC, Principles for Responsible Investment (PRI), CA100+, Transition Pathway Initiative (TPI), International Corporate Governance Network (ICGN), the UK Sustainable Investment and Finance Association (UKSIF).
	IIGCC's Policy Programme works with policymakers and other stakeholders to

IIGCC Institutional Investors Group on Climate Change	help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. Recent examples of policy advocacy work the Fund has been involved in include pledging support for an Open letter to EU leaders from investors on a sustainable recovery from COVID-19, becoming a signatory of the 2021 Global Investor Statement to Governments on the Climate Crisis calling for a step up in Nationally Defined Contributions and backing an IIGCC letter calling on the UK Government to mandate large companies to disclose their net zero transition plans – and calling for further guidance in helping companies reach this goal.
Local Authority Pension Fund Forum	LAPFF is a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the LGPS funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. This year LAPFF have been instrumental in lobbying the mining sector for improved disclosures around tailings dams. Officers and Committee members attended four LAPFF business meetings during the year. Following the conclusion of the reporting period one of the Fund's Committee members was appointed to the LAPFF Executive Committee.
Climate Action 100+ Global Investors Driving Business Transition	Climate Action 100+ is an initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement.

	The 2020 Climate Action 100+ Net-Zero Company Benchmark assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance, and disclosure. The benchmark helps the Fund to evaluate company ambition and action in tackling climate change.

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

As the Fund's listed equites are now wholly invested in Brunel portfolios it is vital that underlying investment managers and EOS, as Brunel's appointed voting and engagement provider, meet our expectations, and that there is continued alignment of engagement and voting priorities and practices.

The Fund feeds into the development of Brunel's engagement priorities which are communicated to EOS. There are multiple and distinct touchpoints throughout the year that Brunel and the Fund utilise to provide feedback on the engagement plan. To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also identified. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal. Across all Brunel listed equity portfolios, EOS were able to move at least one milestone forward for about 50% of the objectives set during the year to December 2020.

In the year to December 2020, EOS engaged with 657 companies on the Fund's behalf across 2,419 issues spanning Environmental, Social and Ethical, Governance and Strategy, Risk and Communication matters. A summary of the issues and objectives on which EOS engaged with companies on our behalf during 2020 is shown below:

Environmental topics featured in 20.9% of EOS engagements over the last year

- Climate Change 75.0%
- Forestry and Land Use 3.2%
- Pollution and Waste Management 12.7%
- Supply Chain Management 5.5%
- Water 3.6%

Social & Ethical topics featured in 19.1% of EOS engagements over the last year

- Bribery and Corruption 3.0%
- Conduct and Culture 18.4%
- Diversity 22.2%
- Human Capital Management 16.8%
- Human Rights 30.5%

Governance topics featured in 41.2% of EOS engagements over the last year

- Board Diversity 23.1%
- Board Independence 13.4%
- Executive Remuneration 45.6%
- Shareholder Rights 14.1%

Strategy, Risk & Communication topics featured in 18.8% of EOS engagements over the last year

- Audit and Accounting 5.5%
- Business Strategy 33.8%
- Cyber Security 6.6%
- Reporting and Disclosures 22.6%

Engagement examples include intensive engagement with Alphabet on the ethical considerations surrounding the use of Artificial Intelligence (AI) and data governance, which led to the company publishing a set of principles to promote the responsible use of AI within the technology sector as well as further research published by the company including a white paper on AI governance, covering the need to address safety and transparency issues related to the technology. The full EOS case study is available here. Significant work was also undertaken by EOS throughout the year as a member of the PRI plastics working group; engaging with companies across the plastics value chain on topics such as plastics reduction targets and recyclability.

According to the CA100+ 2020 Progress Report, published in December, 43% of the focus companies engaged by the initiative have now set a net-zero target. However, only 10% of focus companies setting a 2050 net-zero target include downstream emissions (emissions generated by the end consumer using a company's product), highlighting significant gaps in approaches to target setting. Within the oil and gas sector, BP announced it would set a net-zero target for 2050 for all the oil and gas it produces, as well as for its entire operations. Later in the year, the company published its methodology for determining whether new capital expenditure was consistent with the goals of the Paris Agreement. This came in direct response to a shareholder resolution where EOS led the filing. It also built on engagement over the previous 12 months to seek alignment of BP’s accounting assumptions with the goals of the Paris Agreement.

Elsewhere in sector, EOS worked closely with Total to produce a joint statement in collaboration with CA100+. This set out the ambition to achieve net-zero emissions and commitment to align its investments with the Paris goals. Repsol, the first oil and gas company to commit to net-zero emissions, increased the ambition of its downstream emission targets and its targets around renewable energy deployment.

Although these developments are encouraging the lack of consistency in emissions reduction methodologies makes the relative assessment of company progress challenging. It is critical, therefore, that we continue to leverage our membership to groups such as the IIGCC to ensure the companies in which we invest demonstrate best practice and are able to clearly communicate to investors how impactful their respective decarbonisation strategies are.

Appendix A to this report contains further examples of engagements which the Fund has participated in through the year.

As a Fund, we have also been involved in a number of collaborative engagement efforts with the wider investment community, such as:

- **2021 Global Investor Statement to Governments on the Climate Crisis** - We were one of the first signatories to this statement, co-ordinated by The Investor Agenda (including the IIGCC), which called on governments to step up their activities towards meeting the Paris Agreement ahead of COP26 by making stronger national commitments and ensuring the COVID-19 recovery enhances resilience and supports a net zero goal. This statement was signed by 587 organisations representing over $46 trillion USD in assets.
- **Asset Owner Diversity Charter** - diversity is an integral part of our RI strategy and as such is a key priority. To help address the issue and build an investment industry that embodies a more balanced representation of diverse societies, we have recently signed-up to this charter. The charter seeks to formalise a set of actions designed to improve diversity, in all forms, across the asset management industry. In collaboration with Brunel, we follow its three main commitments to; incorporate diversity questions into manager selection, incorporate diversity into ongoing manager monitoring and lead and collaborate with others in the investments industry to identify diversity and inclusion best practice. This has now been signed by over 16 other signatories representing over £1.08 trillion in assets.
- **Plastics pollution programme** - on an industry-wide scale, our collaborative engagement activity has included joining a plastic pollution group coordinated by First State Investment alongside the UK-charity the Marine Conservation Society, advocating with other investors for the inclusion of filters in washing machines to prevent micro plastics entering the planet’s marine ecosystems.

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

(II) Engagement Escalation

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

As engagement is a tool to change attitudes and behaviours, companies need to be able to respond to the challenge set by us and our partners with credible, measurable, and implementable policies and strategies and the process is by necessity, iterative. Equally we recognise that efforts to engage should take place within a well-defined framework and should not continue indefinitely where no progress is made. Indeed, our climate change objectives state that in the event companies persistently fail to engage, and where the Fund and Brunel have exhausted all other channels, we retain our right to selectively divest from companies, although this is by no means the preferred route for the reasons set out in our position statement on the exclusion of investments on ESG grounds.

The Fund's next checkpoint relating to progress made by companies to align their business models with credible net zero pathways will be in 2022. At this point the Fund will be taking stock of how our strategy has delivered against its goals with a clear message that divestment remains an option where companies fall short of our expectations.

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

Case Study – LAPFF & Human Rights: When news surfaced that Rio Tinto had destroyed two sites of significant cultural importance at Juukan Gorge in Western Australia in May 2020, LAPFF were keen to engage with the company given prior corporate governance failings and the mining industry's poor record of engagement with local communities. Given the sensitivity of the issue and the potential reputational damage to the company, it became evident early on that conventional methods of establishing a dialogue with the company would have little impact. Consequently, along with other UK-based and international investors, LAPFF launched a media campaign to express its concerns about Rio Tinto's conduct at Juukan Gorge, which ultimately led to the resignation of three executives (including the CEO) that had been implicated in the incident.

Brunel also use collaborative engagement and reach out to other investors to elevate areas of concern across a broad set of issues and to magnify the impact we can have as a Fund.

Case Study – Brunel & Fossil Fuel Financing: Further to last year's Barclays engagement, a second ShareAction led shareholder resolution, which Brunel co-filed in December 2020, called on HSBC to "publish a climate strategy and targets to reduce exposure to fossil fuel assets, on a timeline consistent with the Paris climate goals". Following intensive engagement with the bank in the run up to its AGM, the coalition of investors agreed to withdraw the shareholder resolution in exchange for a board-backed resolution committing the bank to setting a strategy with short- and medium-term targets to align its lending activity with the goals of the Paris Agreement, to publish a dedicated action plan on the phase out of coal-based lending and to report progress to shareholders annually.

(III) Voting Activity

The Fund believes that voting is an integral part of the RI and stewardship process and serves to enhance long-term value creation for our members. Voting is delegated to Brunel and its underlying managers for the shares we hold in publicly listed companies, and we expect all underlying managers to exercise our right to vote at company meetings. During the year we participated in 3,880 company meetings, casting over 50,000 votes, demonstrating the scale and range of topics covered at company AGMs.

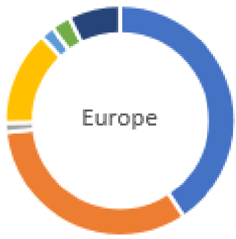
The Fund provides input into the development of Brunel's voting guidelines, which guide EOS's voting recommendations alongside country and region-specific guidelines. Brunel's voting decisions are also informed by investment considerations, consultation with portfolio managers, other institutional investors, engagement with companies and escalation by the Fund. More details on this and the voting process, including the approach across asset classes, is explained in Brunel's Stewardship Policy which underwent a comprehensive review during the year, where input was sought from all partner funds, to improve transparency and factor in regulatory changes, including the enhanced requirements of the 2020 FRC Stewardship Code.

Over 40% of the Funds listed equities are held in passive pooled funds, where the underlying providers operate and implement their own voting policies. A portion of our passive equities are managed by BlackRock who provide us with full voting records each quarter and the rationale for any votes cast in opposition to company management. Over the year the Fund has noted significant positive developments in BlackRock's corporate position on ESG factors, particularly in respect of climate change, as well as improvements to its internal voting process. We were particularly pleased to see BlackRock use our vote at ExxonMobil's 2021 AGM in favour of recommendations to replace members of the Board with new directors with experience relevant to help the company position itself competitively to address the risks and opportunities presented by the energy transition.

Legal & General Investment Management (LGIM) manage Brunel's passive equity portfolios. LGIM are considered market leaders both in their approach to stewardship and their ability to implement it in a passive context. LGIM is fully transparent in the exercise of voting rights and discloses details of vote instructions on a per-meeting basis, with the rationale provided for all votes cast against management. Vote disclosures and LGIM's voting policies can be found here. Although not utilised during the year, LGIM have a mechanism in place to allow Brunel, on a limited number of occasions, to direct voting for passive pooled holdings so that it is aligned with the voting recommendations undertaken by EOS in the active segregated holdings or where a partner fund has a specific investment policy commitment.

During the year EOS made voting recommendations on 8,693 resolutions at over 700 meetings on our behalf. The regional split of the voting recommendations is included below. At 374 of those meetings, EOS recommended opposing one or more resolutions, while at 15 meetings, EOS recommended abstaining. They supported management on all resolutions at 271 meetings and recommended voting with management by exception at 57 meetings. A vote "for by exception" is applied where there is a reasonable prospect of ongoing positive engagement. During the year, as companies were faced with the challenges posed by Covid-19, Brunel utilised this voting method to minimise disruption for those companies worst affected by the pandemic, recognising the importance of stable leadership in times of crisis.

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



EOS recommended voting agaisnt or abstaining on 150 resolutions over the last year

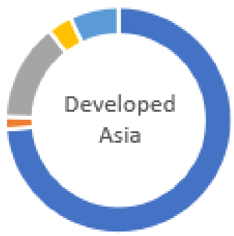
- Board structure 40.7%
- Remuneration 32.7%
- Shareholder resolution 1.3%
- Capital structure and dividends 13.3%
- Amend articles 2.0%
- Audit and accounts 2.7%

EOS recommended voting agaisnt or abstaining on 193 resolutions over the last year

- Board structure 22.3%
- Remuneration 62.7%
- Shareholder resolution 2.6%
- Capital structure and dividends 1.6%
- Amend articles 1.0%
- Audit and accounts 9.8%

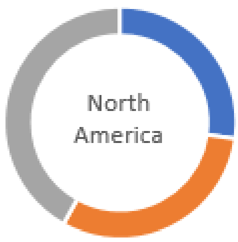
EOS recommended voting agaisnt or abstaining on 584 resolutions over the last year

- Board structure 47.3%
- Remuneration 13.7%
- Shareholder resolution 2.7%
- Capital structure and dividends 19.5%
- Amend articles 6.0%
- Audit and accounts 3.9%
- Investment/M&A 0.5%



EOS recommended voting agaisnt or abstaining on 57 resolutions over the last year

- Board structure 73.7%
- Remuneration 1.8%
- Capital structure and dividends 14.0%
- Amend articles 3.5%
- Audit and accounts 7.0%



EOS recommended voting agaisnt or abstaining on 191 resolutions over the last year

- Board structure 27.2%
- Remuneration 30.9%
- Shareholder resolution 41.9%

Case Study: Voting on Modern Human Slavery. As an escalation of the engagement on modern human slavery statements, Brunel voted against the statutory reports for Frasers group (previously Sports Direct). Frasers failed to disclose a modern human slavery statement in line with mandatory government requirements. A revised statement has since been published. The collaborative engagement with target companies continues.

Case Study: Voting on Executive Remuneration. Due to concerns about the excessive severance package awarded to the former CEO at McDonald's, and the lack of a robust 'clawback' policy, Brunel voted against the named executive officers' compensation. The resolution received 20.3% dissent.

LAPFF also issue voting recommendations to its members on a broad range of themes including remuneration, board composition, climate change and human rights. Over the year LAPFF issued 21 voting alerts relating to companies held by the Fund in its equity portfolios, including a recommendation to vote 'against' Royal Dutch Shell management on its energy transition strategy, or the so-called 'say on climate', and 'for' a shareholder resolution that called on the company to set and publish interim greenhouse gas emissions reductions targets. When LAPFF recommendations differ from the position adopted by Brunel and its underlying managers further information will be sought to understand respective voting rationales. In this case Brunel, elected to 'abstain' from both votes, citing that a vote against company management would likely undermine engagement and dissuade others in the industry from adopting a 'say on climate' vote for shareholders. On the same issue, LGIM voted in line with the LAPFF recommendations, raising concerns around the strength of the company's decarbonisation plan. Conversely, BlackRock, elected to vote in favour of the management resolution citing the clear policies and action plans set out by the company to manage climate risk. This highlights the complexity of this particular issue as well as the importance of having a robust monitoring framework in place which enables the Fund to understand and account for differences in voting intentions when they arise.

(IV) Stewardship in Private Markets

Most of our legacy private market property investments are through Limited Partnership arrangements which do not have automatic voting rights, except where we are part of the Limited Partnership Advisory Committee (LPAC). Where this is the case, we have approval rights for items such as changing contract terms (e.g. extensions or restrictions) and approving members of committees.

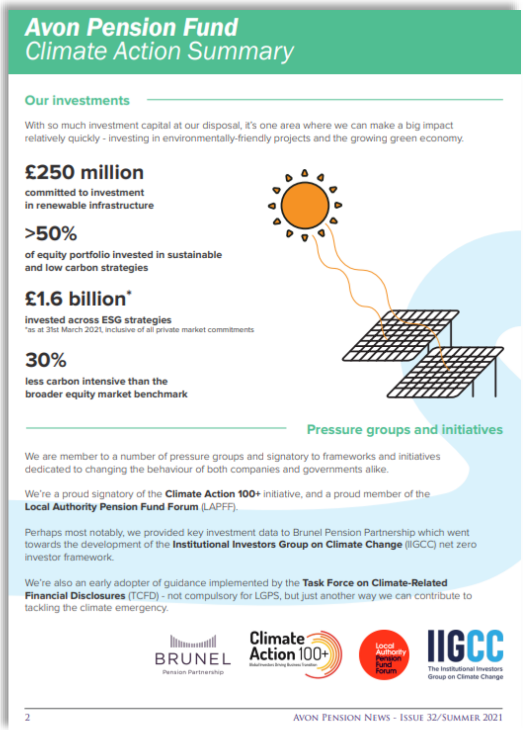
Brunel seeks LPAC seats where possible in order to exert influence and works closely with underlying managers to support their Responsible Investment and ESG efforts, improve standards and encourage best practice. Voting decisions for all private market asset classes are sent to Brunel's internal Private Markets Team, who along with their legal team negotiate side letters that align with the partner funds' ESG and wider governance requirements. Further information on Brunel's stewardship approach in private markets can be found in their Stewardship Policy.

Section 6 – Communications Strategy

As part of its wider communications strategy, and in response to the significant work undertaken over the past 18 months, particularly in relation to climate change, the Fund has increased its interaction with both its members and wider stakeholders.

(I) Member Newsletters

ESG and our approach to the climate emergency has become a regular feature of our semi-annual Member Newsletters. Since the Spring 2020 edition, members have received updates on policy developments, engagement examples in case study format as well as details on specific investments.



Avon Pension Fund
Climate Action Summary

Our investments

With so much investment capital at our disposal, it's one area where we can make a big impact relatively quickly - investing in environmentally-friendly projects and the growing green economy.

£250 million
committed to investment in renewable infrastructure

>50%
of equity portfolio invested in sustainable and low carbon strategies

£1.6 billion*
invested across ESG strategies
*as at 31st March 2021, inclusive of all private market commitments

30%
less carbon intensive than the broader equity market benchmark

Pressure groups and initiatives

We are member to a number of pressure groups and signatory to frameworks and initiatives dedicated to changing the behaviour of both companies and governments alike.

We're a proud signatory of the **Climate Action 100+** initiative, and a proud member of the **Local Authority Pension Fund Forum** (LAPFF).

Perhaps most notably, we provided key investment data to Brunel Pension Partnership which went towards the development of the **Institutional Investors Group on Climate Change** (IIGCC) net zero investor framework.

We're also an early adopter of guidance implemented by the **Task Force on Climate-Related Financial Disclosures** (TCFD) - not compulsory for LGPS, but just another way we can contribute to tackling the climate emergency.

BRUNEL Pension Partnership
Climate Action 100+
Local Authority Pension Fund Forum
IIGCC The Institutional Investors Group on Climate Change

2 AVON PENSION NEWS - ISSUE 32/SUMMER 2021

COP26: 31 October 2021

COP26 is fast approaching, so we wanted to give a summary of our progress so far in responding to the Climate Emergency.

Fund operations

At the Fund, we know it will take more than adjusting our investment strategies to reduce our climate impact. That's why we've set ourselves the ambitious goal of becoming completely carbon neutral by 2050 or earlier, and to have at least 30% of the fund invested in low carbon and sustainable strategies by 2025 to help us on our way.

We're at the beginning of a digital transformation that will see the Fund dramatically reduce its reliance on paper communications over a phased period. We understand for some of our members that paper communications are more convenient and accessible, so we will continue to offer them based on individual preferences. However, if the Fund has the means to communicate with a member via a digital method, i.e. email, it will do so in the first instance. We trialled sending digital annual pension statements to our deferred members in May 2021 - which has proved to be a success. This gives us great confidence going forward as we roll out digital communications to the rest of our members.

There's a lot of work to do to meet our climate goals, but we know we're up to the challenge, and are committed to securing our members pensions, as well as the planet's future.

What Brunel are doing

We're proud to be partnered with Brunel Pension Partnership, who have set out a **5-point-plan** to ensure their goal of net-zero by 2050 is met. It rests on strong, long-term investment returns that protect Clients' interests by contributing to a more sustainable and resilient financial system - supporting sustainable economic growth.

The plan entails:
- Policy - Making markets work
- Products - Designing climate transition solutions
- Portfolios - Investing where it matters
- Positive Impact - Delivering & evidencing progress
- Persuasion - Convincing others to change

Pictured are some examples of 'Investing where it matters' - two large-scale projects at the forefront of the growing 'green economy'.

Springbok, a 448 Megawatt-dc solar development in Kern County, California, one of the largest solar developments in the world.

Giant greenhouses in Norfolk and Suffolk, heated by waste-water from a nearby plant, increased domestic production of tomatoes by 10%.

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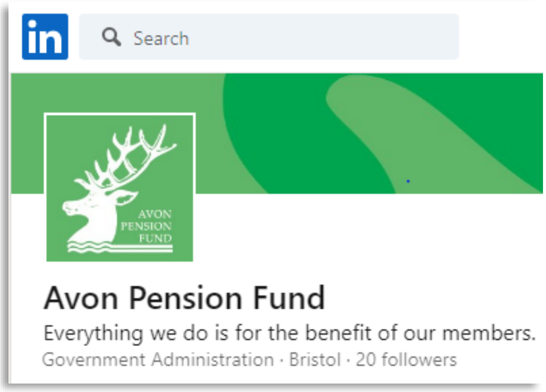
(II) Microsite & Social Media

A purpose-built climate microsite hosts content such as the Fund's recently released short animation, an 'e-zine' digital magazine that focuses on the Fund's ESG activity and emerging RI topics, an RI newsfeed and climate change FAQs. In November the Fund launched a LinkedIn account, which will primarily be used as a communication channel for the Fund to reach scheme employers.



(III) Press Releases

PENSIONSAge
The leading pensions magazine
The Avon Pension Fund and the Transport for London (TfL)
commitment to reach net-zero targets, outlining "ambitious"
of the Paris Agreement.

PROFESSIONAL PENSIONS
Commenting on the decision, Bath & North East So
Pension Fund Committee chair Paul Crossley said:
members, as well as managing the risks and opp

Pensions&Investments
The £5 billion local government pension fund said in a news release that it plans to be net-zero by 2050.

A press release announcing the Fund's decision to transition its legacy low carbon holdings to the Paris-aligned benchmark co-developed by Brunel and FTSE Russell was issued in October and was covered principally by industry press and some local news outlets.

(IV) Member Survey

In November the Fund issued its first dedicated ESG member survey to over 40,000 members seeking their views on topics including the relative importance of ESG factors in financial decision making and the Fund's use of engagement as a tool for advancing the ESG agenda. Ensuring Members views are properly considered is a key requirement of the 2020 FRC Stewardship Code and it is envisaged the results of the survey will help to inform future investment strategy. The results will be reported to Committee in the first quarter of 2022.

Section 7 – 2021/22 RI Priorities

The Fund's RI priorities for 2021/22 have been updated to ensure consistency with Brunel's seven priority themes as all these topics remain relevant from a strategic perspective to the Fund. In addition to these themes the Fund works with Brunel and the other partner funds to identify emerging themes such as sustainable land use and biodiversity that are fed into Brunel's annual engagement plan.

The main priorities for the Fund are:

a) Climate change including pollution, waste and plastics
b) Human capital
c) Diversity and inclusion
d) Cyber security
e) Cost and tax transparency
f) UK policy frameworks
g) Supply chain management

2022 will see the Fund work with Brunel as part of its climate change stocktake to evaluate its approach to managing climate risk. Critically the stocktake will seek to address whether actions taken so far have been effective, how emerging research and broader stakeholder views can be integrated into future climate strategy and whether there are any companies that we should not invest in.

The Fund's own forthcoming investment strategy review will provide the first opportunity to review how we are progressing against our own climate change targets that are in place, ultimately, to serve the best interests of our members.

Appendix A: Engagement Case Studies for the Year to 31 March 2021

Company	Theme	RI Priority	Engagement lead	Held in	Engagement and Outcome
HSBC (UK)	Fossil fuel financing	Climate Change	Brunel	Brunel Low Carbon Passive & Blackrock Passive Portfolio	Intensive engagement by Brunel and the coalition of investors that previously filed a climate change resolution at HSBC, calling on them to publish a strategy to reduce exposure to fossil fuel assets on a timeline consistent with the Paris climate goals, has led to the withdrawal of the shareholder resolution. This is in exchange for HSBC's own board-backed resolution. The board-backed resolution, which now has shareholder approval, commits HSBC to goals such as phasing-out the financing of coal-fired power and thermal coal mining by 2030 within the OECD and by 2040 elsewhere. As well as implementing a strategy to align its provision of financing, starting with Oil & Gas and Power & Utilities, to the climate goals of the Paris Agreement.

Anheuser-Busch InBev (Belgium)	Executive gender diversity	Diversity & Inclusion	Federated Hermes EOS	Brunel Global Sustainable equity	Engaged due to lack of diversity on executive management team. This led to a woman being added to this executive team, while a global diversity and inclusion policy was also launched, covering unconscious bias training, algorithms to check for bias in interviews and increased parental leave benefits.
National Grid (UK)	Climate policy and target setting	Climate Change	LAPFF	Multiple	LAPFF has had long-term ongoing engagement with National grid, most recently as a lead engager for CA100+. These actions led to the board putting a ‘say on climate’ resolution to their AGM, asking shareholders to approve reporting on their Net Zero action plan. National Grid have also now set a target to reduce its Scope 3 emissions, the largest portion of its total emissions, by 37.5% below the 1990 baseline by 2034.

Alphabet (US)	AI Governance and ethics	Human capital, Cyber Security	Federated Hermes EOS	Multiple	Engagement focussed on making companies more aware of risks such as privacy/security, bias and discrimination when using AI. This was then escalated into supporting the establishment of societal risk and human rights oversight committees. Although this measure did not pass, following engagement Alphabet did make improvements in AI governance, changing its audit committee to an audit and compliance committee (ACC). The ACC's remit now includes reviewing sustainability, data privacy and civil and human rights risks.

Baidu (China)	Data protection compliance	Cyber Security	Federated Hermes EOS	Brunel Emerging Markets	EOS engaged nine times since 2018, voicing concerns around data privacy and protection, including around the risk of fines from regulators or lawsuits from customers if not compliant with EU regulation. This led to Baidu introducing new lines of governance defence to help ensure information security and data privacy, including employee training in this area. A privacy protection system was also established and overseen by top executives. Further committees around data assets, safety and ethics were also introduced.
Multiple	Budget decisions during COVID-19	Cost and tax transparency	Federated Hermes EOS	Multiple	In April 2020, EOS published an open letter to a number of CEOs enquiring how they were making difficult decisions around supply chains, employees and customers during the COVID pandemic. They noted that companies making workers redundant after having accepted taxpayer funded bailout money were drawing heavy criticism, especially if they had previously used surplus profits to fund share buy-backs. EOS instead encouraged companies to be responsible with their furlough schemes and to be fair with executive and staff pay.

Amazon (US)	Anti-union practices	Human capital	LAPFF	Multiple	Concerned about worker rights to free association and collective bargaining, LAPFF signed a letter calling on Amazon to provide a free and fair union vote at a facility in Alabama. While Amazon responded that all appropriate human and labour rights standards were being adhered to, the investor collaboration was not satisfied and continues to push on worker rights.
Pfizer (US)	Board gender and skills diversity	Diversity & Inclusion	Federated Hermes EOS	Brunel Low Carbon Passive	Pfizer were engaged with as the company typically only looked at current/former CEO's and those with scientific and technology expertise for its board seats, leading to low levels of gender diversity. However, recognising this, in 2020 they appointed two additional women directors with backgrounds across education and civil society.

Delta Airlines (US)	Climate change lobbying	Climate Change	CA100+	Blackrock Passive Portfolio	Engagement supported by CA100+ led to a vote on a resolution filed by BNP Paribas asking for transparency around lobbying and to file a report explaining how its lobbying activities align with the Paris Agreement goals. This vote recently passed with a majority vote.
Bayer (Germany)	Climate change targets	Climate Change	CA100+	Multiple	Engagement by CA100+ members, coordinated by IIGCC, started with sending a letter to Bayer in September 2020 asking for commitments around environmental disclosures and increased transparency around lobbying disclosures. Repeated engagements over the next year then led to the publication of Bayer's first Industry Association Climate Review in October 2021. This set out Bayer's position on climate policy, set climate targets, and assessed the alignment of industry associations and trade groups it is involved with. This review showed that 32% of Bayer's associates were fully aligned to Net Zero, but, as over half had no public climate positions in some areas, engagement will continue.

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Draft Report: Taskforce on Climate-related Financial Disclosures (TCFD) – November 2021

The Task Force on Climate-Related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB), a body set-up by the G20 to monitor and make recommendations about the global financial system. Following a review into how the financial sector can take account of climate-related issues and the need for better information to support informed investment, in December 2015 the TCFD was created.

Following a consultation, in 2017 the TCFD issued initial recommendations for reporting to help stakeholders in financial markets understand their climate risks and opportunities. This covers the areas of Governance, Strategy, Risk and Metrics & Targets and Avon Pension Fund has now adopted this guidance and set out its own disclosures below.

Although not yet compulsory for Local Government pension funds, the Fund is a strong supporter of these disclosures. This critical framework not only helps us to deliver on our own climate change objectives but is also a way of signalling to investee companies, managers, partners and pension fund members how important climate risk transparency is if the Fund is to achieve real world emission reductions.

This is the first time the Fund has reported against these standards and reporting has been completed to the fullest extent we are able. While data is not always available in the quantity or quality desired, through lack of scope 3 emission information or due to the difficulty of reporting against certain asset classes, this should become more readily available over time. It is hoped that the level of detail and number of areas covered can increase with each future reporting period as the industry makes positive steps forward and as more disclosures become mandatory.

Governance

a. Describe the organization's governance around climate-related risks and opportunities.

Our beliefs and approach to climate change are clearly set out within our Investment Strategy Statement (ISS) and Responsible Investment (RI) Policy. Overall responsibility for the Fund's investment strategy and RI policy, which recognises climate change as a long-term financial risk, rests with the Avon Pension Fund Committee (the Committee), who regularly meet to discuss such matters.

Climate change considerations are initially discussed by Officers and consultants with the Avon Pension Fund Investment Panel (the Panel), a sub-committee which includes a number of external investment experts. This then feeds through into the Committee where discussions are reviewed, and formal decisions are made.

Our approach to RI continuously evolves and our Policy is revised and updated, due to both changing landscapes and broader industry developments, as part of our 3-year strategic reviews of investment objectives and risk management. At the last strategic review, the Committee agreed a series of climate change objectives that are kept under review as we move toward our 2050 Net Zero goal. Implementation of policy and objectives is monitored by the Committee. Policy advocacy work, carbon emissions metrics, examples of material and/or successful engagement outcomes and key initiatives that the Fund has committed to, either in its own right or through one of its strategic partnerships, form the basis of climate change reporting. The Committee is also responsible for ratifying the annual RI Reports, while Officers and external experts convey further climate change information and developments to Committee to maintain knowledge levels, with further training being provided in specific areas as required.

Aggregate voting and engagement statistics for the Fund's listed equity portfolios is also monitored in terms of votes cast and number of engagements in the period according to each sub-theme included in the Fund's engagement plan which is co-developed with the Fund's pooling provider, Brunel Pensions Partnership (Brunel) and their appointed voting and engagement provider, Federated Hermes EOS (Hermes). The engagement service provided by Hermes is complementary to the engagement activity undertaken by underlying investment managers within Brunel's pooled portfolios. The engagement plan itself is developed collaboratively between the Fund, Brunel and Hermes.

Brunel now directly manages 60% of the Fund's assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 20% of assets relating to the Fund's risk management strategies are governed by Brunel legal agreements. Brunel are committed to managing climate change risk and opportunities, dedicating significant resources to this area. A comprehensive guide to their climate change policy can be found here and this policy is already delivering real-world impacts, using its influence to challenge the asset management industry with a five-point plan "to build a financial system which is fit for a carbon zero future". The Brunel Partnership expects companies and fund managers to effectively identify and manage the financially material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business models. They have an expectation that companies should:

- Put in place specific policies and actions, both in their own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C.
- Disclose climate related risks and actions to mitigate these in line with latest best practice guidelines e.g., TCFD disclosures.
- Include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. As part of its manager selection and ongoing monitoring Brunel use data from the Transition Pathway Initiative (TPI) and carbon foot printing. Both these tools greatly inform portfolio construction and design.

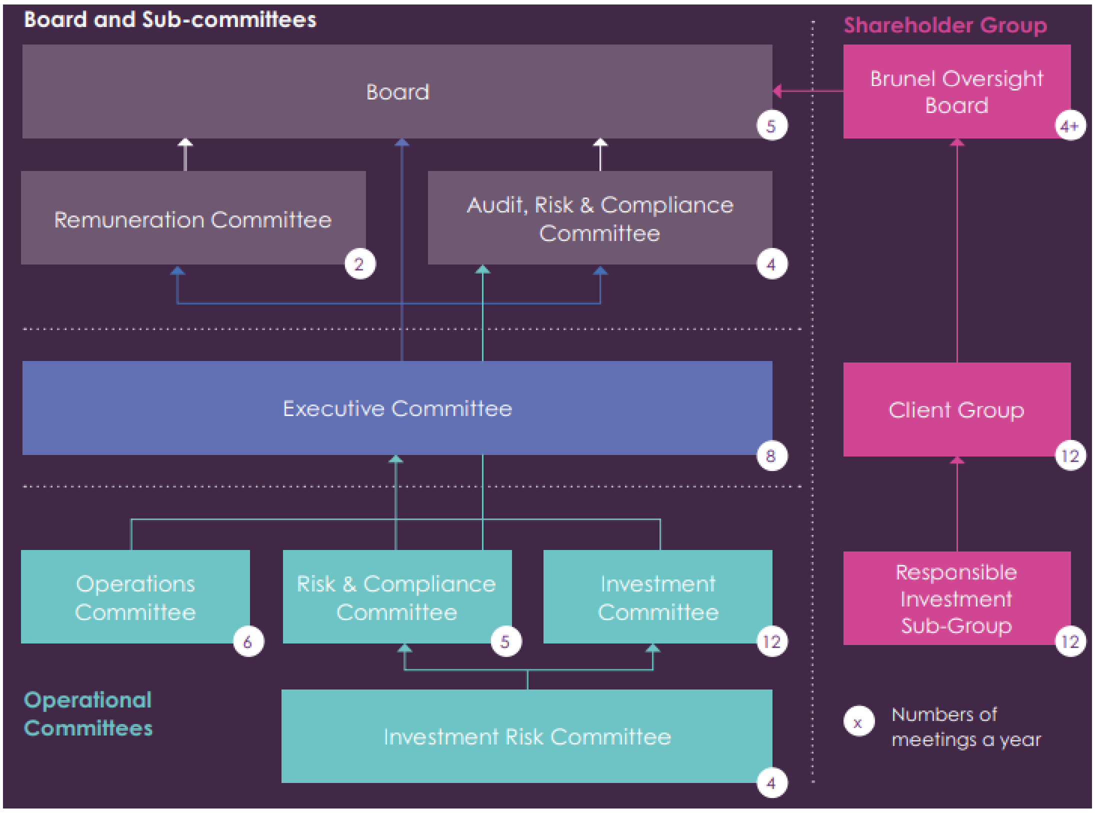
With our support, Brunel aims to be a catalyst for change in the financial system and is in a unique position to make this happen given their position as a recognised industry leader in responsible investment, Climate and ESG globally.

b. Describe management's role in assessing and managing climate-related risks and opportunities.

Day-to-day responsibility for integrating how climate change risks and opportunities are managed by the Fund is held by the Service Director, Financial Control and Pensions, with support from Officers and consultants. Climate change is a key part of our approach to responsible investing and Officers factor this into the decision-making process. Significant resources and budget have been set aside for this aim, including a new Investment Officer post with explicit responsibility for ESG, membership of wider industry-groups and the financing of carbon foot-printing and emission analysis. However, as our assets are primarily managed by Brunel, the implementation of much of the management of climate-related risk is delegated onwards to Brunel.

Brunel are monitored on a regular basis by Client Group. This group comprises senior officers from the local authority (partner) funds that are shareholders in Brunel and provides oversight through monthly updates, while acting as a forum to discuss their Committees' strategic priorities and emerging issues. It is used to discuss and approve changes to Brunel's investment products or services, providing input and adjustments where necessary. A dedicated RI sub-group, also comprising partner-fund representatives, meets monthly to focus on RI specifically. This group also acts as a forum for updates from the pool and other funds, sharing ideas and best practice from the industry and feeding in suggestions to the main Client Group. Discussion topics at these meetings can include stewardship interests, accessing expertise and consulting on policy design and development.

Brunel Pension Partnership Governance and Oversight Structure



Brunel 2021 Climate Change Action Plan Report

Strategy

a. *Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.*

The Fund was early to recognise the significance of climate change, reporting it as a long-term financial risk as far back as 2016, while analysing and publishing details of our carbon footprint since 2017. This same year we began investing in specific Low Carbon funds, alongside setting environmental targets that we continue to monitor and update.

In 2020, and again in 2021, we undertook a review of our investment strategy and dedicated significant time to looking at the risks and opportunities of climate change, both in terms of the risks and opportunities a transition to a low carbon economy presents and the physical risks posed by climate change. Our approach to climate change is two pronged; to assess both risks and opportunities. We look to positively align our assets with the transition to a low carbon economy with the objective of reducing transition risk, and to invest directly in renewable and sustainable assets to access the return opportunities. The latter is also expected to have wider positive impacts on managing the physical risks of climate change over time.

The Fund has used a range of approaches to identify climate change risks and opportunities. One approach has been the use of climate change scenario modelling to understand the key transition and physical risks facing the Fund. This has helped the Fund understand keys risks over the short (1-5 years, medium (5-10+ years) and long term (10-20+years). Risks range from short-term market adjustments on the back of regulatory change (for example the introduction of carbon pricing to certain markets), to wider movements in public policy, up to over the longer-term, the need to re-assess the operating viability of real assets such as infrastructure under extreme climate conditions.

Over the medium-term transition risks, both in terms of technology and policy, are expected to be material. Over the long-term physical risks are expected to dominate. Climate risks therefore are a major focus of the investment portfolios managed by Brunel and are key considerations in their manager selection process. Once appointed, regular monitoring by Brunel's portfolio managers and Responsible Investment team takes place and, while strict exclusion policies are not applied, managers must be able to justify a holding's inclusion. If managers cannot credibly explain how climate-risk has been accounted for and effectively integrated, then they are considered for replacement. Engagement with managers can often lead to positive outcomes that may not have been possible through simple dissociation. One such example is BlackRock. Having previously faced criticism around a lack of climate change policies, rather than simply switching manager, Brunel extensively engaged with BlackRock, including holding a one-to-one meeting with their CEO, Larry Fink, leading to the company agreeing to prioritise sustainability through their investment and stewardship approach. BlackRock also then joined Climate Action 100+, an investor group requiring its members to put pressure on companies to align themselves with the Paris Agreement, alongside disclosing the financial risks of climate change and assigning board accountability.

One new portfolio where environmental considerations are particularly prevalent is in Multi Asset Credit, which invests in an array of different debt instruments. Here, a comprehensive responsible investment policy is key as the managers are directly lending to organisations that can either be aligned or not to the transition, and debt holders do not have the same ability to influence corporate boards as shareholders have. Prospective managers were assessed on how integrated responsible investment practices were in their business model and if they could adopt Brunel's Climate Change Policy. Those managers that stood out understood the goal of achieving Net Zero, knew which assets were 2°C aligned and showed thought leadership in this area.

Bondholders are often faced with more resistance when approaching companies through traditional channels as investors financing companies through loans typically do not possess the same voting rights as shareholders, which often leads to a less impactful dialogue between lender and borrower. To overcome this, Brunel have been working with their underlying managers within the Private Debt portfolio, to which we have a 5% strategic allocation, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements, for example a borrower may benefit from incremental reductions in loan repayments based on the appointment of a dedicated corporate and social responsibility manager or agreement to undertake and disclose annual carbon footprinting analysis.

Positive opportunities also exist for companies prepared for the low carbon transition and those actively involved in producing green revenues. For the Fund, through Brunel, examples include a new multi-fuel facility set up in Slough which uses waste as an energy source. Now connected to the grid, it will provide electricity to power around 100,000 homes and over its lifetime this will save around 5.2 million tonnes of CO2, equivalent to removing 700,000 cars from the roads. We've also invested in the world's first ever low-carbon greenhouse in East Anglia. These greenhouses are warmed by heat pumps using water from recycling centres while rainwater is also captured to ensure zero wastage. Not only does this provide environmental benefits, such as a 75% lower carbon footprint, it also created 137 permanent new jobs and an additional 117 seasonal jobs.

b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Our climate change objectives are designed to maximise the impact we can have as a relatively small investor in the global context. Success will only be achieved if our actions make real reductions in global carbon emissions and if companies and governments implement changes to ensure the transition to a low carbon economy is delivered as soon as possible.

The Fund's policy is to integrate RI across its investment decision-making process for the entire portfolio, adopting a flexible approach to managing the investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective. When setting the investment strategy and objectives, the analysis includes the impact of ESG issues such as climate change on each asset class, the materiality of these risks and whether there are any strategic opportunities that would generate value. This analysis led to the Fund being a seed investor in a global sustainable equity fund launched by Jupiter Asset Management and being one of the first pension funds to invest in passively managed low carbon equities.

Asset allocation remains one of the Fund's primary tools to help meet our ambition to become a net zero investor, and the Fund now holds £1.4bn in low carbon and sustainable listed equities. It has also committed a further £377m to renewable infrastructure projects across a number of portfolios, covering wind and solar energy generation as well as emerging technologies including bioenergy and energy storage solutions. Since the end of the year, the Fund has also made strides to integrate climate risks and opportunities into its Multi Asset Credit portfolio, benefitting from Brunel's robust due diligence and manager selection process as outlined earlier.

Engagement forms a critical part of the Fund's approach to climate risk. This year we were pleased to see significant progress in the Oil & Gas sectors with several large companies not just setting Net Zero targets but more importantly, publishing details of how they intend to achieve those targets. As reported by Climate Action 100+, of which we are a supporter, this included BP aiming to be a net-zero emitter by 2050, while cutting production by 40% by 2030, and Royal Dutch Shell aiming to reduce the carbon footprint of its energy products by 65% by 2050 while pivoting towards serving customers aligned to its own Net Zero goal. Equally we have seen significant progress in the Financial sector. As the leading contributor to downstream scope 3 emissions the provision of loans and other forms of direct fossil fuel financing is fundamentally inconsistent with our ambition to reach carbon neutrality by 2050. Increased shareholder pressure has led to a number of concessions at major European Banks around their lending activities, such as HSBC's pledge to phase out the financing of coal-fired power and thermal coal mining by 2030 within the OECD.

In 2021 our Investment Consultants, Mercer, analysed our equity portfolios using their Analytics for Climate Transition (ACT) tool and the risks identified were fed back into our overall climate strategy. The result of this analysis, which showed the then current equity portfolio was on a +3.2°C temperature pathway on a weighted average basis, based on MSCI's Aggregate Warming Potential (AWP) metric, directly influenced investment policy and was a key driver to increase our positioning with products and strategies that are Paris-aligned. Here, Paris-aligned refers to those products and strategies aligned to the climate goals of the 2015 Paris Agreement to limit global warming to well below 2°C, and preferably to 1.5°C. This analysis was also a factor in changes in asset allocation away from emerging market equities and an increase in sustainable equity exposure. The outcome for the Fund is an increase in resilience to temperature changes while also helping push companies towards the Paris goals and hence steering the world away from more extreme climate outcomes (See Metrics & Targets for more information on the features of our Paris-Aligned product).

Later in 2021 MSCI developed a new Implied Temperature Rise (ITR) metric designed to replace AWP[1]. The new ITR metric uses forward-looking estimates to better take into account new regulatory guidance as well as the TCFD's modelling design principles. Subsequently, Mercer reassessed the temperature pathway analysis on our equity portfolio using the ITR metric, which showed our equity portfolio was aligned to a +2.2°C pathway (from +3.2°C previously). While still 'misaligned' under MSCI terminology, this updated analysis puts the Fund much closer to being 2°C or below, aligned. This second analysis will act as a benchmark to chart further alignment progress over the coming years.

This ACT tool, as well as periodic scenario analysis and other science-based metrics, will continue to be utilised in future reporting periods and will shape ongoing investment policy decisions.

Operational considerations

Environmental decisions also factor into the Fund's daily operations. While day-to-day considerations such as access to offices could be disrupted by physical climate change risk and severe weather events like flooding, the ability of staff to work remotely and the provision of the necessary technology aids business continuity and helps minimise risk to service delivery.

Bath & North East Somerset Council, who administer the Fund, are working towards their own Net Zero goal by 2030 and this desire to reduce emissions is reflected in staff policy, from hybrid working arrangements allowing some meetings to be held remotely to, where an office presence or travelling is required, encouraging public transport use, and providing bike storage. Separately the pension fund has an ongoing digitalisation programme to improve IT infrastructure, reduce the use of printed/posted material and increase electronic communication with members and employers. Whilst all employers and many members are set up for electronic communication, we recognise that not all members wish to communicate with the Fund electronically or by self-service access.

c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We believe that investing to support the Paris goals that deliver a below 2°C temperature increase is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries.

We have undertaken climate change scenario analysis in 2020 and again in 2021 to help us understand the impact on the Fund of different temperature increases. In 2020 Mercer, using evidence-based modelling of our then current portfolio to form the baseline for the analysis, compared the returns to two alternative portfolios with increased allocations to sustainable equities and low carbon real assets under three climate change scenarios: a +2°C, +3°C and +4°C average increase on preindustrial levels, over three timeframes: 2030, 2050 and 2100. As our Responsible Investing Annual Report shows, a portfolio with increased allocations to sustainable assets has the potential to improve returns under all but the most extreme scenario (+4°C). It is clear, too, that under a 4°C scenario asset allocation becomes less important as all model portfolios suffer from lower expected returns as the physical risks of climate change are realised. In addition, the analysis

[1] The new ITR metric moves away from AWP's carbon intensity-based emission metric to one calculating cumulative emissions across the next century against a 2°C benchmark trajectory, determining whether the projected trajectory is over or under the budget, and then converting that over- or undershoot into a degree of warming. More detail on ITR's methodology can be found in the MSCI research report here.

identified the potential to capture a 'low carbon transition premium' by investing over the medium term to 2030 in sustainable and transition aligned assets.

The analysis helped support the decision of the Fund to increase its allocation to Global Sustainable Equity from 3.5% to 10% of total assets, alongside committing to our Renewable Infrastructure portfolio.

Our 2021 analysis of the equity assets was completed using Mercer's ACT tool. This analysis, recognising the inherent challenges in managing the financial risk of climate change in emerging markets, was a factor in the decision to reduce the allocation to emerging market equities. Instead, the assets will be invested in more climate-aware strategies such as a global sustainable equity portfolio which improves the Fund's transition capacity and increases its exposure to green revenues. In addition, our engagement efforts will focus on developed markets where most of our capital is allocated and where we can exert a greater influence on policymakers, regulators, and industry to effect change. This action by itself is expected to reduce overall emissions in the portfolio by around 25%. However, the Fund recognises the importance of supporting emerging markets to transition to a low carbon future and retains indirect exposure to these markets.

The results of our scenario analysis continue to heavily impact on our investment decision making process as we seek to ensure our portfolio is below 2°C aligned and to do our part in ensuring the world avoids the most extreme scenarios.

Risk Management

a. Describe the organization's processes for identifying and assessing climate-related risks &
b. Describe the organization's processes for managing climate-related risks.

The Fund's Risk Register identifies the governance, operational, funding and investment risks that the Fund is exposed to and, having evaluated the financial and operational impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk. There is a process in place to identify, evaluate and implement processes or controls to mitigate risks and record them on the risk register. The register is reviewed regularly by the management team and is reported quarterly to the Committee. Climate change was identified as a 'Top 10' material risk in 2019.

The Fund's Investment Strategy Statement (ISS) evaluates the material financial and operational risks that may impact the investment strategy and expected future returns, alongside actions needed to mitigate those risks. Principal risks covered include Liquidity Risk (the inability to convert assets to cash), Counterparty Risk (the possibility that counterparties default and cannot meet obligations), and Climate Change. The ISS includes measures utilised by the Fund to manage the financial risk presented by climate change, and wider ESG risks, such as active policy development (which drives asset allocation decisions), a monitoring and review framework which includes full Strategic Investment Reviews every three years and modelling designed to quantify the risk climate change presents to the Fund's assets.

The Fund's processes for identifying and managing climate-related risks include the following:

- Climate change scenario analysis - Scenario analysis is used to assess what impact climate change may have on the asset portfolio at each strategic review. Further, working with Brunel and the Institutional Investors Group on Climate Change (IIGCC), the Fund provided data to the Paris Aligned Investment Initiative (PAII) to test the proposed investment framework, which provides the first practical blueprint for investors to achieve net zero targets. This modelling showed that the Fund's then current portfolio and a hypothetically Paris-Aligned portfolio both performed best under the scenario of a ~1.9°C temperature rise from disruptive policy action and emissions policies that are likely to be in place (rather than what ought to happen), compared to alternatives such as sticking with current policies. This reporting also showed that all investors would benefit from moving to a Paris Aligned portfolio.

IIGCC, Paris Aligned Investment Initiative

- Carbon footprint analysis - The Fund monitors its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives
- Engagement activity - The Fund adopts a pragmatic approach to engagement, recognising companies need time to successfully adapt their business models to manage climate risk in the context of generating long-term shareholder value and real reductions in carbon emissions. Equally, those companies that are intentionally failing to take account of climate transition risk and adapt their business models accordingly should be candidates for divestment, due to the financial risk they pose. The Fund is keen to ensure that all companies make progress in tackling climate change and selective divestment will be considered as an option where companies have made insufficient progress following the Paris Stocktake. Please also see Just Transition information in Metrics & Targets.
- Private Markets - Climate risk, in terms of both transition and physical risk, is fully embedded into the approach of the Fund's investments in private markets. For instance, the investment in Brunel's Secured Income portfolio comprises a 30% allocation to the Greencoat Renewable Income Fund which invests in a diversified portfolio of UK renewable infrastructure assets with a focus on solar, wind and biomass, with selected other green infrastructure opportunities such as renewable heat.
- Property – our Real Estate/Property portfolio is given a sustainability scores by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio may be compared to its peers and hence its potential climate change resilience. Our 2020 portfolio results showed that we exceeded the benchmark average in overall ESG performance. Contributors to this score included a development in Leicester making use of heat pumps, LED lighting and heat recovery ventilation and a self-storage centre in Wokingham that undertook a whole-life carbon assessment and energy review that led it to implementing recommendations that go beyond Net Zero benchmarks and could lead to it becoming carbon-positive on a net basis.

As a significant proportion of the Fund's assets are now managed through Brunel, they, alongside the fund managers they appoint to each portfolio, are expected to help the Committee in the identification and assessment of climate-related risks. The Fund's legacy fund managers (i.e. those that are not accessed via Brunel) are monitored on a regular basis to review the integration of climate risks into their portfolios and to understand their engagement activities.

In addition, the Fund independently participates in investor led initiatives such as Climate Action 100+, Local Authority Pension Fund Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC) to increase pressure on companies and governments to align with the Paris goals and lobby for further climate change progress. Recent actions by the Fund included becoming an initial signatory of the '2021 Global Investor Statement to Governments on the Climate Crisis', coordinated by IIGCC, which called on governments to step up their activities in meeting the Paris Agreement ahead of COP26 by making stronger national commitments and ensuring the COVID-19 recovery enhances resilience and supports a net zero goal.

Climate risk is also taken into account when the Fund sets its funding strategy, as the funding basis to value the liabilities reflects the expected real return of the investment portfolio. Therefore, the more climate risk is actively managed via the investment strategy, the less impact it has on the funding strategy. In the future we expect to include more climate scenario analysis when determining our funding strategy and the actuarial assumptions underpinning the strategy.

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Climate change is fully integrated into our, and Brunel's, investment decision making process and is included alongside other material risks in our ISS. The Fund considers ESG issues, such as climate change, when setting its investment principles and objectives and these issues are also considered when setting the Fund's strategic asset allocation. The Fund actively seeks to identify positive environmental (and Social/Governance) related opportunities across all asset classes in line with our investment return objective.

For instance, we have improved the environmental credentials of our Risk Management strategy by investing cash held within the portfolio in a fund that lends to companies and financial institutions with above average environmental practices, while placing exclusion criteria around areas such as fossil fuels and thermal coal. Looking forward, the Fund will explore further ways of integrating climate change into its risk management framework by, for instance, including a more environmentally aware benchmark and weighing the potential to build its exposure to green gilts in a cost-effective way as issuance increases.

Metrics & Targets

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund receives an annual Carbon Metrics Report for its listed equity portfolios detailing the Weighted Average Carbon Intensity (WACI) [2], fossil fuel related revenues, reserves exposure and the disclosure rates among companies within those portfolios.

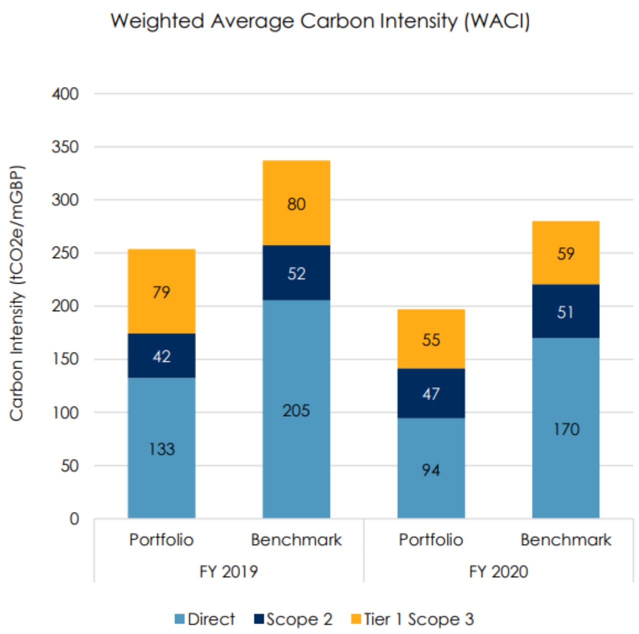
[2] Weighted Average carbon Intensity or 'WACI' quantifies a portfolio's exposure to carbon intensive companies. The metric takes the carbon intensity (total carbon emissions divided by total revenue) of a company and multiplies it by its weight in the portfolio.

Along with providing scenario analysis and figures on absolute emissions, Mercer's ACT analysis also categorises the holdings within our listed equity portfolios from 'Grey' to 'Green' on a scale of likely 'losers' to potential 'winners' in a low carbon transition. This is formulated using data on areas such as carbon emissions intensity and fossil fuel reserves combined with any transition commitments made and green revenues the company produces. This helps us identify the portfolios, and investment sectors, where more engagement may be needed, and pressure applied. Alternatively, it could have the potential to identify areas unable to successfully transition and hence our continued investment may need to be re-assessed.

b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks

This year's Carbon Metrics report showed that all the active equity portfolios that the Fund invests in exhibited a lower WACI than their respective benchmarks. In total, the aggregate portfolio's carbon intensity fell by 22% in 2020 alone and, relative to its benchmark, was 30% more efficient (or less carbon intensive).

This analysis covers Scope 1, Scope 2 and (Tier 1) Scope 3 emissions and because carbon-intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, it is a useful indicator of potential exposure to transition risks, such as policy intervention and changing consumer behaviour.



This same report also showed that the portfolio is less exposed to both fossil fuel revenues (0.79% vs 1.76%) and future emissions from reserves (1.6 $MtCO_2$ vs 5.1 $MtCO_2$) than its benchmark. Fossil fuel reserves help determine our 'stranded asset' risk. This data can be used to model downstream Scope 3 emissions (i.e. emissions generated by usage of end-products by consumers); however, it is well recognised that corporate reporting on downstream Scope 3 emissions remains incomplete and inconsistent. Work on standardising Scope 3 methodologies and reliable accounting for downstream emissions is ongoing through a number of bodies including the IIGCC's Paris Aligned Investment Initiative (PAII). This Initiative recognises the challenges presented by the lack of Scope 3 disclosures and the risk that portfolio level emissions reporting is often subject to double-counting (where the Fund holds shares in two companies and where Company A's Scope 3 emissions are equivalent to Company B's Scope 1 emissions). Notwithstanding these challenges, and as data becomes more reliable, the Fund will factor in downstream emissions when setting interim and long-term climate change targets to the extent possible

The proportion of companies in the Fund's listed equity portfolios which fully disclose carbon data was 58% (carbon weighted method) and 55% (investment weighted method), based on scope 1 emissions. The 2020 rates for full disclosure of carbon data were lower than in 2019, using an investment-weighted measure. This outcome is attributed to the increased exposure the Fund has to small-cap companies within the sustainable equity portfolio. Smaller companies do not tend to have the same resource to provide full and comprehensive disclosure relative to large-cap companies. Regardless, these scores indicate scope for improved reporting among investee companies.

Mercer analysis to the year ending December 2020 calculated that the absolute Scope 1 and 2 emissions for the Fund's listed equity portfolios were 85,775 tCO_2e. While carbon intensity gives valuable risk and decarbonisation information, absolute emissions must be lowered to enact real-world change. As this is the first year Mercer have calculated our absolute emissions, this 2020 data will be used as a valuable baseline to measure further reductions in subsequent years. In future years we will look to include more asset classes in this analysis as the relevant data becomes available.

Beyond the metrics listed above, Brunel utilise TPI management quality scores to assess the transparency of companies' management of their greenhouse gas emissions and of risks and opportunities related to the low carbon transition. They are also in the process of developing the ability to report on 'positive contributions' on our equity portfolios by reporting against the UN's Sustainable Development Goals (SDGs).

c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Our overarching goal is to achieve net zero emissions alignment by 2050 or earlier. This year, with Brunel, we have been actively involved in the development of the Paris Aligned Investment Initiative Net Zero framework, created by the IIGCC. This is the first investment framework worldwide that enables investors to assess whether their portfolios align with the Paris Agreement or not, and what changes they can make to achieve better alignment.

The actions needed to reach our goal are already well underway and we've made significant progress on our carbon reduction journey. As can be seen in our latest Carbon Metrics report, our goal of becoming 30% less carbon intensive than our benchmark by 2022 has been met, which means we have achieved one of our key interim climate goals two years ahead of plan. We have also worked with Brunel to develop the next generation of climate indices that go beyond existing narrowly defined low carbon aims while incorporating more positive criteria; one such index meets the requirements of the EU's Paris-Aligned benchmark standards by achieving a 50% reduction in carbon emissions over a ten-year period (and ongoing 7% year-on-year reductions), as well as committing to the phasing-in of Scope 3 emissions. At launch, we transitioned our 10% (c. £575m) strategic allocation to low carbon passive equities into this new Paris Aligned Benchmark. Not only will this help achieve our own Net Zero goal, but it also helps provide a path forward for the wider investment industry.

To help our progress towards Net Zero and in recognition of the need to accelerate our trajectory towards this goal over the next 10 years, the Fund has set new targets to reduce the absolute emissions in our equity portfolio by 43% by 2025 and 69% by 2030 compared to its 2020 levels. As part of our commitment to the IIGCC framework, we will be setting further dedicated ‘climate solutions’ targets across different asset classes that build on the allocation decisions we have already made. These will sit alongside existing climate targets set out in our ISS.

We fully support the idea of a ‘Just Transition’ and a key goal for the Fund is to use its power as a shareholder to encourage companies and policy makers to adapt their activities to support the transition to a low carbon economy. A ‘Just Transition’ has particular importance when investing globally as many required changes will disproportionately affect developing nations and societies. We are very aware of the need to consider our investment decisions from a global, societal perspective. One example is Semen Indonesia, a cement company we held through Brunel’s Emerging Markets Portfolio. While cement is not the most environmentally friendly to produce, it is still essential for development in lower-income countries in order to help provide basic facilities such as hospitals and housing and so cannot be completely disregarded. By working with such companies any negative effects can be minimised. Engagement has already seen positive results, with Semen reducing its environmental impact by switching to local renewable energy sources while being encouraged to effectively communicate and set clear reduction targets around areas such as carbon emissions and wastewater management. In this case, the investment manager, Genesis, are pressing for Semen to complete their own TCFD disclosures and participate in assessments run by the CDP (formally the Carbon Disclosure Project).

Mercer

Responsible Investment Total Evaluation ("RITE")

Results Summary and Action Plan

Avon Pension Fund

November 2021

welcome to brighter

Responsible Investment Total Evaluation (“RITE”)
Own the Sustainability Agenda

Environmental, Social and Governance (“ESG”) factors, including Climate Change, are important:

Risk, return and **reputation**

Increasing climate commitments to **net zero**

Diversity, equity and inclusion higher on the agenda

Scrutiny of **board decision-making** increasing

It’s a fast moving and complex area with a heavy political and regulatory influence:

Page 126

Focus so far has been on reporting…

- ESG investment beliefs
- larger schemes disclosing their exposure to climate change

Pressure to deliver change…

- from the individual to the employer
- from the Government to the Regulator
- from shareholders to the media

Common questions…

- Where do we start?
- What actions deliver the biggest impact?
- How can we evidence improvement that all our stakeholders will understand?

Mercer

Doing the RITE thing…

Insight

Clear understanding of existing sustainability status

Intervention

Focus on positive actions that enhance ESG integration

Impact

Evidence improvement over time that everyone can understand.

Responsible Investment Pathway

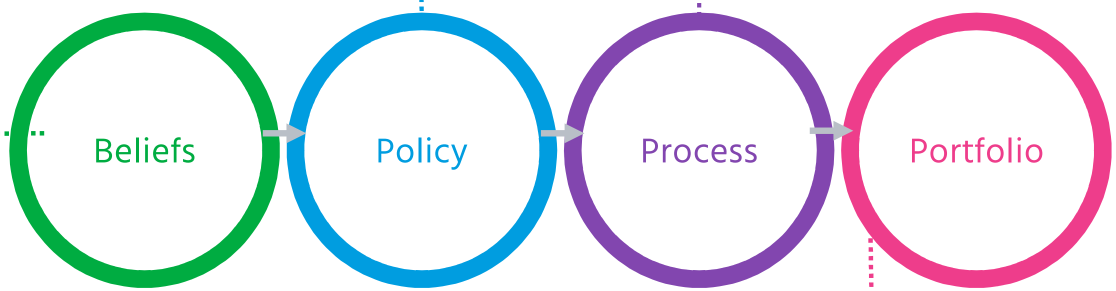
Climate change and ESG are part of every stage of investing

1. ESG and climate change beliefs established

2. ESG and climate change policies (e.g. Net Zero) and a governance framework (e.g. for TCFD compliance) in place

3. Are processes aligned to a strategy? How are internal and external managers guided to follow ESG policy and process?

4. Are reporting and monitoring structures in place to ensure practices align with policy?



5. Are climate change and ESG risks and opportunities integrated through the fund?

6. Is a clear approach to voting and engagement in place?

7. Are sustainability-themed ESG and climate change solutions part of investment strategy?

8. Is a robust and defensible screening framework in place? Is it monitored?

RITE – Assessment Criteria

RITE produces an objective evaluation that can be monitored over time and can provide a comparison relative to peers.

It assesses how well you are **currently** integrating Environmental, Social and Governance (ESG) considerations into your overall decision making.

The assessment covers the four steps of Mercer's Sustainable Investment Pathway; Beliefs, Policy, Process and Portfolio, and considers over 75 data points split into the following 21 categories:

Beliefs

1. Transparency
2. Responsible investment beliefs
3. Voting/engagement beliefs
4. Climate change beliefs
5. Other topics

Policy

6. Policies
7. Related stakeholder Policies
8. Responsible Investment Policy Provisions
9. Voting/engagement Policy Provisions
10. Climate Change Policy Provisions
11. Other topics

Process

12. Governance, Staff and Training
13. Risk Management (Risk Register)
14. Investment Process
15. Selection and Retention of (external) Managers
16. Voting/engagement
17. Monitoring and Public Reporting
18. Positive Performance Metrics

Portfolio

19. Portfolio investments
20. Asset classes - responsible investment and ESG
21. Stakeholder views, sessions and communications

RITE Score for Avon

Beliefs	A
Policy	A+
Process	A
Portfolio	A+

Total Score:

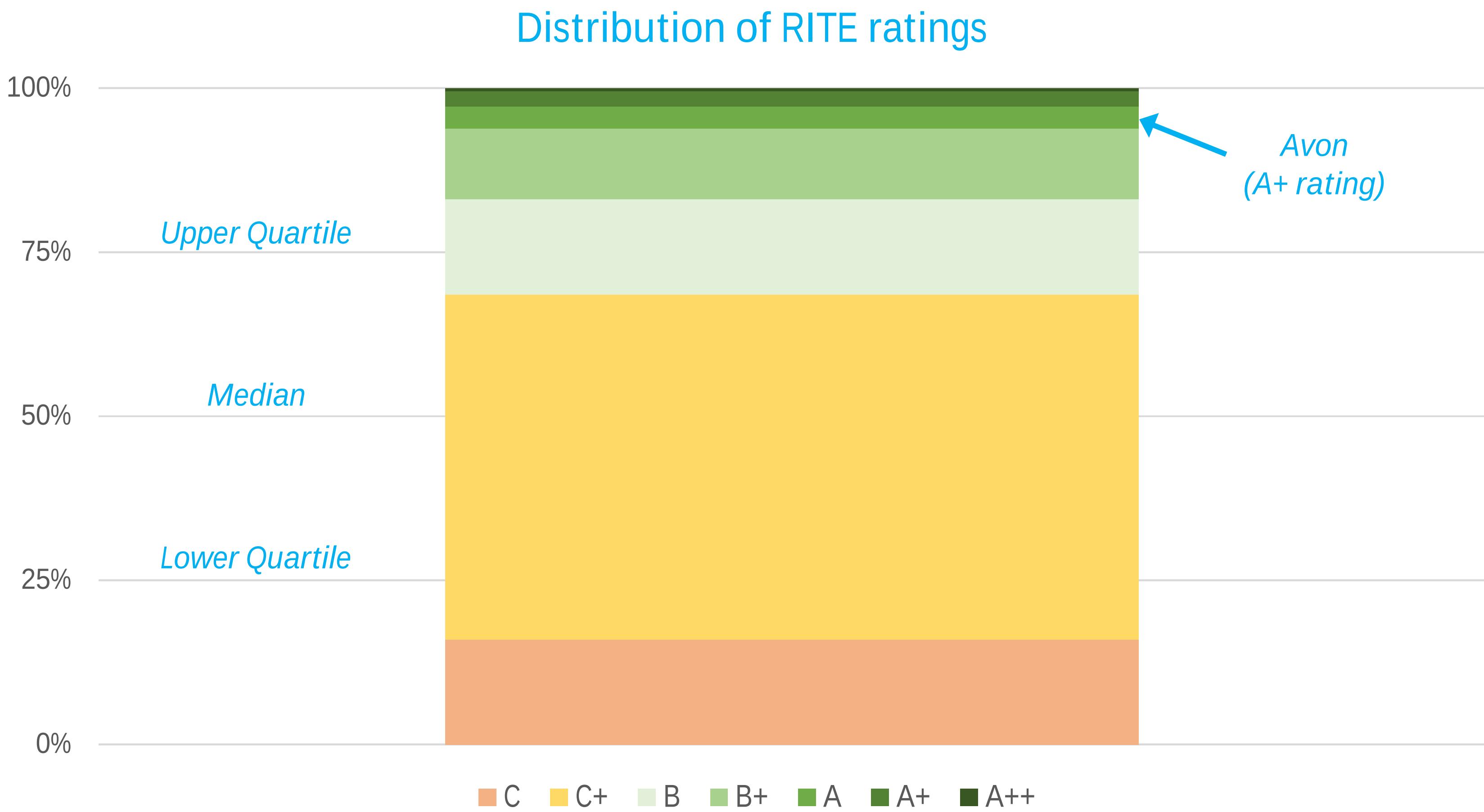
A+

Size average: B+
LGPS average: B+

Rating	Score
A++	91% +
A+	76 - 90%
A	61 - 75%
B+	46 - 60%
B	31 - 45%
C+	16 - 30%
C	0 - 15%

The Fund performed well ahead of similarly sized schemes and other LGPS funds

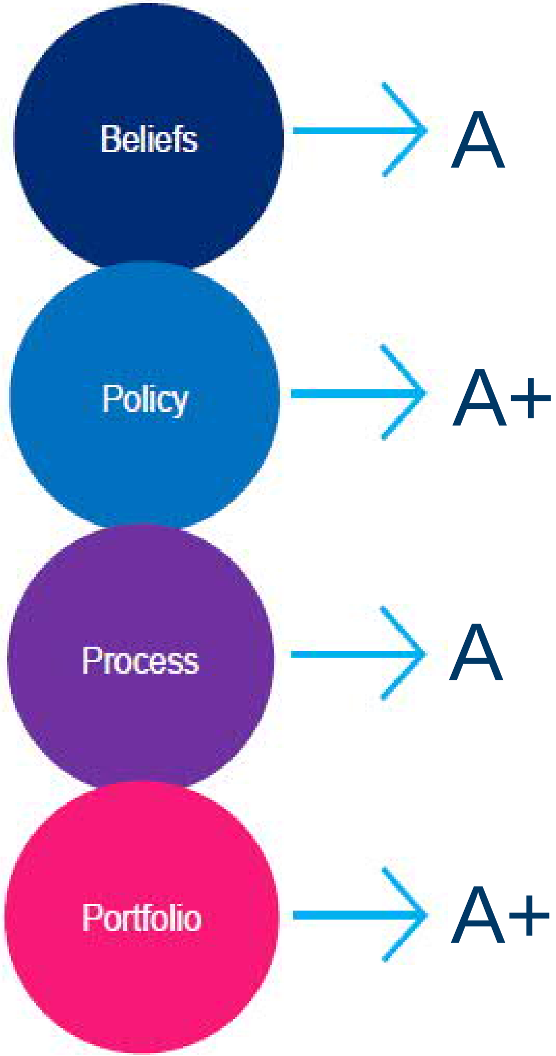
Comparison with other schemes



RITE covered 650 schemes; the Fund scored in the top 3% of all submissions

Mercer

Further detail



Positives: ESG beliefs have been collated and documented. Beliefs on climate change risks and opportunities are clear. Fund is member of the LAPFF, CA100+ and IIGCC collaborative initiatives.
Development areas: Key focus in recent years has been on climate change; could consider wider ESG issues within the lens of the UN Sustainable Development Goals (SDGs) and wider "impact" investing ideas.

Positives: Fund has a standalone Responsible Investment (RI) Policy. Target agreed for the Fund's equity portfolio to achieve Net Zero carbon emissions by 2050, with interim targets also set. Public annual disclosures will soon be made against the TCFD framework.
Development areas: Consider updating the RI policy (dated 2016) to reflect latest RI priorities, membership of initiatives, link to the annual RI report. Consider commenting on the Fund's own operational impact.

Positives: ESG considerations fully integrated into investment strategy and manager selection decisions. Annual RI report produced, including monitoring voting and engagement of investment managers. Carbon footprint of the equity portfolio to be reviewed regularly.
Development areas: Consider extending ACT net zero analysis and targets to other asset classes within the portfolio as data availability continues to improve.

Positives: Majority of equity portfolio is invested in dedicated sustainable and low carbon/climate transition funds. Fund also has an allocation to Renewable Infrastructure.
Development areas: Explore other ways of incorporating ESG and sustainable allocations into alternative asset classes.

Potential near-term action plan

Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022

Implement agreed equity portfolio changes, driven by intention to reduce Fund's immediate carbon footprint

Keep under review option to link BlackRock risk management collateral to an ESG tilted / low carbon equity index

Document Net Zero interim targets, and consider where other updates are required across Beliefs and Policy statements

Issue first draft of TCFD report

Q1 – Q3 2022:
Prepare for next round of TCFD reporting
Consider opportunities for greater alignment and level of disclosures
Carry out additional supporting analysis, such as ACT analysis within other asset classes

Q4 2022:
Draft and publish second TCFD report

Ongoing:
Continue to consider sustainable investment opportunities as appropriate

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**10 December 2021**	**AGENDA ITEM NUMBER**
TITLE:	**Brunel Pension Partnership – Update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Summary performance & risk dashboard Exempt Appendix 2a & b – Brunel Oversight Board Draft Minutes		

1 THE ISSUE

1.1 This report updates the Committee about Brunel and the wider pool covering delivery of service, performance, governance and risk management aspects of the pool.

1.2 The Investment Panel reviews the investment performance of the portfolios managed by Brunel. Investment performance is monitored in the Investment Performance Report.

1.3 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Committee notes:

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

3 FINANCIAL IMPLICATIONS

3.1 The management fees that Avon will pay to Brunel are included in the budget for 2021/22. They have been calculated in line with the current pricing policy. The budget and pricing policy have been approved by the Shareholders.

4 UPDATE

4.1 The dashboard of key indicators covering strategic aspects of Brunel is set out in Exempt Appendix 1. It covers all aspects of service delivery, governance, finance and risk. It is updated quarterly to reflect current activity and developments.

4.2 There are no items of significant risk to the Fund that need to be raised with the Committee.

4.3 **Governance:**

a) Brunel Oversight Board (BOB) met in September. July and draft September meeting minutes are in Exempt Appendix 2. The next BOB meeting is on 2 December 2021.

b) A Shareholder Forum was held in October. This is an opportunity for the Shareholder NED to discuss service delivery and strategic vision with the Shareholders directly.

c) The Client Group (CG) meets monthly with mid-month update calls as required. Five sub-groups work with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at each meeting/call.

d) Quarterly performance and KPI reporting are reviewed by BOB consisting of

(i) RAG reporting on agreed metrics and commentary on action taken by Brunel if there is underperformance or areas of concern for each portfolio

(ii) Performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.

There is currently no RED rated strategic risks and CG have not raised any material issues with BOB.

4.4 **Investments:**

a) The main focus over the last 12 months has been the development and launch of the Paris Aligned passive index and pooled funds. This has been a major innovation in the terms of investable products and Brunel were a key driver in driving the outcome. The new passive funds provided by LGIM were launched in November and Avon, along with other Brunel clients were seed investors.

b) Further work is being undertaken by the pool on the Cycle 3 private market portfolios (that will be launched in 2Q22). The Panel will consider the portfolio specifications in February 2022 in terms of capital commitments to maintain our current strategic asset allocations to these portfolios.

c) Brunel now manages £4.6bn (at 30/09/21) of the Fund's assets (81%). This includes £475m in private market portfolios (invested capital).

d) Brunel's quarterly investment performance and stewardship activity reports are included in the Investment Panel meeting agenda; Panel will highlight any issues or areas of concern via its normal investment reporting (covering all our managers) to Committee.

4.5 **Operational/Financial:**

a) Brunel provides BOB with a business update at each meeting which includes high level monitoring of the budget and the transition plan. CG monitors the budget variances in detail on a quarterly basis, raising any issues with BOB.

b) The project to improve investment reporting to clients is in full swing and we expect revised reporting by mid 2022 at the earliest.

5 BRUNEL WORKING GROUP

5.1 The Brunel Working Group (BWG) did not meet ahead of the September BOB meeting given there was no material or strategic issues to discuss in respect of the meeting agenda. The next BWG call will be ahead of the BOB meeting on 2 December. A verbal update will be provided at the meeting.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 EQUALITIES

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

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

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

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	Client Group and BOB 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 1521/21

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 10th December 2021

Author: Liz Woodyard
Report Title: Brunel Pension Partnership – Update List of Exempt attachments to this report: Exempt Appendix 1 – Summary performance & risk dashboard Exempt Appendix 2 – Brunel Oversight Board Draft Minutes

The appendices to the report contain 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 Committee 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 include information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and would 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 Committee 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 COMMITTEE**
MEETING DATE:	**10 DECEMBER 2021**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 September 2021)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Investment Performance Report

Appendix 3 – LAPFF Quarterly Engagement Monitoring Report

Appendix 4 – Revised Investment Strategy Statement

Exempt Appendix 5 – Mercer Paper: Impact Investing

Appendix 6 – Draft Public and Exempt Minutes from Investment Panel meeting held 19 November 2021

1 THE ISSUE

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

1.2 This report contains performance statistics for periods ending 30 September 2021.

1.3 The Investment Strategy Statement at Appendix 4 has been updated to account for the most recent changes to the strategy following the equity allocation review, creation of FRMG and the change to the EPS structure.

1.4 On the request of the Committee Mercer have provided a paper on Impact Investing which can be found at Appendix 5. Mercer will present their paper at the meeting.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to note:

2.1 **Approve the revised Investment Strategy Statement**

2.2 **The information set out in the report and appendices**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2020 will affect the 2022 triennial valuation. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, Mercer has analysed the funding position as part of the report at Appendix 2 (section 3). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. **It should be noted that this is just a snapshot of the funding level at a particular point in time.**

4.2 Key points from the analysis are:

a) The funding level improved slightly over the period to just over 101%. The surplus was estimated to have increased slightly over the quarter from £43m to £66m.

b) The increase in the funding level was driven by an increase in the value of the assets, which outstripped the growth in the present value of the liabilities.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £139m (2.9%) over the quarter ending 30 September 2021 giving a value for the Fund of £5,710m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and manager. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to the benchmark is summarised below. The currency hedge detracted 0.5% over the quarter as Sterling weakened.

Table 1: Fund Investment Returns (Periods to 30 September 2021)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	2.9%	13.8%	6.0%
Avon Pension Fund (excl. currency hedging)	3.4%	12.8%	5.9%
Strategic benchmark (no currency hedging)	3.3%	16.2%	7.8%
Currency hedge impact	-0.5%	1.0%	0.1%

5.2 **Fund Investment Return:** There was significant volatility in markets towards the end of the quarter, caused by supply chain disruptions and fears of default from Chinese property developer Evergrande. Gains made in July and August were wiped out in September. A lack of reliable alternative energy sources compounded supply chain disruption which drove gas prices higher. Global developed equites returned 2.6% over the quarter while emerging markets fell 5.7% in the same period. Increasing inflationary pressures led to talks of possible interest rate rises in the UK, with the Fed and ECB confirming plans to begin tapering their respective asset purchase programs. The 10-year US treasury yield rose above 1.5% following the September Fed meeting. In the UK, 5- and 10-year gilt yields increased 31bps and 30bps to 0.64% and 1.02%, respectively. In UK LDI markets, Q3 brought the inaugural green gilt, with the

2033 bond bringing record demand and a final issue size of £10bn. While demand for defensive Infrastructure assets, such as water and electric utilities, grew following rising Delta variant numbers, this proved a negative influence on the rest of the sector, which was also hit by supply chain disruptions, gas price volatility and questions around the status of the US infrastructure bill. Issuance of high yield bonds was strong and remain on course for a record-breaking year, with Private Debt markets also holding up despite a seasonal slowdown in August. Rent collection improved in the retail Property sector, with fears of falling valuations in the office sector mitigated by increased overseas demand and lack of high-quality supply. Sterling depreciated against the US Dollar by 2.4%, by 0.1% against the Euro and by 1.9% against the Japanese Yen. Further information on 3Q asset class performance can be found in the Mercer report at Appendix 2.

5.3 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted 0.5% over the quarter.

5.4 **Risk Management Strategies:** The liability hedging component of the risk management framework delivered a return of 4.1% over the quarter due to changes in inflation expectations. No interest rate or inflation triggers were breached over the quarter. The EPS added marginal gains to produce a net return of -0.6% over the quarter. The collateral position at the end of the quarter was within agreed constraints. FRMG are currently reviewing the inflation hedging position following a refresh of the liability benchmark portfolio and are also in the process of implementing the changes required to the EPS following the Committee's decision to exit the dedicated emerging market equity allocation.

B – Investment Manager Performance

5.5 The Global Sustainable Equity portfolio posted a strong absolute return of 3.6% over the quarter, outperforming the index by over 2%. Stock selection was the main driver of returns. The High Alpha portfolio returned 1.7% in absolute terms, underperforming the index by nearly 1%. Underperformance in this portfolio was driven by stock selection and an overweight to China as fears of default following the Evergrande headlines spread to other sectors in the region. The Emerging Market equity portfolio posted an absolute return of -6.5% and a relative return of -0.8% over the quarter. Rising energy prices resulted in the portfolio underweight to the Energy and Materials sectors detracting from relative performance. The DRF portfolio posted an absolute return of 0.5%. Core Infrastructure, Renewable Infrastructure and Secured Income all saw strong positive absolute returns despite a slowdown in the pandemic recovery and supply bottlenecks. The Fund's LDI portfolio provided a tailwind to total fund returns as the hedging positions added value as inflation expectations rose. Of those mandates with a 1-year track record the majority earnt positive absolute returns with notable outperformance across the Infrastructure mandates and Sustainable Equity. The currency hedge detracted over the quarter but was additive to returns over 1- and 3-year timeframes as Sterling strengthened over these periods.

Overview of Strategic Performance:

5.6 **Asset Class Returns:** Returns since the last valuation date (March 2019) for all equity mandates and core infrastructure are ahead of the assumed strategic returns used during the 2019/20 investment review. The legacy property portfolio lags assumed returns due to the impact of COVID on the property market. Due to the way this portfolio invests (capital drawn down over time) the focus should be on longer-term performance. Other mandates are either still in build-up phase or do not have a sufficient track record (e.g., Brunel MAC) to properly compare against strategic return assumptions.

5.7 **Private Markets Commitments to Brunel Portfolios:** At 30 September 2021 49% of the Fund's Cycle 1 (2018-2020) £115m commitment to Brunel's Infrastructure portfolio had been deployed. Pace of deployment remained steady, which is reflective of the fact the Brunel portfolio focuses on high-quality, essential services assets which have been impacted by COVID to a lesser extent than discretionary infrastructure assets.

At 30 September 2021 93% of the Fund's £345m commitment to the Secured Income portfolio had been deployed. A notable pickup in pace of deployment in the past two quarters has largely been the result of increased acquisition activity. Post quarter end the remaining capital was drawdown in full.

5.8 Over the quarter Cycle 2 (2020-2022) commitments continued drawing down capital. 14% of the £120m renewable infrastructure and 37% of the £120m secured income commitments have been deployed. The Brunel private debt portfolio made its first capital call (£19m) on the Fund's £245m commitment. The next anticipated call will be in January 2022.

6 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

6.1 As at 30 September 2021 all asset allocations were within the control ranges for rebalancing based on the strategic benchmark, except for private markets allocations that are still drawing down capital. Further proceeds were received from the wind down of the Schroder UK Property portfolio, some of which has been invested in Brunel's UK Property portfolio.

Cash Management

6.2 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

6.3 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

7 INVESTMENT PANEL ACTIVITY

7.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. The Panel's last formal meeting was held on 19 November 2021 in virtual format. There are no decisions to note or recommendations to approve by Committee this quarter. The draft minutes of this meeting provide a record of the Panel's discussion (see Appendix 6).

8 RESPONSIBLE INVESTMENT ACTIVITY

8.1 Responsible Investment highlights during the quarter included:

i. **FRC 2020 Stewardship Code Submission.** Post quarter end the Fund submitted its first report under the new 2020 FRC Stewardship Code. The Fund was a tier 1 signatory to the previous iteration of the Code. Successful applicants to the new Code will be notified in 1Q22**.**

ii. **Paris Aligned Benchmarks.** Following the successful launch of a new suite of Paris-aligned climate benchmarks developed by FTSE Russell and Brunel, LGIM (Brunel's passive equity provider) transitioned nearly £3bn into its new product which tracks the FTSE Russell indices. Avon transitioned its 10% (£575m) allocation to low carbon equities into the new product at the end of the quarter.

iii. **Asset Owner Diversity Charter.** The Fund pledged its support for a new charter developed by the Diversity Project which, on release, gained the support of asset owners representing over £1tn in AUM. The Charter seeks to formalise a set of actions designed to improve diversity, in all forms, across the asset management industry and calls for diversity to be incorporated into manager selection, ongoing manager monitoring and to lead and collaborate with others in the investment industry to identify diversity and inclusion best practice. Brunel have also pledged their support for the initiative.

8.2 This quarter the Fund will publish its inaugural TCFD report alongside its Annual RI Report which has been updated to include periods to September 2021 to capture the outcomes of the equity allocation review. See Agenda Item 10.

8.3 **Voting and Engagement Summary**: Over the quarter Hermes engaged with 149 companies held by Avon in the Brunel active portfolios on a range of 475 ESG issues. Environmental topics featured in 32% of engagements, 78.9% of which related directly to climate change. Social topics featured in 23.8% of engagements, where human capital, human rights and diversity featured prominently. Of the 26.5% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 116 meetings (1,228 resolutions). At 41 meetings they recommended opposing one or more resolutions. 64% of the issues Hermes voted against management on comprised board structure and remuneration.

8.4 **Stewardship Update:** During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	702
Resolutions voted:	3,941
Votes For:	3,419
Votes Against:	460
Abstained:	9
Withheld* vote:	53

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or 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.*

8.5 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 3.

9 INVESTMENT STRTAEGY STATEMENT (ISS)

9.1 Appendix 4 is the revised ISS. It has been updated for the following changes:

a) In the equity allocations following the recent review as follows (see Section 5 of ISS):

- switch from Low Carbon Passive to Paris Aligned passive
- reduction to Emerging markets
- investing proceeds into Global Equity and Sustainable portfolios.

It also includes the new carbon reduction targets for 2025 and 2030 (see paragraphs 8.6-8.8 of the ISS).

b) Creation of the Funding & Risk Management Group

c) Change to the Equity Protection Strategy from static to dynamic structure.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

11 CLIMATE CHANGE

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

12 OTHER OPTIONS CONSIDERED

12.1 None.

13 CONSULTATION

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

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

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APPENDIX 1

AVON PENSION FUND VALUATION - 30 SEPTEMBER 2021

	Brunel Portfolios	Cash Management Strategy	QIF	Funds of Hedge Funds	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities											
UK										0.5	0.0%
Emerging Markets	280.5									280.5	4.9%
Global Developed Markets	448.3		275.5							723.7	12.7%
Global Sustainable Equities	607.9									607.9	10.6%
Global Low Carbon	763.2									763.2	13.4%
Equity Derivatives[1]			-5.0					34.9		29.9	0.5%
Total Overseas	***2099.9***		***270.4***							***2370.3***	**42.1%**
Total Equities	**2099.9**		**270.4**					**34.9**		***2405.2***	**42.1%**
Exchange-Traded Funds		102.1								***102.1***	**1.8%**
DGFs	**533.2**									***533.2***	**9.3%**
Hedge Funds				**288.8**						***288.8***	**5.1%**
MAC	**322.9**									***322.9***	**5.7%**
Property	140.5				**29.7**	**176.6**				***346.7***	**6.1%**
Infrastructure							**403.8**			***403.8***	**7.1%**
Renewable Infrastructure	**70.7**									***70.7***	**1.2%**
Secured Income	**385.4**									***385.4***	**6.7%**
Private Debt	**19.5**									***19.5***	**0.3%**
LDI Assets & Bonds											
LDI Assets			635.6							635.6	11.1%
Corporate Bonds			132.1							132.1	2.3%
Total Bonds			**767.7**							***767.7***	**13.4%**
Cash									80.8	***82.4***	**1.4%**
FX Hedging								-18.6		***-18.6***	**-0.3%**
TOTAL	**3572.1**	**102.1**	**1038.1**	**288.8**	**29.7**	**176.6**	**403.8**	**16.3**	**80.8**	**5710.3**	**100%**

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Mercer

Avon Pension Fund

Committee Investment Report
Quarter to 30 September 2021

November 2021

Steve Turner
Joshua Caughey

Contents

Executive summary

1

Executive summary

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Market background

- The third quarter of 2021 started with optimism over reopenings but ended with global slowdown fears, amid concerns over the Delta variant and supply chain pressures.
- Developed equity markets remained in positive territory overall despite the sell-off in September though emerging markets contracted, driven by the regulatory crackdown in China and the restructuring of the large property developer Evergrande.
- Inflation expectations increased significantly, and gilt yields rose in response to hawkish signals from central banks.

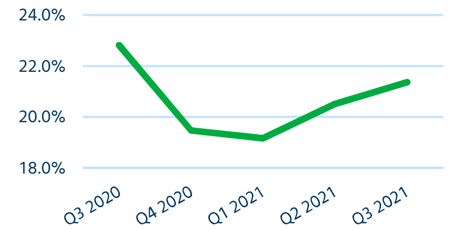
Mercer market views

- Our medium term views on the global economy continues to be that growth will remain strong, albeit with some potential short-term challenges.
- Corporate profit growth is expected to remain strong, though the heightened prospect of central bank tightening could undermine equities.
- Our outlook for returns over a 1-3 year time horizon for the major asset classes are summarised below:

Funding level and risk

- The funding level is estimated to have improved slightly over Q3 to just over 101%, as asset growth outweighed the rise in the value of the liabilities.
- It is estimated to have increased by 8% over the year to 30 September 2021 (as illustrated to the right).

- The Value-at-Risk rose over the quarter to £1,206m, or 21.4% of liabilities, mainly due to the increase in the absolute value of the assets.
- Risk as a proportion of liabilities has reduced over the year, largely due to the decision to move towards a dynamic equity option strategy.
- Whilst this was implemented in Q2 2021, its impact has been illustrated from Q4 2020.



Executive summary

Performance	• Most assets delivered positive returns over the quarter, particularly the LDI portfolio given the rise in inflation expectations. • Equity assets were up overall, and private market assets in UK Property, Secured Income and Infrastructure did well. • Underperformance relative to the strategic benchmark over the one and three year period to 30 June 2021 is mainly due to the impact of the equity protection strategy and the currency hedge in place. • 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 Diversified Returns mandate has also done well over the year. • Absolute returns for all growth mandates, except for the two older Property funds and the Secured Income mandate (which is still being drawn down), have been above the strategic returns modelled at the last investment strategy review in March 2019. • This was the case for all equity mandates given the strength of equity markets since 2019. • Within the alternative asset classes, Core Infrastructure has outperformed expectations, and the new UK Property mandate has done well since inception at the start of 2021. It is too early to assess performance of the other private market mandates as they are still in the drawdown phase.
Asset allocation and strategy	• In September, the Fund received its first capital call from the Private Debt commitment with Brunel. • At quarter end, all asset classes were within their ranges, except for the Renewable Infrastructure and Private Debt mandates which are still in the process of being drawn down. • Post quarter-end, the Committee agreed to terminate the Fund's holdings in Emerging Markets Equity. Holdings will be distributed between the High Alpha and Sustainable Equity mandates (which still contain emerging markets exposure). • From a strategic perspective, the allocation to Diversified Returns will also be 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. However, no rebalancing will take place at this stage due to prevailing relative positioning.
Liability hedging mandate	• BlackRock were in compliance with their investment guidelines over the quarter. • No triggers were breached over the quarter. • The inflation hedge ratio was below its target of c. 45% of assets, as the refreshed LBP showed increased inflation sensitivity within the Fund's liabilities. Changes to the inflation hedge ratio target will be considered in more detail by the FRMG in due course.
Equity option mandate	• Market value of options at end of the quarter was negative (£5m) as equity markets have risen since inception of the dynamic strategy in May. • They rose in value over Q3 however as the strategy protected during a volatile quarter, particularly within emerging markets.
Collateral position	• Collateral within agreed constraints. • The BlackRock QIF could sustain a 2.9% p.a. rise in interest rates, an 11% fall in the value of the options, or a 0.4% fall in inflation before the early warning trigger is breached.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.9	13.8	6.0
Strategic Benchmark **(2)** (ex currency hedge)	3.3	16.2	7.8
Relative **(1 - 2)**	**-0.4**	**-2.4**	**-1.8**

Market background

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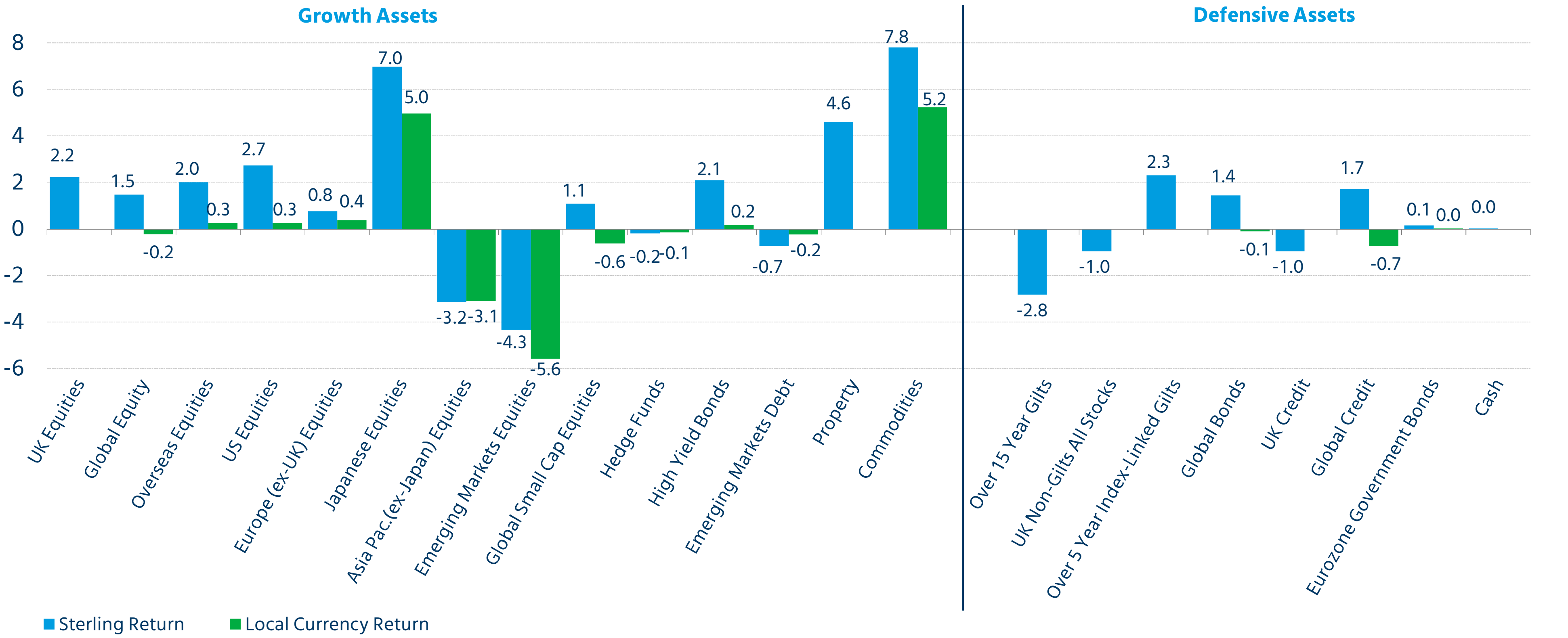
Market background

Return over 3 months to 30 September 2021 (%)



The third quarter of 2021 started with optimism over reopenings but ended with global slowdown fears. Over the first half of the quarter, the US, UK and much of Europe went ahead with fully reopening their economies which drove risk on sentiment. However, concerns over the Delta variant prompted some economies with 'zero Covid' policies, mostly around Asia Pacific to re-impose restrictions. This added to already existing supply chain pressures.

The supply impact was increasingly felt later in the quarter, in combination with concerns over pent-up demand peaking and Covid fears leading to a deterioration in sentiment. The struggles of China's largest property developer, Evergrande as well as the Chinese government intensifying its regulatory crackdown, against sectors such as technology and private education, added to concerns.

Mercer

Source: Thomson Reuters Datastream.

Market background – longer term

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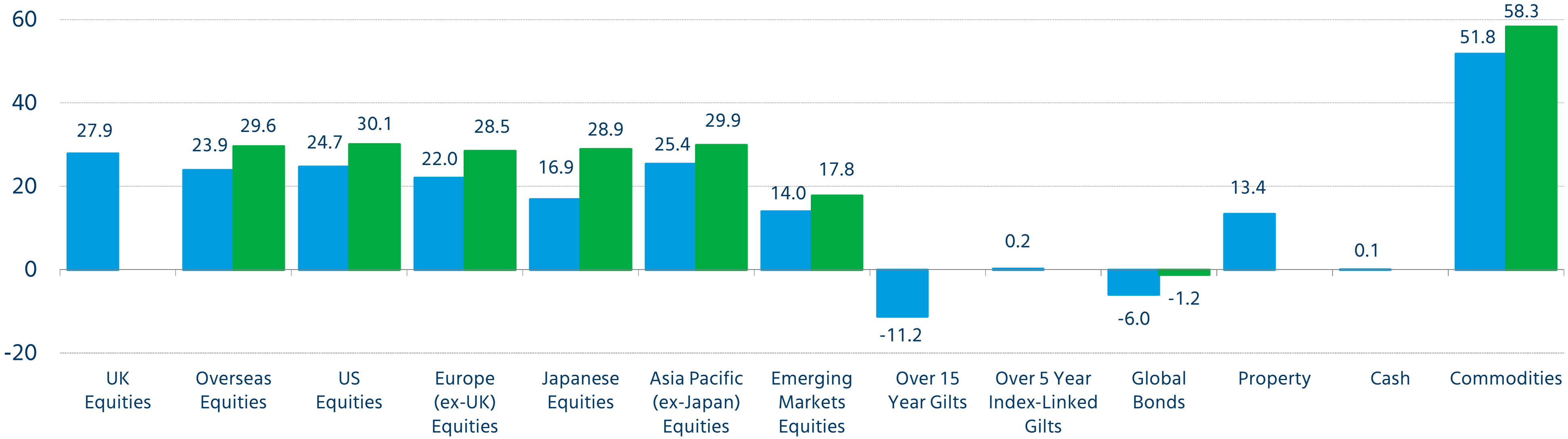
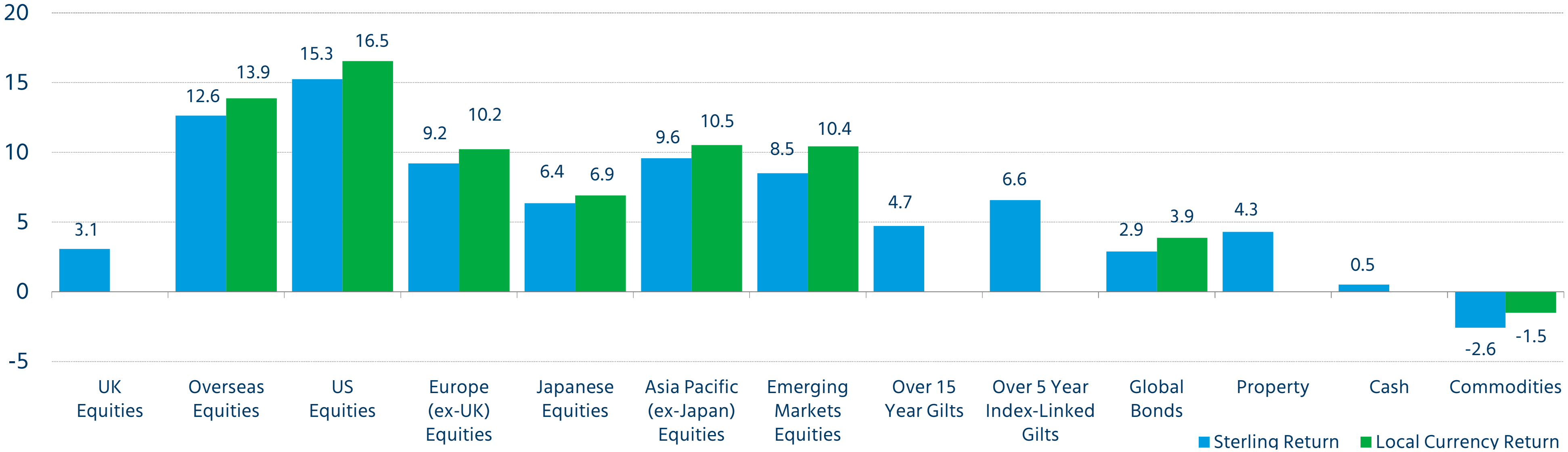
Return over 12 months to 30 September 2021 (%)



Return over 3 years to 30 September 2021 (% p.a.)



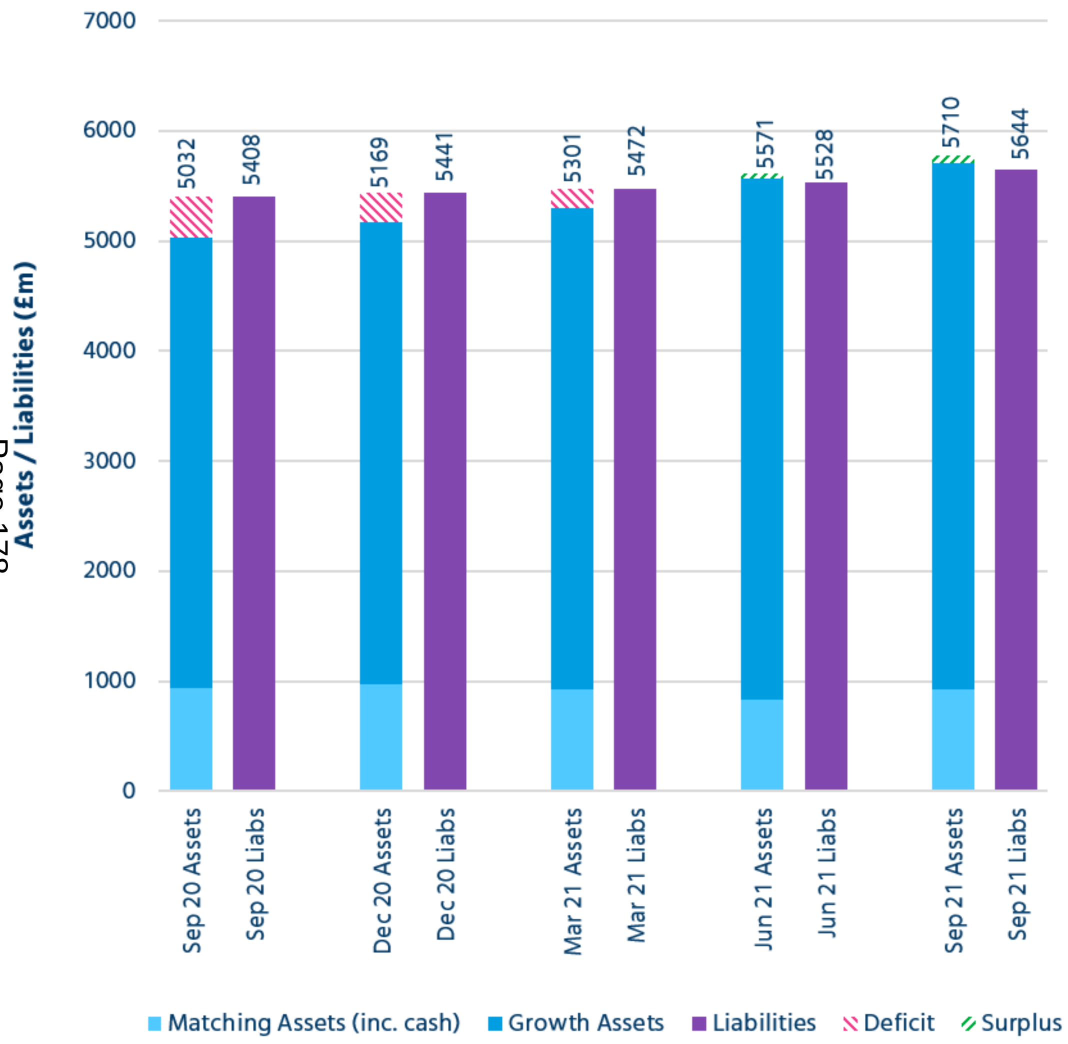
Mercer

Source: Thomson Reuters Datastream.

Funding level and risk

3

Change in deficit



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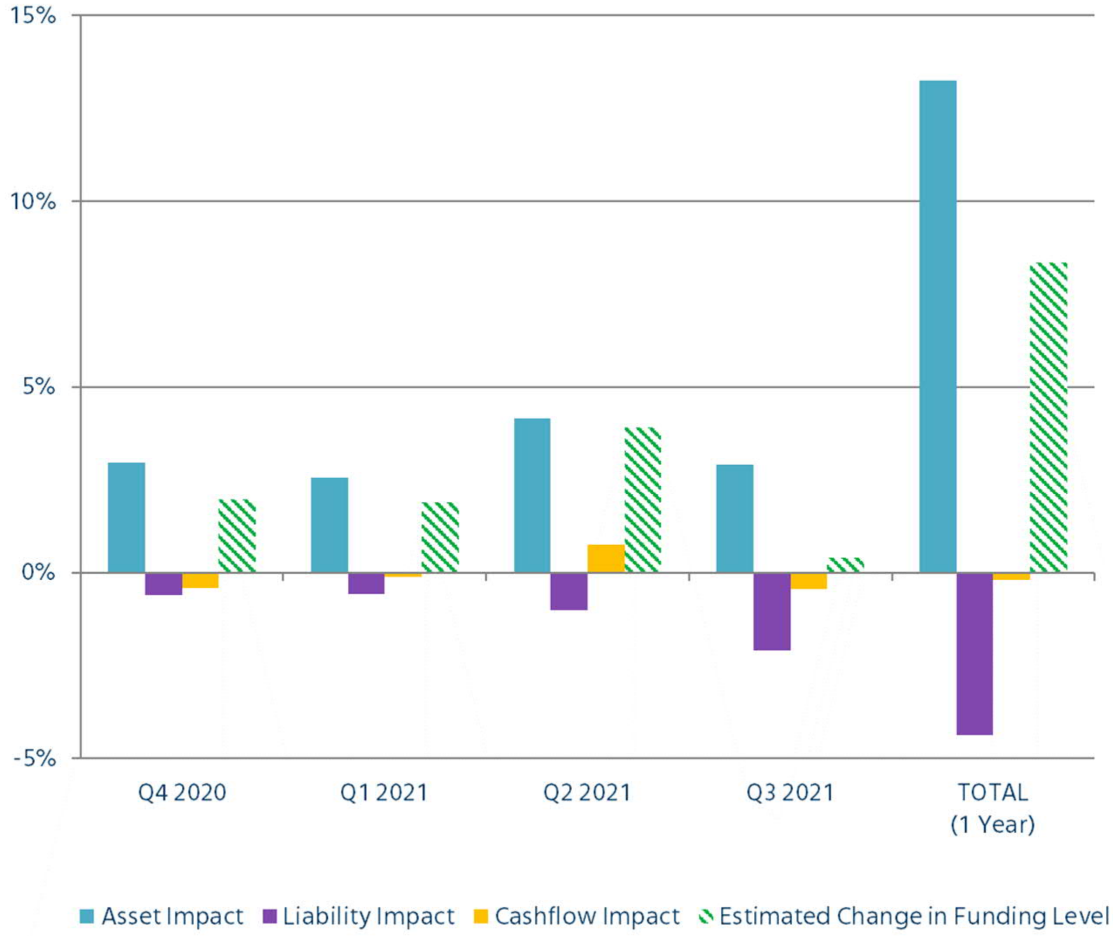
Based on financial markets, investment returns and net cashflows into the Fund, the surplus was estimated to have increased slightly over Q3 to £66m.

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

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

Liability values are estimated by Mercer.

Funding level attribution



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The Fund's assets returned 2.9% over the quarter, whilst the liabilities are expected to have increased by c. 2.1% due to the rise in inflation.

The combined effect of this, also allowing for expected cashflow over the period, saw the funding level improve slightly to just over 101%.

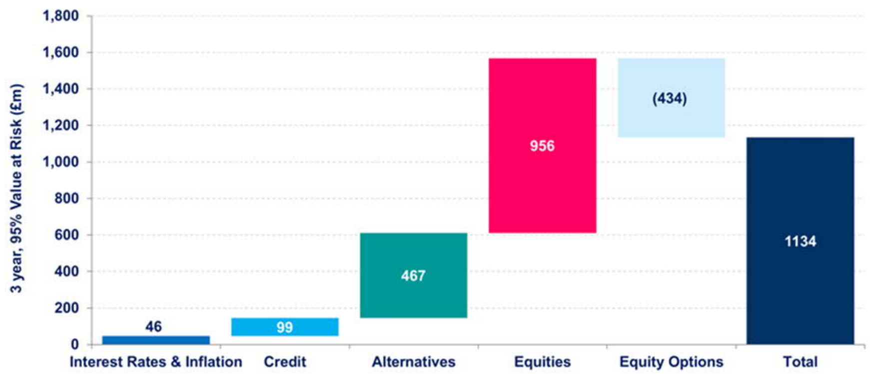
The funding level is estimated to have increased by c. 8% over the year to 30 September 2021.

Impact figures are estimated by Mercer.

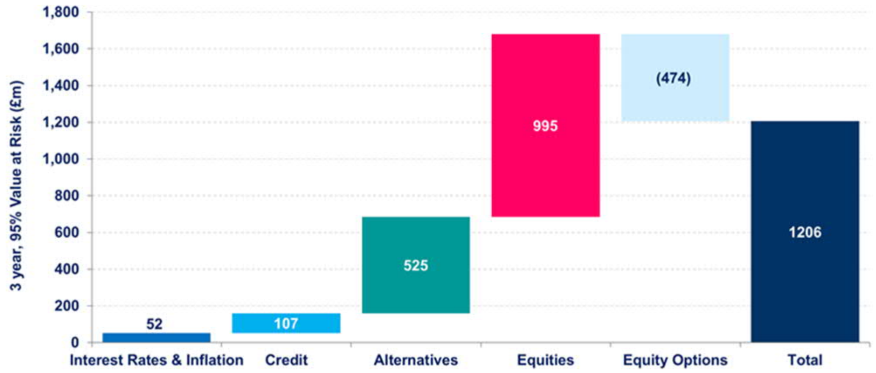
Risk decomposition – 3 year Value at Risk

- 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.

30 June 2021



30 September 2021



- As at 30 September 2021, if a 1-in-20 ‘downside event’ occurred over the next three years, the funding position could deteriorate by at least an additional **£1.2bn**.
- 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**, which was largely due to the increase in the absolute value of assets over the period.

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

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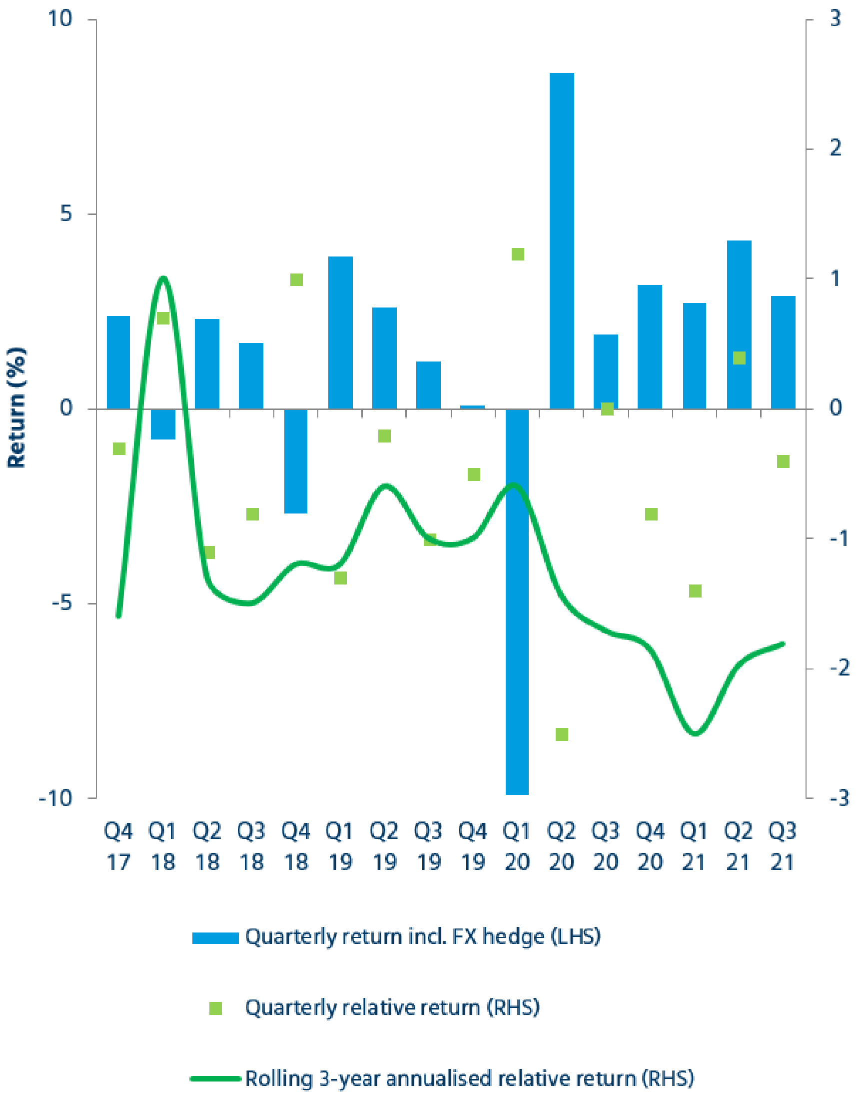
Total Fund performance



	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	2.9	13.8	6.0
Total Fund (ex currency hedge)	3.4	12.8	5.9
Strategic Benchmark **(2)** (ex currency hedge)	3.3	16.2	7.8
Relative (1 - 2)	**-0.4**	**-2.4**	**-1.8**

Commentary

- Most assets delivered positive returns over the quarter, and the largest contribution came from the LDI portfolio given the rise in inflation expectations. The Fund outperformed its benchmark before factoring in the currency hedge, which detracted due to a weakening of Sterling.
- Equity assets were up overall due to the rise in developed markets. The Sustainable mandate did particularly well as a result of stock selection at the manager level, though the Emerging Markets mandate detracted. This was mitigated by the Equity Protection strategy, which as a whole slightly added value over the quarter. The UK Property mandate with Brunel was another notable performer, and other private market assets within Secured Income and Infrastructure also had a modest contribution to outperformance.
- Over the one year and three year periods, the outperformers continue to be the Hedge Fund and Core Infrastructure mandates compared to their cash plus benchmarks, whilst the Property portfolios have underperformed. The Diversified Returns mandate has also done well over the year. Renewable Infrastructure remains in negative territory over the year due to it being in the draw down phase, but is ahead of target since inception.
- The Equity Protection strategy is the main reason for underperformance relative to the strategic benchmark over the one and three year periods, though this is in line with expectations given the increase in the underlying equity markets. The Currency Hedge made a positive contribution over both periods as sterling strengthened.

Mandate performance to 30 September 2021

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	2.5	2.4	+0.1	23.6	23.5	+0.1	12.0	11.9	+0.1	-	N/A
Brunel Global High Alpha Equity	1.7	2.6	-0.9	25.2	24.1	+0.9	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	3.6	1.5	+2.1	23.1	22.7	+0.3	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Low Carbon Equity	2.4	2.5	-0.1	23.7	23.9	-0.2	12.7	12.8	-0.1	-	N/A
Brunel Emerging Market Equity	-6.5	-5.7	-0.8	13.7	13.7	0.0	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	0.6	0.0	+0.6	8.1	0.1	+8.0	N/A	N/A	N/A	+4-5	N/A
JP Morgan FoHF	-0.6	0.8	-1.4	11.8	3.2	+8.3	8.8	4.5	+4.2	-	Target met
Brunel Multi-Asset Credit	0.6	1.0	-0.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder UK Property	0.6	4.5	-3.8	5.8	13.1	-6.5	1.8	4.0	-2.1	+1	N/A
Brunel UK Property	5.4	4.5	+0.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	1.3	2.5	-1.2	-1.4	10.0	-10.3	1.2	10.0	-8.0	-	Target not met
Brunel Secured Income	3.6	1.0	+2.6	10.5	3.0	+7.3	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	3.8	1.3	+2.5	16.5	5.2	+10.7	8.9	5.6	+3.1	-	Target met
Brunel Renewable Infrastructure	2.7	1.0	+1.7	-0.9	3.0	-3.8	N/A	N/A	N/A	+4	N/A
BlackRock Corporate Bonds	-1.5	-1.5	0.0	-0.8	-0.8	0.0	6.8	6.8	0.0	-	N/A
BlackRock LDI	18.1	18.1	0.0	49.0	49.0	0.0	8.3	8.3	0.0	-	N/A
Equity Protection Strategy	0.2			-0.1			-1.3			-	N/A

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

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees.
Returns are in GBP terms, except for JP Morgan and Partners , 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 Secured Income and Renewable Infrastructure mandates currently reflect those for the first commitment cycles only.
Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.
*Partners performance is to 30 June 2021 as this is the latest date that this is available. The mandate's inception was in 2009.

Mercer

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 (%)
Passive Global Equity	755,574	760,524	13.6	13.3	12.0	7 - 17	1.3
Global Sustainable Equity	586,798	607,893	10.5	10.6	10.0	5 - 15	0.6
Passive Global Low Carbon Equity	745,054	763,187	13.4	13.4	10.0	5 - 15	3.4
Emerging Market Equity	299,916	280,490	5.4	4.9	5.5	3 - 9	-0.6
Diversified Growth Funds	530,215	533,213	9.5	9.3	10.0	5 - 15	-0..7
Fund of Hedge Funds*	283,763	288,796	5.1	5.1	-	No set range	0.1
Multi-Asset Credit	317,989	322,864	5.7	5.7	6.0	3 - 9	-0.3
Property	353,307	346,729	6.3	6.1	7.5	5 - 10	-1.4
Secured Income**	350,558	385,384	6.3	6.7	10.0	5 - 15	-3.3
Core Infrastructure	389,545	403,824	7.0	7.1	5.0	2.5 - 7.5	2.1
Renewable Infrastructure**	55,286	70,741	1.0	1.2	5.0	2.5 - 7.5	-3.8
Private Debt	-	19,530	-	0.3	5.0	0 - 7.5	-4.7
Corporate Bonds	134,187	132,115	2.4	2.3	2.0	No set range	0.3
LDI & Equity Protection	526,595	630,516	9.5	11.0	12.0	No set range	-1.0
Cash***	241,631	164,295	4.3	2.9	-	0 - 5	2.9
Total	5,570,651	5,710,102	100.0	100.0	100.0		

Source: Custodian, Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.
Totals may not sum due to rounding and other residual holdings.
*Mandate due to be terminated.
**Valuations include both funding cycle allocations.
***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	268,832		275,451	4.8	4.8
Schroder	Global Equity	1,524		1,545	0.0	0.0
Brunel	Global High Alpha Equity	440,841		448,289	7.9	7.9
Brunel	Global Sustainable Equity	586,798		607,893	10.5	10.6
Brunel	Global Low Carbon Equity	745,054		763,187	13.4	13.4
Brunel	Emerging Market Equity	299,916		280,490	5.4	4.9
Brunel	Diversified Returns Fund	530,215		533,213	9.5	9.3
JP Morgan	Fund of Hedge Funds	283,763		288,796	5.1	5.1
Brunel	Multi-Asset Credit	317,989	2,876	322,864	5.7	5.7
Brunel	UK Property	115,388	17,950	140,467	2.1	2.5
Schroder	UK Property	58,712	-29,918	29,669	1.1	0.5
Partners	Overseas Property	179,206	-5,816	176,593	3.2	3.1
Brunel	Secured Income*	350,558	22,487	385,384	6.3	6.7
IFM	Core Infrastructure	389,545		403,824	7.0	7.1
Brunel	Renewable Infrastructure*	55,286	13,318	70,741	1.0	1.2
Brunel	Private Debt	-	19,175	19,530	-	0.3
BlackRock	Corporate Bonds	134,187		132,115	2.4	2.3
BlackRock	LDI & Equity Protection	526,595		630,516	9.5	11.0
Record	Currency Hedging**	72,250	-30,000	16,330	1.3	0.3
BlackRock	ETF	139,475	-40,000	102,066	2.5	1.8
Internal Cash	Cash***	73,977	6,634	80,830	1.3	1.4
Total		5,570,651	-23,385	5,710,102	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.
* Valuations include both funding cycle allocations.
** Valuation includes the collateral holdings for the currency overlay.
*** Valuation includes assets in transit.

Appendix

Q3 2021 equity market review

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Equity markets performance was mixed over the third quarter.

Global Equities returned -0.2% in local currency terms. Markets sold off during the second half of September amid fears of a global economic slowdown, driven by peaking demand and supply constraints, potential contagion from the restructuring of Evergrande and large central banks signalling that monetary policy might become less expansive.

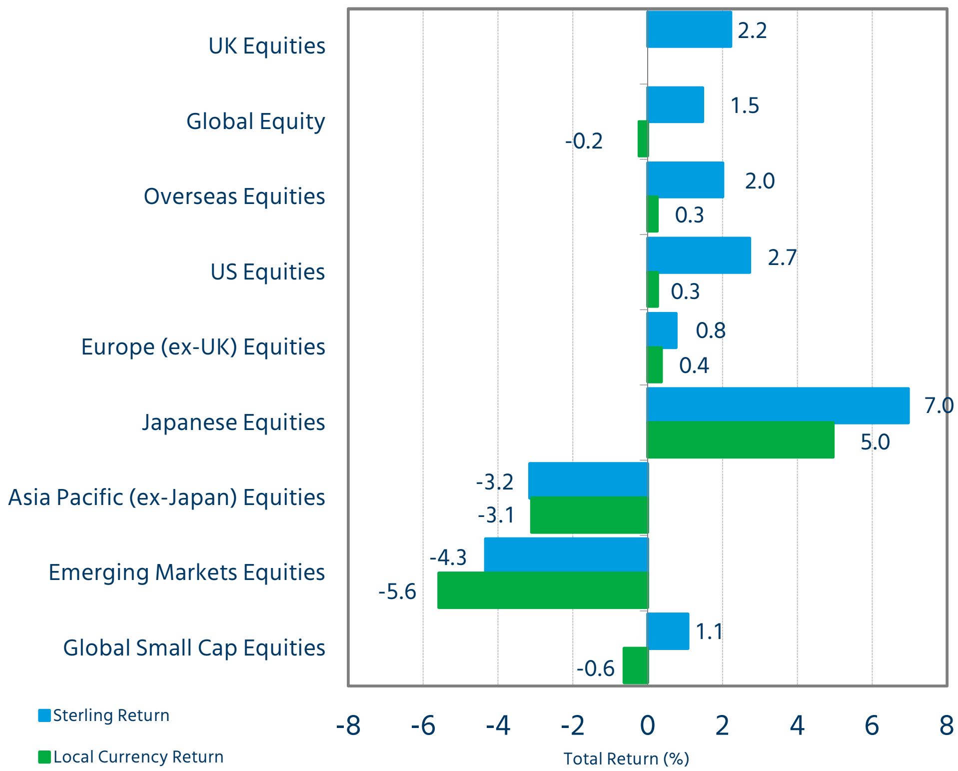
US equities returned 0.3% in local terms whilst **European (ex-UK) equities** returned 0.4%. Exposure to global trade and rising energy prices were headwinds for European equities. **Japanese equities** stood out as the best performer as political uncertainty reduced somewhat following the change in prime minister, returning 5.0%.

Emerging markets equities returned -5.6% in local terms, driven by the sell-off in China. Offshore Chinese stocks entered correction territory in light of the far-reaching regulatory crack down. Asia Pacific (ex-Japan) returned -3.1% as Covid restrictions held back growth in the region.

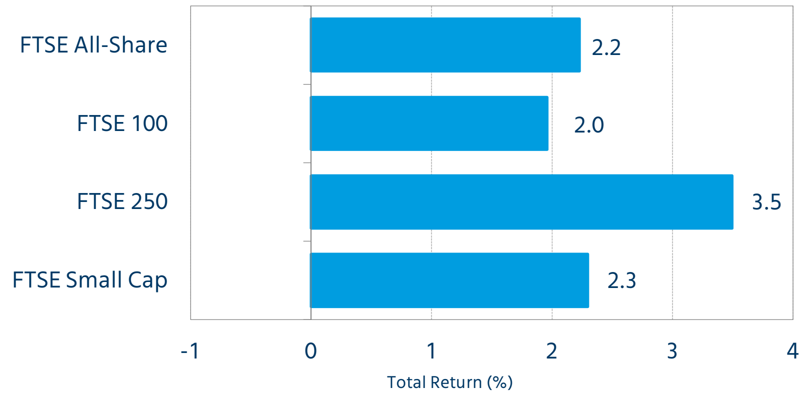
Global small cap stocks returned -0.6% in local terms. Small caps lagged global equities in local currency terms, as reopening momentum began to slow somewhat after a very strong first half of the year.

The FTSE All Share index returned 2.2%. The large exposure to financials, oil & gas, and basic materials supported UK large caps once again while small caps benefited from the economic rebound as the UK economy fully reopened earlier in the quarter. Momentum weakened later in the quarter due to soaring natural gas prices shocking the energy sector and lorry driver shortages exacerbating supply constraints, especially for crucial products such as petrol.

Equity Performance - Three Months to 30 September 2021



FTSE Performance by Market Cap (FTSE) - Three Months to 30 September 2021



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Source: Thomson Reuters Datastream.

Q3 2021 bond market review

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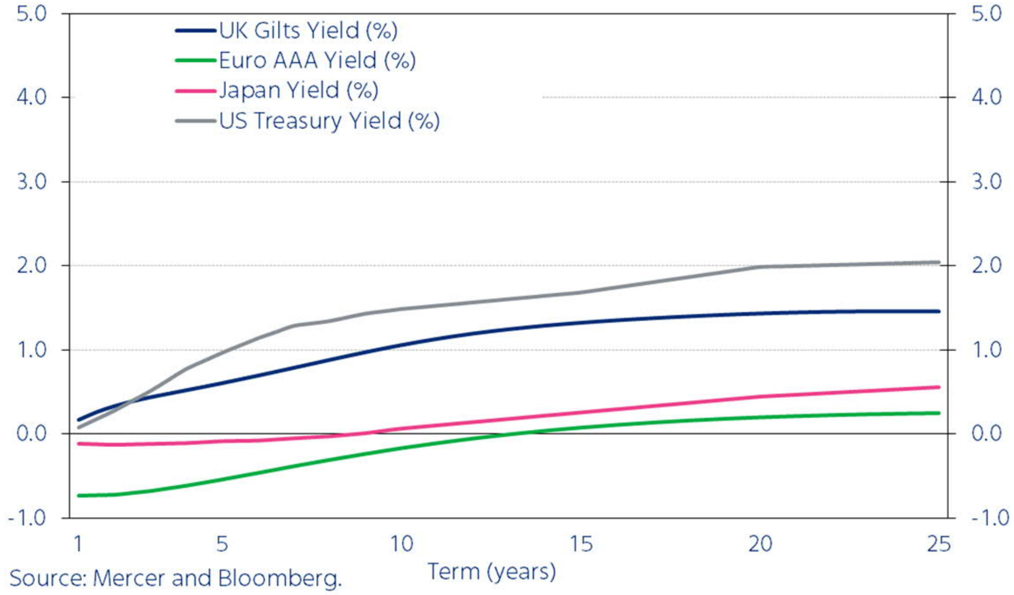
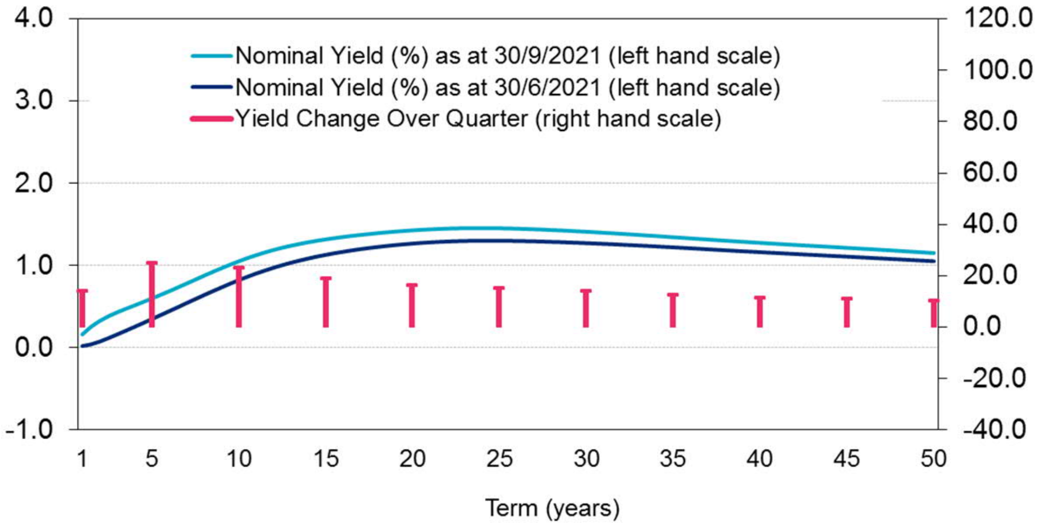


Government Bond Yields

Global government bond yields generally rose over the quarter. Gilt yields rose sharply in September after falling earlier in the quarter. The UK 10-year benchmark yield rose by 27 basis points and the yield curve shifted upwards, with the 5 and 10-year yields rising the most. The US 10-year government bond yield rose by 8 basis amid expectations of tapering of asset purchases later in 2021.

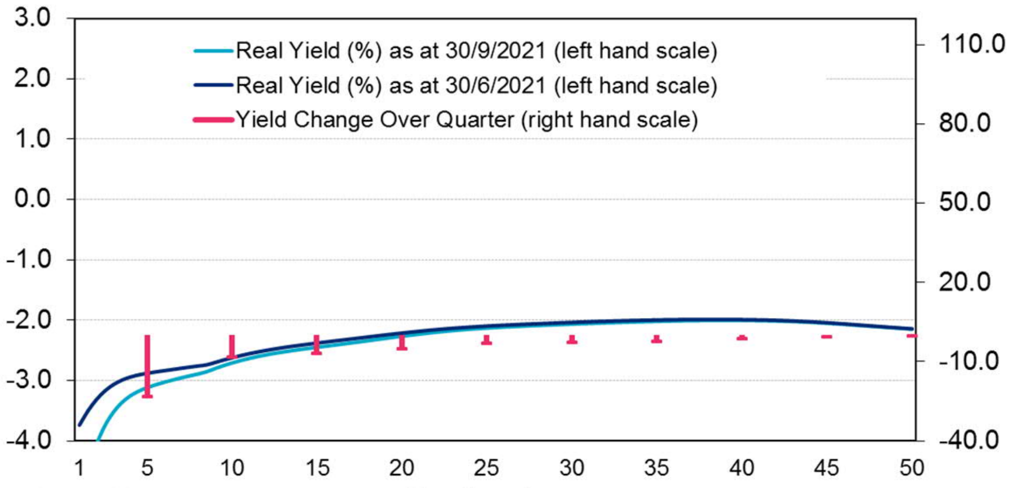


UK Nominal Gilt Yields

The UK yield curve shifted upwards over the quarter. The Bank of England surprised markets by bringing forward expectations of the timing of rate increases, hinting at a move in 2022 with the first increase potentially coming as early as late 2021. During the quarter, the first green gilt was issued by the UK government and was met with strong demand from the market.

Mercer

Q3 2021 bond market review



Source: Mercer.

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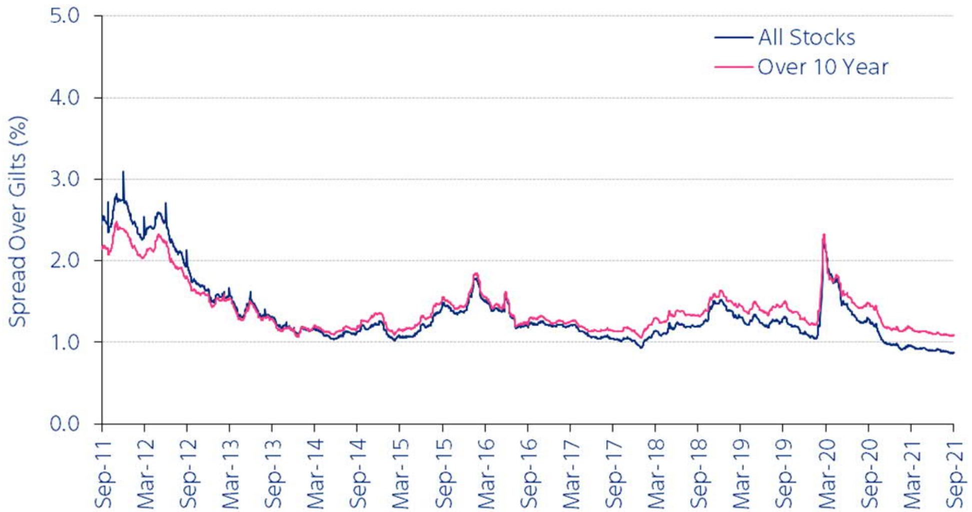

Source: Thomson Reuters Datastream.

UK Index-Linked Gilt Yields

UK real yields fell across the curve, more so at the short end. Market based measures of inflation expectations, in the form of breakeven inflation, shifted upwards. The UK 10-year breakeven rate rose 50bps to 3.8% - the highest level since the 2008 Financial Crisis.

Corporate bonds

Yields on investment grade credit generally rose as the increase in government bonds was only partially offset by tighter credit spreads.

Q3 2021 currency market review

Sterling depreciated against all major developed currencies as the energy and supply shortages made investors re-consider their bullish positioning amid reopenings and a smooth Brexit. Nevertheless, on a one year basis, sterling appreciation against major currencies remains substantial. The US dollar strengthened against major developed market currencies over the quarter, due to monetary tightening in the US and safe haven demand towards the end of September.

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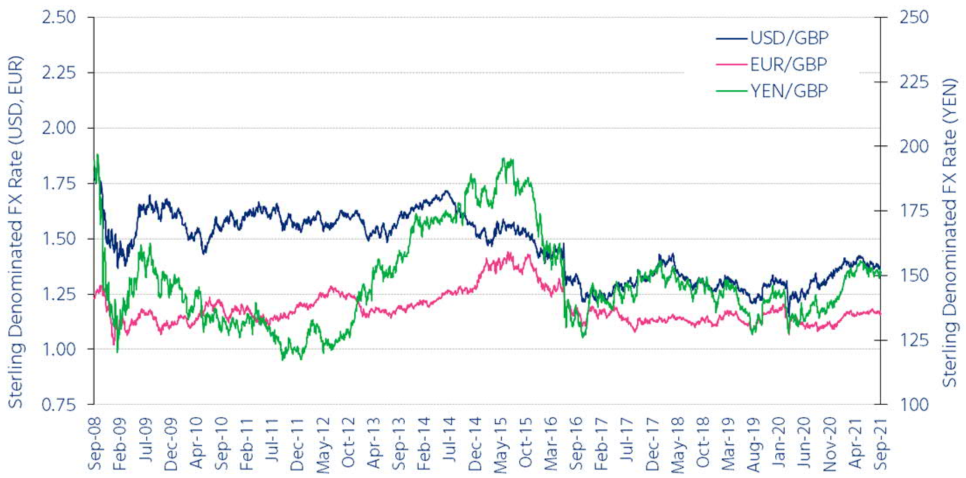
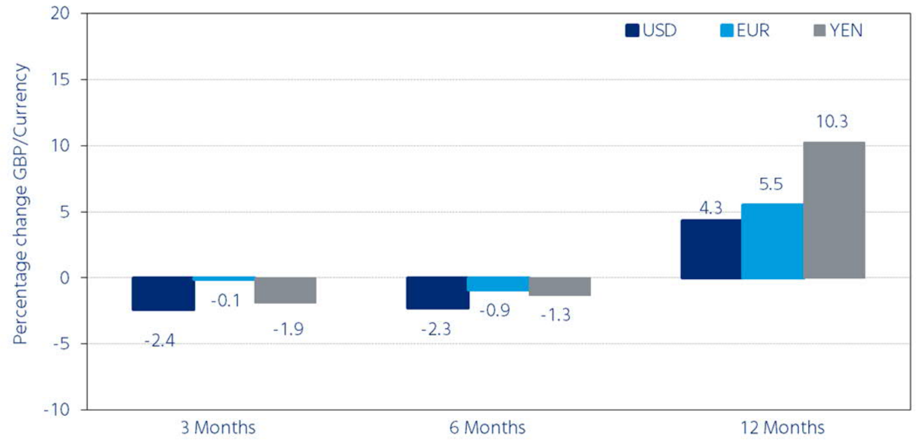
Sterling Denominated FX Rate



Source: Thomson Reuters Datastream.

Change in sterling against foreign currencies



Source: Thomson Reuters Datastream.

Q3 2021 property

UK property as measured by the MSCI Index increased by 4.6% over the quarter to 30 September 2021.

Source: Thomson Reuters Datastream.

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	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	3 Month LIBOR +3% p.a.	-	July 2015
Brunel	Multi-Asset Credit	SONIA	+4-5%	June 2021
Schroder	UK Property	IPD UK Pooled	+1%	January 2009
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	3 Month LIBOR +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure	CPI	+4%	December 2018
Brunel	Private Debt	3 Month LIBOR + 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	7 Day LIBID	-	-

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

Mercer

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Quarterly Engagement Report

July-September 2021

Local Authority Pension Fund Forum

Shell, Rio Tinto, ArcelorMittal, National Grid, SSE, Anglo American

CLIMATE EMERGENCY

LAPFF Chair Visits Tailings Dam in Devon

Objective: Although LAPFF's plans to visit Brazilian communities affected by tailings dams have been postponed due to Covid, LAPFF's work with the communities has continued apace over the last year and a half. As part of building an understanding of how tailings dams function, LAPFF Chair, Cllr Doug McMurdo, visited a mine in Devon that has a tailings dam (pictured above and on cover).

Achieved: Cllr McMurdo visited the tungsten mine at the beginning of July. He was shown round the various mining functions by the mine's CEO and other staff, and part of this tour included the tailings dam. The Devon tailings dam was of a downstream construction. When asked about the construction type, the mine staff explained that they would not use an upstream dam because this type of construction is too dangerous. One of the big problems faced by communities affected by tailings dams globally is that they are potentially in the path of run off from upstream dams.

In Progress: LAPFF is continuing to engage with companies, communities, and other stakeholders, as well as undertaking research to prepare for its visit to Brazil, whenever that might be.

Shell

Objective: LAPFF had some serious concerns about the out-going Shell Chair's statement that oil and gas would be needed as part of the company's portfolio for the foreseeable future. Various conversations and interactions with the CEO had also raised concerns about the company's trajectory, both from a carbon perspective and from a business perspective. Consequently, LAPFF was keen to meet the new Shell Chair, Andrew Mackenzie, formerly CEO of BHP and no relation to current BHP Chair, Ken MacKenzie.

Achieved: The meeting took place in early September, with the conversation focused primarily on Shell's financial performance and how the company's approach to fossil fuels would impact on that performance. LAPFF Chair, Cllr Doug McMurdo, noted that compared to BHP's total shareholder returns over the last ten years, Shell had performed poorly and that net zero objectives would not enable the company to achieve Paris-aligned climate targets. While LAPFF was grateful to Sir Andrew for his engagement and welcomed his willingness to take suggestions, significant inconsistencies in Shell's business strategy, business model, and climate strategy appear to persist.

CLIMATE EMERGENCY

In Progress: LAPFF will continue to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.

Rio Tinto

Objective: This year, LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Therefore, Cllr McMurdo was pleased to meet Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further. Mr. Cunningham took over as interim CFO when Jakob Stausholm became CEO but has been made permanent recently.

Achieved: It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. However, everyone LAPFF has spoken to at Rio Tinto acknowledges that despite progress since Juukan Gorge, the company has some way to go to regain investor and affected community trust in its operations.

One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed. This year, LAPFF has met not only with Peter Cunningham but also with Mr. Stausholm and Chair Simon Thompson. The company continues to offer meetings with various specialist staff and affected community members with which the company engages.

LAPFF recognises that engagement is not progress. It also recognises that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

In Progress: Therefore, LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from an environmental, social, and financial perspective.

As a follow-up, the LAPFF Chair also met with Rio Tinto staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM. The challenge as ever is addressing Scope 3 emissions, which comprise 95% of total emissions. In doing so, the pace of roll-out of zero-carbon technologies by the company's steel customers was noted.

Anglo American

Objective: LAPFF has been concerned that Anglo American's board and management have not been sufficiently engaged with community members affected by the company's operations. However, LAPFF learned at the Anglo American AGM that the company's CEO, Mark Cutifani, had visited the company's controversial Colombian joint venture with Glencore and BHP, Cerrejon. Therefore, Cllr McMurdo met with Mr. Cutifani to hear about the CEO's experience of visiting the project.

Achieved: LAPFF appreciated Mr. Cutifani's openness in discussing the political, cultural, and environmental challenges surrounding Cerrejon. The project is a thermal coal mine, and just days after speaking to both Mr. Cutifani and BHP Chair, Ken MacKenzie, LAPFF received news that both Anglo American and BHP were pulling out of the joint venture to leave Glencore as the sole mining giant involved with the project. Subsequently, LAPFF representatives also met with Anglo American to discuss the company's next 'say on climate' resolution.

Anglo American has developed a detailed community engagement approach as part of its Social Way programme. However, the fact remains that all three companies have been investors in Cerrejon during a time when there have been allegations of severe human rights and environmental violations. All three companies have been named in a complaint filed with a number of OECD National Contact Points on these grounds.

In Progress: LAPFF will continue to engage with Anglo American on its community engagement approach and its climate approach.

BHP Voting Alert

LAPFF issued a voting alert to oppose BHP's climate plan. While LAPFF commended BHP for putting its plan to a vote, the plan is not aligned with the goals of the Paris Agreement. BHP has undoubtedly made progress on climate, but given the pressing nature of the climate crisis, LAPFF expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.

BHP

Objective: There is a debate raging in Western Australia about a proposed cultural heritage law to increase protections for Indigenous communities in the area. LAPFF had spoken to Rio Tinto about the law, and the company had not seen the final draft. However, affected communities are apparently not pleased with either the process or the content of the law. As BHP is another company affected by the law, LAPFF had a meeting with the company's Indigenous Affairs representative to find out more about the law. LAPFF is also seeking a meeting with the affected Indigenous communities.

Achieved: LAPFF was able to understand from the discussion with BHP that the main point of contention appears to be the level of say affected communities have over whether projects move forward, a so-called 'right of veto'. While there are apparently improvements from the last piece of legislation, the question is whether sufficient positive change will be made to the new legislation to protect affected communities from another Juukan Gorge.

In Progress: LAPFF will continue to engage with BHP, Rio Tinto, and affected community members to see if there is a role for LAPFF to play in promoting a positive outcome to this debate and the eventual legislation.

COMPANY ENGAGEMENT

ArcelorMittal

Objective: After the long-awaited issuing of the company's second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress.

Achieved: ArcelorMittal now has a group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The LAPFF Vice-Chair, Cllr Chapman commended the strengthening of targets and announcements of zero carbon steel plants in Spain and Canada. On request, the report also included a mapping of the company progress against the CA100+ benchmark. This mapping will be used by many investors to inform AGM voting. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform.

In Progress: Given the strengthened decarbonization targets and 'real world' impact of the new zero carbon steel plants, this engagement was considered to have shown substantial progress.

National Grid

Objective: LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a 'say on climate' resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company's net zero strategy, 2030 action plan, and progress against emission reduction targets. Cllr Rob Chapman, the LAPFF Vice-Chair, met with the new chair, Paul Rasput Reynolds, and attended the AGM to encourage robust decarbonization plans.

Achieved: A voting alert recommended that members support the board's accountability for annual approval of a transition plan as well as article amendments supporting provisions for holding 'hybrid' annual meetings. The latter provides greater opportunities for shareowners to participate and ask questions of board members. At the meeting with the chair, LAPFF questions focused on seeking more ambition due to the new International Energy Agency Net Zero pathway, on phasing out gas, on setting short term targets up to 2025, and on looking for changes in planned capex to allow for a larger take up of electrification for heating. At the AGM the following week, LAPFF posed questions; the questions and responses from the board can be viewed here. Ms. Reynolds noted there would be a board meeting following the AGM to consider how the UK and US transition plans are implemented and remain fit for purpose.

In Progress: It was considered the outcome of the meeting was 'change in progress'.

SSE

Objective: Cllr Rob Chapman also met with SSE to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition. The Forum is keen to continue this dialogue as SSE has been particularly constructive in its discussions with LAPFF over the years and has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy.

Achieved: Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets. A number of just transition challenges for the company were also discussed, along with a further discussion on the relevance of and uses for carbon capture and storage (CCS).

After the engagement meeting, Cllr Chapman also attended SSE's AGM by virtual means to ask questions around CCS and grid structure in relation to SSE's climate goals.

In Progress: LAPFF and SSE have agreed to continue dialogue and speak as necessary, but in particular prior to SSE's next 'say on climate' resolution.

HSBC

Objectives: The LAPFF chair met with HSBC representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. Clarity was also sought on how the company is progressing on pulling out of coal-intensive industries.

Achieved: Representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact. On retreating from coal-intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate-related Financial Disclosure metrics in 2020. However, it was recognised this still represents investments of £1.2 billion, but as existing, not new, commitments.

In Progress: Representatives noted that they are developing the methodology for a transition risk questionnaire for clients and that commitments would be made in 2021. A further request was made to disclose fossil fuel investments in the annual report. This disclosure is done at 'top level' but would not separate out renewables investments made by such companies. At this stage, the outcome was considered 'change in progress'.

Standard Chartered

Objectives: The LAPFF chair met with the Standard Chartered chair, José Viñals, to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.

Achieved: Of concern has been the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows to be aligned with an increase of 5-6°C in global warming. Standard Chartered will be issuing a roadmap setting out its route to net zero in October 2021, and the board is putting a 'say on climate' resolution to the 2022 AGM.

COMPANY ENGAGEMENT

In Progress: It appears that an NGO is considering filing a resolution to the Standard Chartered AGM asking for commitments not yet evident in the company's current transition plans. LAPFF met with this NGO to hear more of its concerns.

Mitsubishi Financial

Objective: Cllr Glyn Caron, of the LAPFF Executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi UFJ Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company's June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank's provision of finance to fossil fuel expansion and deforestation.

Achieved: In May, MUFJ made a net zero declaration, and as part of this commitment joined the Net Zero Banking Alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of 'total capacity'. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.

In Progress: It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a 'change in process'.

Sainsbury

Objective: LAPFF attended Sainsbury's 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.

Achieved: Sainsbury's 'Plan for Better' ESG event covered a broad range of ESG topics, noting targets and progress against them. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. It is taking a number of steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market.

A large part of Sainsbury's strategy with plastic packaging is attempting to enable a circular economy, having launched an initiative in June, offering customers the opportunity to bring back any flexible plastic packaging to front of store collection points in 520 supermarkets for recycling. LAPFF has also co-led an engagement with Sainsbury in a coalition led by First Sentier Investors, pushing for suppliers and distributors of domestic and commercial washing machines to fit, as a standard procedure, filters to their products to prevent plastic microfibres entering the world's ecosystems. Sainsbury responded that they had engaged with white goods suppliers and were looking at viable options.

In Progress: LAPFF will be meeting with Sainsbury for a more in-depth conversation on the company's approach to a zero-carbon transition and will be querying the company further on a 'say on climate' vote.

COMPANY ENGAGEMENT

Persimmon

Objective: LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. The Forum therefore sought to meet with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model.

Achieved: It was noted how the company had made changes to its approach to customer care following a review by Stephanie Barwise QC. The meeting covered inspections of properties following historic build quality concerns and the company's improved customer ratings. The issue of executive pay was covered, including resolving issues that led to the high pay award of the former chief executive.

On climate change, Persimmon's targets to reach net zero were discussed. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.

In progress: The company has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.

OCCUPIED PALESTINIAN TERRITORIES (OPT) ENGAGEMENTS

Objective: There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies' human rights practices meet international human rights and humanitarian law standards.

Achieved: In line with the UN Guiding Principles on Business and Human Rights, LAPFF has been working for some months with a business and human rights expert to help with this engagement. This expert has joined LAPFF engagements with Altice and Booking Holdings this quarter, providing invaluable contributions to the engagements and ideas for how to proceed with the engagement. Both companies provided insights into their human rights due diligence processes and Booking Holdings has publicly announced that it is in the process of drafting its Human Rights Statement.

In Progress: LAPFF sent a follow up meeting request to the target companies and was able to schedule a few more meetings this time round. It will continue to approach companies for engagement and to request meaningful responses to information requests. Specifically, LAPFF is not content with the explanation that companies are abiding by the relevant law in the way they conduct business in the OPT. In all of LAPFF's work globally, this response is a red flag to LAPFF that companies are treading a thin line between legality and illegality in their conduct. This margin is not acceptable to LAPFF.

COMPANY ENGAGEMENT

PHARMACEUTICAL COMPANY ENGAGEMENTS

Objective: Some of LAPFF's largest holdings are in pharmaceutical companies. Many of these companies have been contributing to the development of Covid vaccines and have faced significant challenges over the last couple of years. LAPFF is interested in finding out how the Covid pandemic has affected these companies.

Achieved: LAPFF has written to five of the companies in which members hold a large number of shares in aggregate to find out whether the Covid pandemic has had an impact on their business strategies or business models. The companies of interest are AstraZeneca, GlaxoSmithKline, Novartis, Roche Holding, and Sanofi.

In Progress: LAPFF is in the process of arranging meetings with these companies, most of whom have responded that they are willing to meet and discuss this issue.

COLLABORATIVE ENGAGEMENTS

Chair's Quote: "The speed with which the 'say on climate' initiative has taken root is indicative of its importance. I am heartened to see the number of companies putting their climate plans to a vote. However, the number of plans that fail to meet the goals of the Paris Agreement is alarming. I have always shared the view that Covid is a dress rehearsal for climate change; we must learn and take meaningful action much more quickly on both fronts."

The Institutional Investor Group on Climate Change has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations very broadly are to establish a climate governance framework, to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.

COLLABORATIVE INVESTOR MEETINGS

LAPFF continued to engage with other investors in the 30% Club, the Investors for Opioid and Pharmaceutical Accountability (IOPA) and the 'Financing a Just Transition Alliance'. It is also continuing to work with CA100+ on carbon reduction at widely held companies, and with Sarasin on Paris-aligned auditing of accounts. LAPFF continues to participate in investor collaborations to combat modern slavery too and is considering how best to expand engagement on this topic.

COLLABORATIVE COMMUNITY MEETINGS

LAPFF was pleased to learn that JGP Credito, a Brazilian investor with which LAPFF has been liaising in relation to the Samarco and Brumadinho tailings dam collapses in Brazil, visited communities affected by those disasters at the end of August. One of the main asks from the communities was that LAPFF get Brazilian investors involved to help highlight the communities' struggles in the wake of the dam collapses. JGP has been an excellent partner in this regard, but it has been a struggle for LAPFF to engage other Brazilian investors. In any case, LAPFF is planning to continue its quarterly meetings with affected community members to monitor their experiences and to see what LAPFF can do to help meet their needs.

POLICY ENGAGEMENT

Further to the setting up of the UK Accounting Standards Endorsement Board, which has taken over from the EU Commission in endorsing international accounting standards for use in the UK, the Chair of LAPFF has written to the Chair of the Board, Pauline Wallace. The letter requests production of the guidance used by the UKEB in endorsing standards in respect of 'true and fair view'. This request comes after the former CEO of the FRC told Parliament that government lawyers had "concluded that they agreed" with "legal advice from Martin Moore QC who [had] concluded almost exactly the opposite of what [George Bompas, QC for the Local Authorities Pension Fund Forum (LAPFF)] had concluded." However, a Freedom of Information request revealed the government position: "We have never said that the views [of the LAPFF] are incorrect and may be disregarded. … Ultimately, whether the views of the LAPFF are incorrect would be a matter for the courts".

In September, LAPFF – as part of a 587 investors strong group representing over USD $46 trillion in assets – participated in sending the 2021 Global Investor Statement to Governments on the Climate Crisis. Considered the 'strongest ever call by global investors for governments to raise their climate ambition and implement meaningful policies to support investment in solutions to the climate crisis' the statement calls on all governments to undertake five priority actions in 2021. For further information on this statement, please access here.

CONSULTATION RESPONSES

There has been a series of consultations by the government relating to the UK's commitments on carbon reductions, including the interim goal of reducing emissions by 78% by 2035 over 1990 levels.

Transport, is the sector with the fastest growing source of carbon emissions and LAPFF has provided three related responses to relevant government consultations. In its response to the Department of Transport's 'Jet Zero' consultation on the strategy for net zero aviation, LAPFF considers that the government should take the opportunity to support the development of UK leadership in electric flight. In the response to the DWP consultation on ending the sale of new non-zero emission heavy goods vehicles, LAPFF supports a clearly identified legislative framework for carbon reductions, so companies can make the necessary decisions and financial commitments to provide the crucial short and long-term solutions to decarbonising the economy. Responding to the Department for Transport Consultation on a new CO_2

ENGAGEMENT

emissions regulatory framework, LAPFF supports deploying the zero-emission vehicle mandate. To maximise zero emission capability, the government should ensure there is a focus on electric drivetrain technology for all road vehicles. For cars or vans, the Department for Business, Energy and Industrial Strategy has already recognised that this approach is the lowest cost route to zero emissions. All responses can be viewed here.

MEDIA COVERAGE

Investors with $4 trln assets aim to tackle Asian firms on climate change goals https://www.reuters.com/article/marketsNews/idUSL8N2QU68V?il=0 https://finance.yahoo.com/news/investors-4-trln-assets-aim-013000164.html https://www.dealstreetasia.com/stories/investors-asian-firms-climate-change-262764/ https://www.straitstimes.com/business/economy/investors-handling-54-trillion-throw-weight-behind-new-platform-pushing-for-green

LGPS – Making Net Zero Add up To Something Real https://www.room151.co.uk/blogs/lgps-making-net-zero-add-up-to-something-real/

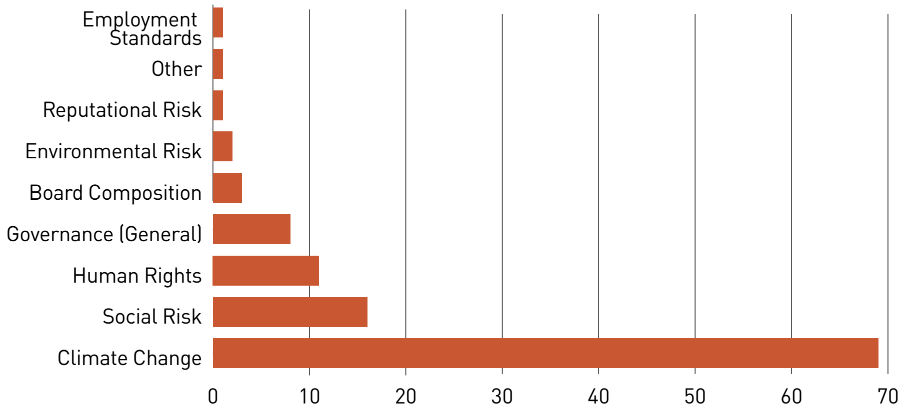
Legal Experts Warn on Issues with ICAEW Dividends guidance https://www.ipe.com/news/legal-experts-warn-on-issues-with-icaew-dividends-guidance/10055010.article

Phil Triggs: LGPS needs fine judgement on climate change and pooling https://www.lgcplus.com/investment/phil-triggs-lgps-needs-fine-judgement-on-climate-change-and-pooling-08-09-2021/

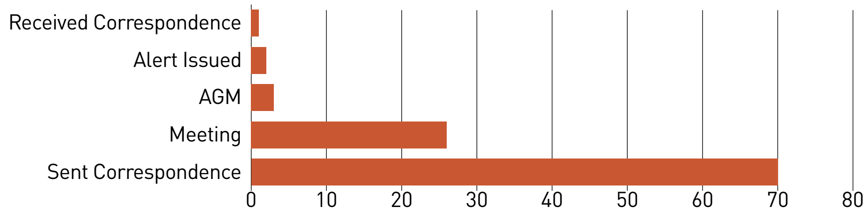
Sharp drop in LGPS fund and Pool signatories of stewardship code https://www.lgcplus.com/investment/sharp-drop-in-lgps-fund-and-pool-signatories-of-stewardship-code-06-09-2021/

ENGAGEMENT DATA

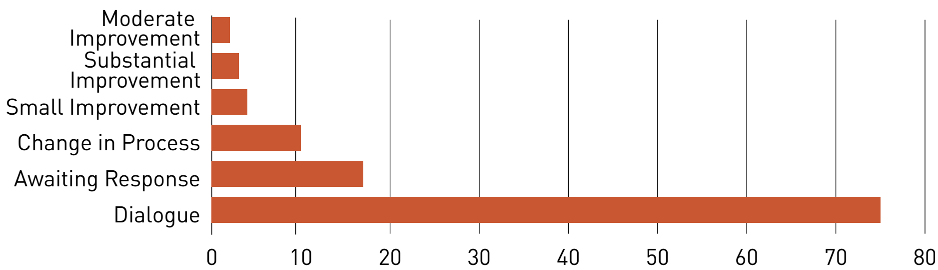
ENGAGEMENT TOPICS



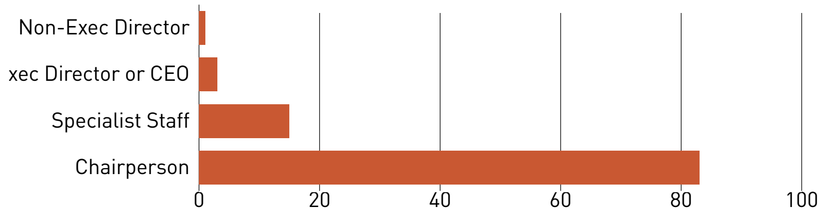
ACTIVITY



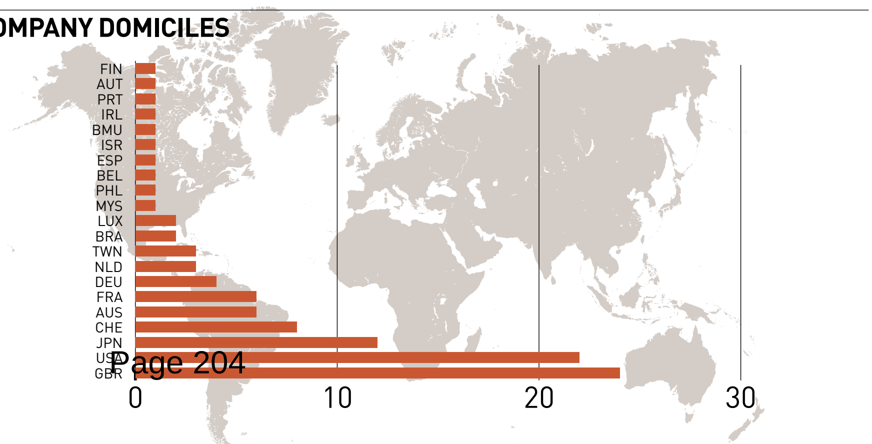
MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES



COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

Company/Index	Activity	Topic	Outcome
A G BARR PLC	Meeting	Other	Small Improvement
ABOITIZ EQUITY VENTURES INC	Sent Correspondence	Climate Change	Dialogue
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
AJINOMOTO CO INC	Sent Correspondence	Climate Change	Dialogue
ALLERGAN PLC	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Meeting	Human Rights	Small Improvement
AMS AG	Sent Correspondence	Climate Change	Dialogue
ANGLO AMERICAN PLC	Meeting	Climate Change	Change in Process
ARCELORMITTAL SA	Meeting	Climate Change	Substantial Improvement
ARKEMA	Sent Correspondence	Climate Change	Dialogue
ASTRAZENECA PLC	Sent Correspondence	Governance (General)	Dialogue
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP LIMITED (AUS)	Alert Issued	Climate Change	Dialogue
BOOKING HOLDINGS INC.	Meeting	Human Rights	Small Improvement
CAMPBELL SOUP COMPANY	Sent Correspondence	Climate Change	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
COCA COLA BEVERAGES PLC	Sent Correspondence	Social Risk	Awaiting Response
CONAGRA BRANDS INC.	Meeting	Social Risk	Awaiting Response
COVESTRO AG	Sent Correspondence	Climate Change	Dialogue
CSX CORPORATION	Sent Correspondence	Climate Change	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DELTA AIR LINES INC	Sent Correspondence	Climate Change	Dialogue
DIALOG SEMICONDUCTOR PLC	Sent Correspondence	Climate Change	Dialogue
DOMINION ENERGY INC	Sent Correspondence	Climate Change	Dialogue
ENDO INTERNATIONAL PLC	Sent Correspondence	Climate Change	Dialogue
FIRSTGROUP PLC	Sent Correspondence	Climate Change	Dialogue
FORMOSA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
GALP ENERGIA SGPS SA	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Sent Correspondence	Social Risk	Awaiting Response
GLAXOSMITHKLINE PLC	Sent Correspondence	Governance (General)	Dialogue
GRIFOLS SA	Sent Correspondence	Climate Change	Dialogue
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process
INFINEON TECHNOLOGIES AG	Sent Correspondence	Climate Change	Dialogue
JABIL CIRCUIT INC	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Awaiting Response
KERRY GROUP PLC	Sent Correspondence	Climate Change	Dialogue
KEURIG DR PEPPER	Sent Correspondence	Social Risk	Awaiting Response
LANXESS AG	Sent Correspondence	Climate Change	Dialogue
LITEON TECHNOLOGY CORP	Sent Correspondence	Climate Change	Dialogue
LOGITECH INTERNATIONAL S.A.	Sent Correspondence	Climate Change	Dialogue
LONZA GROUP AG	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARVELL TECHNOLOGY GROUP LTD	Sent Correspondence	Climate Change	Dialogue
MEDTRONIC PLC	Sent Correspondence	Climate Change	Dialogue
MEIJI HOLDINGS CO LTD	Sent Correspondence	Social Risk	Awaiting Response
MISC BERHAD	Sent Correspondence	Climate Change	Dialogue
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Change in Process
MONDELEZ INTERNATIONAL INC	Sent Correspondence	Social Risk	Awaiting Response
NAN YA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
NATIONAL GRID PLC	AGM	Climate Change	Change in Process
NESTLE SA	Sent Correspondence	Climate Change	Dialogue
NEXTERA ENERGY INC	Received Correspondence	Climate Change	Substantial Improvement
NIPPON EXPRESS CO LTD	Sent Correspondence	Climate Change	Dialogue
NISSIN FOOD HLDGS CO LTD	Sent Correspondence	Climate Change	Dialogue
NOKIA OYJ	Sent Correspondence	Climate Change	Dialogue

COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

NORFOLK SOUTHERN CORPORATION	Sent Correspondence	Climate Change	Dialogue
NOVARTIS AG	Sent Correspondence	Governance (General)	Dialogue
PANALPINA WELTTRANSPORT AG	Sent Correspondence	Climate Change	Dialogue
PEPSICO INC.	Sent Correspondence	Social Risk	Awaiting Response
PERSIMMON PLC	Meeting	Climate Change	Moderate Improvement
PUBLIC SERVICE ENTERPRISE GROUP INC	Sent Correspondence	Climate Change	Dialogue
RENESAS ELECTRONICS CORP	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Meeting	Climate Change	Change in Process
ROCHE HOLDING AG	Sent Correspondence	Climate Change	Dialogue
ROHM CO LTD	Sent Correspondence	Climate Change	Dialogue
ROYAL DUTCH SHELL PLC	Meeting	Governance (General)	Dialogue
SAINSBURY (J) PLC	AGM	Environmental Risk	Dialogue
SANOFI	Sent Correspondence	Climate Change	Dialogue
SANWA HOLDINGS CORP	Sent Correspondence	Board Composition	Dialogue
SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY	Sent Correspondence	Climate Change	Dialogue
SOLVAY SA	Sent Correspondence	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Change in Process
STANDARD CHARTERED PLC	Meeting	Climate Change	Dialogue
STMICROELECTRONICS NV	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Moderate Improvement
SUNTORY BEVERAGE & FOOD LTD	Sent Correspondence	Social Risk	Awaiting Response
SWATCH GROUP AG	Sent Correspondence	Climate Change	Dialogue
THE CLOROX COMPANY	Sent Correspondence	Climate Change	Dialogue
THE KRAFT HEINZ COMPANY	Sent Correspondence	Social Risk	Awaiting Response
UNILEVER PLC	Sent Correspondence	Social Risk	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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

Pool Company Members

Border to Coast Pensions Partnership
Brunel Pensions Partnership
LGPS Central
Local Pensions Partnership
London CIV
Northern LGPS
Wales Pension Partnership

Investment Strategy Statement 2021

1. Introduction

1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the Avon Pension Fund (the Fund) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. This statement updates and replaces the December 2018 ISS and incorporates changes arising from the 2019/20 strategic investment review.

1.2 The purpose of the ISS is:

- To set out the governance arrangements for investment
- To set out the Fund's investment objectives
- To define the fund's investment beliefs
- How the Fund will manage investment related risks
- How the Fund incorporates responsible investment
- To set out the strategic asset allocation benchmark and ranges to provide flexibility

1.3 As stated above, the ISS outlines the Fund's approach to Responsible Investment (RI), how RI is integrated into the investment decision making process and how the Fund fulfils its role as a responsible steward of its assets. Particular attention is given to the Fund's immediate and long-term ambitions around climate change. The strategy acknowledges there is a need to address the impact of climate change on its investment assets and capture new sources of return that will arise from the transition to a low carbon economy. However, it also acknowledges that the investment products required are not yet fully developed. In addition, the policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a lower carbon world. It therefore has set clear objectives with milestones that will be delivered through its relationship with Brunel Pension Partnership to ensure that the investment portfolio is aligned with the Paris Agreement within a realistic timeframe.

1.4 The ISS is supported by the Funding Strategy Statement (FSS) as well as a broader framework of policies in investments, most notably those relating to Risk Management and Responsible Investment. An integrated approach ensures the investment strategy supports the Fund in meeting its regulatory requirements.

1.5 The ISS is subject to a review at least every three years and from time to time on any material changes to any aspects of the Fund which are judged to have a bearing on the stated investment strategy. Ongoing quarterly and annual monitoring of the strategy enables the Committee to take advice as to whether a review is needed at any time.

1.6 In preparing the ISS, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension Partnership. The Fund's Pension Board reviews the Investment Strategy Statement before it is approved by Committee.

Investment Governance Framework

1.7 The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the **Avon Pension Fund Committee** (the Committee), which is its formal decision-making body. Members of the Committee represent a cross section of the Fund's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.

1.8 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to Officers.

1.9 The **Funding & Risk Management Group** (FRMG) provides a robust and efficient governance framework for the Risk Management Strategies. This Group comprises Fund Officers, Investment and Risk advisors. FRMG has delegated authority for (i) agreeing the operational structures required to meet the strategic objectives determined by the Committee and (ii) implementation of the Risk Management Strategies. FRMG also monitors the strategies on a monthly basis and reports to the Panel on a quarterly basis.

1.10 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.

1.11 Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.

2. Approach to Pooling

2.1 The Fund participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. Brunel Pension Partnership Limited (Brunel) authorised by the Financial Conduct Authority (FCA) has been established specifically to manage the assets within the pool. Brunel is owned by the ten administering authorities (in equal shares) that participate in the pool. These pooling arrangements meet the requirements of the Regulations and Government guidance.

2.2 The Avon Pension Fund retains responsibility for setting the strategic asset allocation for the Fund and allocating assets to the portfolios provided by Brunel. Brunel is responsible for implementing the asset allocations of the participating funds (the 'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it selects the external managers or pooled funds required to meet the investment objective of each portfolio. Brunel creates collective investment vehicles for quoted assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.

2.3 As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Avon Pension Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

2.4 The pool has established governance arrangements. The Brunel Oversight Board is comprised of representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. Acting for the administering authorities, it has responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each Fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it considers relevant matters on behalf of the administering authorities but does not have delegated powers to take decisions requiring shareholder approval; these are remitted back to each administering authority individually. As shareholders of Brunel, the administering authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

2.5 Brunel Oversight Board is supported by the Client Group, comprised investment officers drawn from each of the administering authorities but also draws on finance and legal officers as required. It has a primary role in managing the relationship with Brunel, reviewing the transition of assets to the portfolios, providing practical support to the Brunel Oversight Board so it can fulfil its monitoring and oversight function and monitoring Brunel's performance and service delivery. The Committee and Investment Panel receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

2.6 Bath & North East Somerset Council approved the full business case for the Brunel Pension Partnership in 2017. The transition of the listed assets and pooled funds to Brunel was completed in July 2021. It is intended that all of the Fund's assets will be invested through Brunel portfolios. However, the Fund has certain commitments to long term illiquid private market and fund of fund investments which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated and capital is returned. The formulation, implementation and ongoing monitoring of the Fund's risk management strategies (e.g. Liability Driven Investing and Equity Protection) remain the responsibility of the Fund and its specialist advisors. Brunel acts as facilitator working with the manager, under a broad commercial agreement covering the manager's key terms.

3. Investment Beliefs

3.1 The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.

- **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.
- **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.
- **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
- **Long term approach to investing.** The strength of the employer covenant[1] and funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long-term view of investment strategy.
- **Environmental, Social and Governance factors** are important drivers of the sustainability of investment returns over the long term and they can have a material financial impact if not managed appropriately.
- **Climate change.** The Fund believes climate change creates both risks and opportunities to the Fund's investments and has used an evidence-based approach to develop a set of objectives with the aim of delivering a portfolio aligned with the goals of the Paris Agreement. Key milestones that review the progress made over time ensure the Fund continues to work towards its medium-term and long-term objectives.
- **Diversification of assets is an important element of the risk management framework.**
- **Active management can add value to returns, albeit with higher short-term volatility.**
- **Value for money from investments** is important, in terms of net returns. Asset pooling is expected to help reduce costs over the long term, whilst providing more choice of investments, and therefore have the potential to enhance Fund returns.

4. Investment Objective

4.1 The Fund's investment objective is to achieve a return on assets consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the Funding Strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating returns consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

[1] The Employer covenant is the employer's financial ability to support its legal obligations arising from its defined benefit pension scheme now and in the future

4.2 An assessment by the Fund's investment consultant generates a best estimate average expected return of CPI+2.5% per annum based on the current investment strategy. When setting the funding strategy a margin for prudence is taken on this return expectation; implementation of the risk management strategies (see Section 7) to reduce the volatility of returns within the investment strategy supports a lower margin for prudence. To achieve 100% funding for the 2019 valuation, a minimum return of CPI+1.75% per annum (the discount rate) over 13 years was assumed in the Funding Strategy. For future benefit accruals an investment return of CPI+2.25% per annum is assumed.

4.3 The Fund adopts a more prudent lower risk investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities. These assets are invested in a portfolio that is designed to better match the risk profile of the employer's liabilities and reduce volatility in employer contributions.

5. Investment strategy

5.1 The investment strategy was reviewed in 2019/20 which considered the following:

- An analysis of the medium- and long-term risks facing the Fund, including consideration of different economic and market scenarios.
- An assessment of the level of 'illiquidity premium' the Fund could reasonably be expected to capture.
- Evidence-based climate change modelling designed to inform long term objectives and targets relating to climate change and the direction of travel for investment in alternative energy and low carbon solutions.

5.2 Following this review, a number of strategic changes were agreed:

a) To address the climate emergency by adopting a two pronged approach, firstly, to positively align our assets with the transition to a low carbon economy with the objective of reducing transition risk and secondly, to invest directly in renewable and sustainable assets with the aim of reducing the potential for physical risk as follows:
   - Setting clear targets to ensure that the portfolios are aligned with the Paris Agreement ambition to limit global warming to below 2°C
   - Increase the target allocation to renewable infrastructure to 5% of assets
   - Increase the allocation to sustainable equities to 10% of assets

b) To better meet future cashflow requirements through asset income and further diversify the sources of growth in the portfolio:
   - Increase the target allocation to Secured income to 10% of assets
   - Allocate 5% of assets to Private Debt

5.3 In addition, a longer-term ambition to invest all the equity assets in sustainable and low carbon equities was set. In 2021 the impact of such a change in the strategic allocation on the overall risk and return was evaluated. At the time 37.5% of assets were allocated to equities with 20% invested in sustainable and low carbon equities. Sustainable equity portfolios seek to maximise exposure to companies that are responding positively to the challenges of climate change, environmental sustainability or social well-being, whilst maintaining financial returns.

5.4 This review, which included further climate scenario analysis and consideration of Paris Aligned Passive Equity indices, concluded the following:

a) Switching all the active equities into sustainable and low carbon portfolios would significantly reduce diversification within the portfolio (to managers, investment styles and underlying stocks) and increase investment risk. Due to its focus on ESG factors, the equity portfolio has a structural style bias towards growth and quality stocks. Within equities, the Global High Alpha Equity Portfolio provides the broadest style and manager diversification.

b) Brunel's actively managed equity portfolios achieve low carbon intensity versus their benchmarks and will continue to do so given the strict ESG approach to constructing the portfolios. The Emerging Market Portfolio has a higher inherent exposure to carbon than the other portfolios. Therefore switching the Emerging Market allocation to the Global High Alpha and Sustainable Equity portfolios would better achieve the Fund's objective to be aligned to the low carbon transition, increase the allocation to sustainable assets and maintain an adequate degree of diversification. However, in order to maintain the overall return and risk profile of the Fund, the strategic allocation to equities will increase by 4.0% to 41.5% funded from the Diversified Returns Portfolio.

c) The new passive equity indices that align with the goals of the Paris Agreement by weighting companies based on transition alignment and green revenues, as well as seeking to minimise exposure to companies with high downstream emissions, better achieves the Fund's climate objectives than the Low Carbon Global Equity passive fund that the Fund has invested in since 2017.

5.5 The investment cycle for private market assets means that commitments are drawn down over an extended timeframe. As a result, progress in reaching the target allocation for the private market assets and the consequent decrease in the existing allocations to liquid growth strategies will depend on Brunel identifying suitable investments, and on the pace of capital deployment.

5.6 The strategic framework includes a target allocation against which strategic performance is monitored by Committee. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to manage cash flow. The ability to periodically rebalance asset holdings enables the Fund to effectively implement risk management strategies such as liability-driven investments, equity protection strategies and currency hedging which require collateral to be posted in order to maintain the desired level of risk reduction.

5.7 The Fund's long-term asset allocation following the 2019/20 review and the changes within the equity allocation, along with an overview of the role each asset plays, is set out in Appendix 1.

6. Suitability of Investments

6.1 The Fund invests across a diversified portfolio of assets including quoted equity, government and non-government bonds and less liquid private market assets such as infrastructure, property and private debt. Derivatives are used for the purpose of efficient portfolio management and to hedge specific risks. The Fund implements these strategies using a combination of passive and active investment managers.

6.2 The allocations to secure income, renewable infrastructure and private debt exploit alternative sources of return and generate more income to improve cash flow to provide greater stability in contribution rates. Secure Income and some infrastructure assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.

6.3 Climate change scenario modelling indicates that allocating to sustainable and low carbon / transitioned aligned equities can capture a low carbon transition 'premium' under various climate change scenarios and displays no materially greater level of downside risk versus broader equity allocations.

6.4 The most recent investment strategy review analysed the reduction in carbon emissions and reserves across the spectrum of investment approaches from fully invested to fossil free portfolios. The Fund concluded that low carbon and transition aligned strategies that significantly reduce exposure to fossil fuel reserves and carbon emissions across all companies, combined with robust engagement with companies regarding their climate strategies, is currently the most effective approach to meeting the Fund's climate objectives.

6.5 The portfolios offered by Brunel will typically consist of a number of underlying managers that will have complementary investment styles and approaches to investing. This results in highly diverse portfolios, carefully structured to manage stock specific risk as well as underlying manager, investment style and other financial risks.

6.6 Currently Brunel directly manages 62% of the Fund's assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 18% of assets relating to the Fund's risk management strategies are governed by Brunel legal agreements.

6.7 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with the Fund's Responsible Investment (RI) Policy including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.

Details of the current investment management structure can be found in Appendix 2.

7. Risk Measurement and Management

7.1 The primary risk to the Fund is that its assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and affordability.

7.2 The graph below provides an indication of the main sources of investment risk to the funding position, as measured using three-year Value-at-Risk (VaR) based on the funding position and asset allocation as at 30 September 2021. This estimates how much the funding deficit could increase over a three-year period with a 1-in-20 probability.

Source: Mercer

7.3 The graph shows that if a 1-in-20 downside event occurred, in three years' time the deficit would be expected to increase by at least an additional £1,206m on top of the expected deficit at that time.

7.4 Equities remain the largest source of risk. The Fund's equity protection strategy (discussed later in this section) reduces the three-year VaR number by approximately 25% (estimated by Mercer).

7.5 Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal risks affecting the Fund and the actions to mitigate those risks are set out below.

Financial Risks	Management / Control
Investment Risk - Assets do not deliver the return required to meet the cost of benefits payable by the Fund; potential drivers:	• Diversification - A diverse range of asset classes and approaches to investing is designed to achieve returns in a variety of market environments. By holding a range of assets that are not overly concentrated in any one area, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns
• Investment market performance/volatility	• Scenario testing - carried out as part of the strategic investment review to set strategic benchmarks. Allocation 'ranges' enable tactical positions to be implemented to reflect shorter-term market outlook
• Manager underperformance	• Regular monitoring of manager performance - Each manager is monitored against a three-year performance target designed to highlight any inappropriate risk-taking behaviour and address factors that may impact the ability of that manager to achieve their performance target. A number of risk metrics are monitored at the portfolio level including tracking error and active risk positions
• Possibility the actual return generated fails to meet the Fund's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected	• Mitigates inflation risk by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and through regular monitoring. At the Fund level Value at Risk and correlation between asset returns are monitored. Management of strategic risks such as inflation and equity market volatility are addressed through a dedicated risk management framework. See Section 7 for further information.
Asset Risk -	• Investing across a range of liquid assets recognises the Fund's need for some access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate the Fund's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so
• **Liquidity risk:** The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash	• Liquidity budgeting informs how much the Fund can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements. Following the extreme market volatility as a direct result of the Coronavirus pandemic, the Fund prioritised short-term cash flow requirements over private markets commitments, opting to phase in its commitments over the medium-term rather than commit the full long-term target amount at outset.
• **Exchange Rate risk**: Foreign currency exposure is expected to be an unrewarded risk over the longer term	• Foreign exchange hedging protects the sterling value of overseas investments and serves to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed equity holdings and a 100% hedge of currency risk for infrastructure, global property and hedge fund

• **Collateral management risk:** Collateral is required to support the risk management strategy and protects all parties to a transaction from the risk of default	investments. In periods of sterling weakness the investment return will be lower than if the assets were unhedged • A robust and pro-active collateral monitoring process with prescribed minimum thresholds protect the fund from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call
Responsible Investment: • **Environmental, Social & Governance** (ESG) issues may have a material financial impact on the Fund if not given due consideration • **Climate change risk**	• Actively addresses ESG risks through implementation of its Responsible Investment Policy • Considers ESG risks as part of Strategic Investment Reviews • Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly • Was compliant with the UK Stewardship code for Institutional Investors. A compliance Statement for the FRC Stewardship Code 2020 has been submitted to the FRC and the Fund is awaiting a response. Details of the Fund's approach to managing ESG risks are set out in Section 8 of this document.
Longevity Risk - the risk Members of the Fund live longer than assumed in the actuarial valuation model	• Captured within the funding strategy which is monitored by the Committee on at least a three-yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term
Employer Covenant Risk - Employers within the Fund lack the financial capacity to make good their outstanding liabilities	• Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in the Fund and the analysis is considered when setting the Funding Strategy • A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities
Operational/Other Risks	**Management / Control**
Investment Pooling - • Expected benefits and cost savings do not emerge over the long-term • Transition risks - unexpected costs or losses arising from transition of assets	• The Service Agreement sets out the duties and responsibilities of the Pool and the rights of the Fund as a client • A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met • Ongoing monitoring of performance, service delivery, costs and savings arising from pooling Details of the Fund's Pooling arrangement are set out in Section 2 of this document.

Regulatory and Political Risk - Across all the assets there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty	• Ongoing horizon scanning and consideration on the Fund Risk Register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy • Ongoing review of the investment strategy and specific investment portfolios
Governance Risk - Committee Members do not have sufficient expertise to evaluate and challenge the advice they receive. Committee members are to possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duty	• Periodic Member self-assessment • Training framework based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds • Expert advice commissioned to support strategic and implementation decisions
Cash Flow Risk - Payments to pensioner members exceed contributions	• Investment strategy structured to generate investment income to help manage negative cash flow profile • Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy
Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded	• Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records
Counterparty risk - The possibility of default of a counterparty in meeting its obligations	• Counterparty exposure restrictions as relates to the risk management framework • Internal controls reporting and compliance monitoring

Risk Management Strategy

7.6 The Risk Management Framework (RMF) encompasses three bespoke risk management strategies and a passive equity fund for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the 'Lower Risk' strategy (which includes a Buy-and-Maintain Corporate

Bond Portfolio) are designed to hedge interest rate and inflation risks arising from the liabilities, whereas the Equity Protection Strategy (EPS) protects the Fund from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk the Fund by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the funding position.

7.7 The strategies are reviewed annually to assess whether a material change in market conditions requires an adjustment to any of the strategies to ensure they still meet the strategic objectives. This review also considers the ongoing collateral requirements. Operational aspects as they relate to the RMF (e.g., routine monitoring of collateral, performance and counterparties) are delegated to the Funding and Risk Management Group. The Investment Panel receives a quarterly status update on the RMF where any concerns are flagged. Strategic changes to the RMF are required to be approved by Committee.

Liability Driven Investment Strategy (LDI)

7.8 The Fund is not in a position to reduce its exposure to higher return growth assets (e.g. equities) and use the proceeds to purchase lower return, 'liability matching' assets (e.g. Index-Linked Gilts), as the expected future return on the assets held would fall short of the assumptions built into the funding plan. The LDI strategy, therefore, allows the Fund to retain its allocation to growth assets and simultaneously increase its exposure to 'matching' assets by using a range of financial instruments such as interest rate and inflation swaps[2].

7.9 In order to meet the assumed investment return in the funding strategy, the LDI strategy uses a framework where exposure to 'matching' assets is only increased when they pay a sufficiently high yield to meet the Fund's requirements. The Fund operates a trigger framework for interest rates and inflation rates.

Lower Risk Investment Strategy

7.10 The liabilities relating to this strategy are valued using the discount rate linked to the yields on the corporate bonds held within the portfolio. The strategy benefits from the inflation hedging undertaken within the LDI portfolio, resulting in greater stability of any funding deficit and therefore contributions for employers.

Equity Protection Strategy (EPS)

7.11 The EPS is underpinned by the funding level and protects against significant falls in developed equity markets. The EPS is structured to evolve with market conditions over time which serves to dampen volatility and minimise risk. In order to finance the downside protection, the Fund participates in equity market gains up to a predetermined level or 'cap', beyond which gains are foregone. The 'cap' is set at a level that optimises

[2] An inflation swap is a contract used to transfer inflation risk from one party to another through an exchange of cashflows. An interest rate swap is a contract to exchange a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates.

the risk/return pay-off of the strategy and in a way that does not compromise the assumed investment return in the funding strategy.

Role of Collateral in Risk Management Framework

7.12 The risk management strategies are held in a Qualified Investor Fund (QIF), bespoke to the Fund, enabling collateral management to be delegated to the investment manager. The LDI and EPS both use derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis. This protects all parties to a transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.

7.13 To reduce the risk of the Fund having to sell assets at short notice if more collateral is required, a passively managed equity fund is held within the QIF. The manager of the QIF will sell units in this fund and purchase eligible collateral (gilts or cash) to meet collateral obligations when they arise. When the investment manager sells assets to meet collateral requirements, derivatives will be used to replicate the lost physical equity exposure so that the strategic allocation to equities is maintained.

Risk Management Strategy under Pooling

7.14 The Fund retains responsibility for strategic and operational aspects attached to its risk management strategies and seeks advice from its investment advisors on the suitability of the risk management strategies. The pooling arrangement allows the Fund to determine a bespoke strategy for LDI, EPS and the low risk investment portfolio to meet its risk management objectives. Brunel does not advise on the suitability of investments made for the express purposes of efficient portfolio risk management.

7.15 Brunel contracts with the investment manager to set out the basis on which the manager will offer its services to client funds within the pool. This enables Brunel to access information so they can monitor the manager and delivery of services to clients. Clients also benefit from increased economies of scale and negotiated fee structures arising from the Brunel agreement.

8. Responsible Investment (RI)

RI Principles

8.1 The Fund has a Responsible Investing (RI) Policy where it defines RI as the integration of Environmental, Social and Corporate Governance (ESG) issues into its investment processes and ownership practices in the belief this can positively impact financial performance. The RI Policy supports the wider investment strategy and seeks to understand and manage ESG and reputational risks to which the Fund is exposed. The full policy is available at the following link:

https://www.avonpensionfund.org.uk/sites/default/files/RIP2016.pdf

8.2 The Fund's approach to Responsible investing is based on its RI Principles as follows:

- As a long term investor it seeks to deliver long term sustainable returns

- Management of ESG risks is consistent with the Fund's fiduciary duty to members
- That Climate Change poses a long-term financial risk to the Fund
- ESG issues are integrated at all stages of the investment decision-making process
- Strategies and policies must be evidence–based
- The Fund has a duty to exercise its stewardship responsibilities as an owner
- The Fund aims to be transparent and accountable

8.3 The Fund's policy is to integrate RI across its investment decision-making process for the entire portfolio. When setting the investment strategy and objectives the analysis includes the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value.

8.4 The Fund does not have an exclusion policy to divest from specific assets but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. The Fund expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is the Fund's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to report to the Fund on their engagement activities and other ESG initiatives regularly.

8.5 The RI Policy allows the Fund to consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to the Fund and where it can reasonably conclude that members would support the decision.

Climate Change

8.6 The Fund recognises that Climate change presents an immediate systemic and material financial risk to the Fund, as well as society more broadly. It is a strategic investment priority for the Fund and as well as developing proprietary climate change objectives, the Fund has supported Brunel in the development of its comprehensive and market leading Climate Change Policy, which sets out how they manage these risks across all of their activities. The full policy is available at the following link:

https://www.brunelpensionpartnership.org/climate-change/

8.7 The Fund has set targets to ensure that the portfolios are aligned with the Paris Agreement ambition to limit global warming to below 2°C by 2050, specifically:

(1) Implement a <2^0C aligned portfolio by committing to net zero emissions by 2050 or earlier. This will be achieved by working with Brunel using the results of the industry wide project being undertaken to assess what each 2^0C asset portfolio will look like. Expect to review the findings in line with the global stocktake timeline in 2022/23.

(2) Reduce the carbon intensity of the equity portfolio over time with the aim of being 30% less carbon intensive than the benchmark by 2022. This was achieved two years early in 2020.

(3) To reduce the absolute emissions within the equity portfolio by 43% by 2025 and 69% by 2030 compared to the 2020 baseline.

(4) Invest sustainably to support a 'just transition[3]' to the low carbon economy with the aim of investing at least 30% of the total assets in sustainable and transitioned aligned investments by 2025.

(5) Use the Fund's power as a shareholder to encourage change. Financial markets and companies urgently need to adapt their activities to support the transition to a low carbon economy. Collaboration as part of Brunel Pension Partnership makes our influence more powerful as they manage a £30bn pool of assets. In addition, the Fund will independently support investor led initiatives such as ClimateAction100+ and Institutional Investors Group on Climate Change to increase pressure on companies and governments to align with the Paris goals. If engagement does not work ahead of the Paris Stocktake in 2023, we will consider selective divestment from laggard companies

8.8 The Fund monitors its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives.

RI and Pooling

8.9 One of the principal benefits of pooling, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship across all the Fund's assets. Brunel's Investment Principles clearly articulate its commitment and that of each client in the pool, to be responsible investors and as such recognises that ESG considerations are an integral part of portfolio construction, the selection, non-selection, retention and realisation of assets. Every Brunel portfolio explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives.

8.10 Brunel is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and accommodate the Fund's wider RI objectives and long-term asset allocation decisions. Proprietary Brunel policies covering ESG factors such as climate change, voting and stewardship have been developed in conjunction with its clients to ensure the needs of the respective client funds are adequately

[3] A 'just transition' for workers and communities as the world's economy responds to climate change was included as part of the 2015 Paris Agreement. The concept builds on well-established global frameworks in terms of climate change, human rights, labour standards and inclusive growth. It focuses attention on the need to anticipate and manage the social and economic implications of the shift to a low-carbon economy and the increasing physical impacts of climate change.

met in respect of RI. The Fund monitors the portfolios managed by Brunel to ensure they continue to deliver against strategy.

8.11 Brunel is a signatory to the UN backed Principles of Responsible Investment and has published a comprehensive Responsible Investment Policy. Under its policy framework Brunel publishes position statements, engagement plans, voting records and an Annual Responsible Investment and Outcomes Report. More information can be found on the Brunel website here: https://www.brunelpensionpartnership.org/responsible-investment/

Policy of the exercise of rights (including voting rights)

8.12 The Fund supports and applies the FRC UK Stewardship Code 2020 (the Code) definition of stewardship: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society" and will work with Brunel to ensure it maintains signatory status under the Code.

8.13 The Fund believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to Brunel and its agents as all the equity assets are invested in Brunel's portfolios. The Fund monitors how Brunel and its agents undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, they are required to vote in all markets and vote at all company meetings on behalf of the Fund.

8.14 Brunel has a single voting policy for all assets under its management held in segregated accounts. In addition, Brunel will actively attend and vote at company meetings (AGM/ EGMs). Brunel has the right to recall stock that has been lent out in its portfolios to enable voting.

8.15 Brunel's voting and engagement service provider, Federated Hermes EOS, enables the Fund to gain access to specialist expertise and participate in a broad range of engagement themes.

8.16 Brunel will publish its voting policy and provide online voting records no less than twice a year.

8.17 The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.

8.18 The Fund publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers.

Social Investments

8.19 Investments that deliver social impact as well as a financial return are often described as "social investments" which cover a wide spectrum of investment opportunities. The Fund applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy. Currently the Fund does not allocate directly to social investments.

Appendix 1 – Strategic Asset Allocation

Asset Class	Target %	Permitted Range	Role within Strategy
Equity Portfolio	**41.5%**	**36.5-46.5%**	
Global Equity	16.5%	11.5-21.5%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies' / income seeking, large and small market capitalisation. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets
Global Sustainable Equity	15.0%	10.0-20.0%	Seeks to maximise exposure to positive pursuit companies which provide solutions to sustainability whilst maintaining financial return. Sustainable equity portfolios comprise long-term forward-looking investment approaches which integrate ESG metrics throughout the investment process and for this reason comply with the Fund's climate change objectives and wider RI policy
Paris Aligned Global Equities	10.0%	5.0-15.0%	To provide exposure to equity returns and the global economy with lower exposure to carbon emissions and fossil fuels, while still low cost and liquid, and aligning to the Paris Agreement. This portfolio seeks to mitigate climate risk by investing in accordance with a Paris Aligned Benchmark approach which, compared to its market cap equivalent, aims to: • Reduce exposure to carbon reserves and operational emissions by a minimum of 50% and a further 7% year on year from 2020 • 100% Increase Green revenue exposures • Increase exposure to companies with good climate governance (those companies with a plan to align to the Paris Agreement) • Increase exposure to companies that are demonstrating their ability to be Paris aligned
Liquid Growth Assets	**12.0%**	**7.0-17.0%**	
Diversified Return Funds	6.0%	4.0-10.0%	Builds exposure to alternative sources of return including dynamic tactical allocation and alternative risk premia derived from factors such as value, momentum, size and quality. Provides a degree of downside protection from equity risk by actively adjusting equity market beta

Multi Asset Credit	6.0%	3.0-9.0%	Provides exposure to a diversified range of credit opportunities such as high yield, leveraged and emerging market debt with limited exposure to interest rate risk
Illiquid Growth & Income Assets	**32.5%**	**n/a**	
Core Property	7.5%	5.0-10.0%	Provides further diversification within the Growth portfolio. Includes both UK and overseas real estate as well as private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium- to long-term
Secured Income	10.0%	5.0-15.0%	Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These assets generate contractually secure income streams that provide greater stability of returns, explicit inflation linkage and generate cash flows over time
Core Infrastructure	5.0%	2.5-7.5%	Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered
Renewable Infrastructure	5.0%	2.5-7.5%	Provides a source of contractual income from an opportunity set that benefits from the drive toward alternative energy sources. Displays lower levels of correlation with traditional assets than other infrastructure sub-sectors. Allocation consistent with the Fund's climate change objectives
Private Debt	5.0%	2.5-7.5%	Provides a source of contractual income with minimal interest rate sensitivity, high return potential through active management and diversification away from listed public market performance. Credit risk is managed via a well-diversified portfolio with a high number of individual credits
Protection Strategies	**14.0%**	**n/a**	
Corporate Bonds	2.0%	No set range	Expected to generate returns commensurate with credit risk. Held to broadly match a specific portion of the liabilities

LDI	12.0%	No set range	A risk reduction tool designed to provide more certainty of real investment returns vs inflation with the ultimate aim of stabilising employer contribution rates. The primary ‘matching’ instruments used in this strategy include physical instruments such as fixed interest and index-linked Government bonds (financed through “repurchase” agreements) and derivative instruments such as interest-rate and inflation swaps
Equity Protection	Overlay on 100% of equity portfolio		Protects against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability in employer deficit contributions in the event of a significant equity market fall
Currency Hedging	Overlay on 50% overseas equities and 100% of alternatives		Currency hedging is employed on assets that are traded in overseas markets, in order to reduce the risk of adverse currency movements eroding returns. Asset classes where a significant portion of the return is linked to currency (e.g. emerging markets) are not hedged
Cash	**0.0%**	**0.0-5.0%**	Cash is exposed to credit risk and is generally a very low yielding asset. The Fund aims to be fully invested where possible. To efficiently manage cash the Fund uses a combination of money market funds with daily liquidity and a basket of highly liquid ETFs that are structured to replicate the return of the Fund's benchmark asset allocation
Total	**100%**		

Appendix 2 – Investment Portfolio Structure as at 30 September 2021

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Brunel Pension Partnership	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	13.4%	Jul-18
Brunel Pension Partnership	Global Sustainable Equities	Active	MSCI ACWI +2% p.a.	10.6%	Sep-20
Brunel Pension Partnership	Emerging Market Equities	Active	MSCI EM +2-3% p.a.	4.9%	Nov-19
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	7.9%	Dec-19
Brunel Pension Partnership	Secured Income	Active	CPI+2% p.a.	6.7%	Apr-18
Brunel Pension Partnership	Renewable Infrastructure	Active	CPI+4% p.a.	1.2%	Apr-18
Brunel Pension Partnership	Diversified Returns Fund	Active	GBP SONIA +4-5% p.a.	9.3%	Jul-20
Brunel Pension Partnership	Multi Asset Credit	Active	Composite return +1-2% p.a.	5.7%	Jun-21
Brunel Pension Partnership	UK Property Portfolio	Active	MSCI/AREF UK Q'ty Property Fund Index +0.5% p.a.	2.5%	Jan-21
BlackRock	Corporate Bonds	Bespoke	In line with customised benchmark	2.3%	Apr-19
BlackRock	Liability Driven Investments	Bespoke	In line with customised benchmark	11.1%	Jul-17
BlackRock	Equity Protection Strategy & Global Equities	Passive	MSCI World (for Global Equity Fund)	4.7%	Nov-17
BlackRock	Liquidity Management Strategy	Passive	In line with customised benchmark	1.8%	Feb-19
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of Cash+3%, or 6% p.a.	5.1%	Jul-15
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	0.3%	Feb-09
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	3.1%	Sep-09
IFM	Infrastructure	Active	Gilts +2.5% p.a.	7.1%	Sep-14
Record Currency Management	Currency hedge (equity exposure)	Passive	N/A	0.6%	Jul-11
Cash (Internal)	Cash	Passive	N/A	1.3%	N/A

Agreed changes post 30 September 2021

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Remove/decrease:					
Brunel Pension Partnership	Low Carbon Global Equities	Passive	MSCI World Low Carbon Target	0%	Jul-18
Brunel Pension Partnership	Emerging Market Equities	Active	MSCI EM +2-3% p.a.	0%	Nov-19
New/increase:					
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	16.5%	Dec-19
Brunel Pension Partnership	Global Sustainable Equities	Active	MSCI ACWI +2% p.a.	15.0%	Sep-20
Brunel Pension Partnership	Paris Aligned Global Equities	Passive	FTSE Developed World PAB Index	10.0%	Nov-21

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 658668

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 10th December 2021

Author: Nathan Rollinson
Report Title: INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 September 2021) Appendix 1 – Fund Valuation Appendix 2 – Mercer Investment Performance Report Appendix 3 – LAPFF Quarterly Engagement Monitoring Report Appendix 4 – Revised Investment Strategy Statement **Exempt Appendix 5** – Mercer Paper: Impact Investing Appendix 6 – Draft Public and Exempt Minutes from Investment Panel meeting held 19 November 2021

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

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

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

PUBLIC INTEREST TEST

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

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

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

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

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

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

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

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BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Friday, 19th November, 2021

Present:- Councillor Shaun Stephenson-McGall (Chair), Paul Crossley, Chris Dando, Finch, Gordon and Marsh-Hughes

Advisors: Steve Turner (Mercer) and Josh 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 Steve Turner

25 WELCOME & INTRODUCTIONS

The Chairman welcomed everyone to the meeting. He made a statement to the Panel regarding the recent COP 26 meeting. A copy of the statement can be found as an online appendix to these minutes, a summary is set out below.

I am encouraged by the commitments made across constituencies, sectors and national jurisdictions as part of COP including action on coal, vehicles, finance and nature. I see a lot of these pledges as a direct reflection of the work undertaken by the Fund.

As a Fund we have recently made a significant decision to realign our equities portfolio – moving over half a billion of equities to a Paris aligned fund which is designed to divert capital away from carbon intensive sectors and companies and reward those that are well positioned for the transition. This includes the complete exclusion of coal and tar sands companies as well as companies whose primary business function relates to the exploration, extraction or distribution of fossil fuels and will ultimately see us reduce carbon emissions by 7% each year in line with a 2050 net zero trajectory.

COP saw The Glasgow Financial Alliance for Net Zero (GFANZ) announce that capital committed to net zero by 2050 now stands at over $130tn. Included within this staggering statistic are the IIGCC Paris Aligned Asset Owners group, to which the Fund belongs. This framework commits us not only to achieving net zero emissions by 2050, but also to delivering significant reductions in emissions in the interim. To that end, we have recently adopted two new decarbonisation objectives, which will see the Fund reduce absolute emissions by 43% by 2025 and 69% by 2030 (vs. a 2020 baseline).

Recognising the importance that commitments are backed up by tangible action we have agreed to divest over £280m from emerging market companies, which will produce an immediate reduction of Fund emissions by 28%; exiting regions where wholesale policy shifts are more difficult to achieve. The proceeds will instead be invested in a broad range of climate and environmental solution providers as well as companies that contribute to social sustainability.

Over the last 6 months we have increased our communications with members by utilising social media and connecting with our membership directly. This month saw the launch of our first ESG member survey; the results of which will be used to inform future strategy on climate.

The role for the Fund and its strategic partners remains as critical as ever. We will continue to collaborate, engage with companies to accelerate progress towards net zero, and continue to advocate for a supportive policy environment that will facilitate change ultimately for the benefit of our members.

26 DECLARATIONS OF INTEREST

There were none.

27 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

28 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

30 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

31 MINUTES: 17TH SEPTEMBER 2021 AND 17TH SEPTEMBER 2021 EXEMPT

The Panel were minded to approve the minutes.

32 INFRASTRUCTURE PORTFOLIOS

The Group Manager for Funding, Investment & Risk introduced this item to the Panel and highlighted the following areas from the report.

The legacy portfolio is 'generalist' in that it invests across a range of infrastructure assets whereas to date the Fund has invested in Brunel's renewables portfolio, noting that Brunel have also offered a 'generalist' infrastructure portfolio in each investment cycle. Therefore, the legacy portfolio provides diversification within infrastructure for the Fund.

Brunel is in process of finalising the private market portfolio specifications for the next cycle of private market investments. The portfolio specification has not been agreed as yet and Mercer advice is subject to the final portfolio offered.

This paper is for the Panel to explore the potential options and implications (operationally, timing) for the legacy portfolio. Allocations to the next cycle of private market portfolios offered by Brunel will be agreed at the Panel meeting in 1Q22, once portfolio specifications are available.

The Fund can allocate to the next Brunel infrastructure portfolio to maintain the current strategic allocation independently of any decision concerning the legacy portfolio.

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 note the report and next steps outlined.

33 PERFORMANCE MONITORING

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

- The Fund's assets increased by £139m in the quarter (2.9% net investment return) ending 30 September 2021 giving a value for the Fund of £5,710m. Sustainable Equities did well despite the surge in Gas prices. No major concerns to raise at this stage.

- Responsible Investment – COP 26: Onus to drive change on the private sector. Climate disclosures becoming more mandatory.

- Draft TCFD report and Responsible Investment Annual Report due for discussion at Committee meeting in December.

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

<u>Executive summary</u>

- Funding level and risk: The funding level is estimated to have improved slightly over Q3 to just over 101%, as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 8% over the year to 30 September 2021.

- The Value-at-Risk rose over the quarter to £1,206m, or 21.4% of liabilities, mainly due to the increase in the absolute value of the assets. Risk as a proportion of liabilities has reduced over the year, largely due to the decision to move towards a dynamic equity option strategy.

Market Outlook

- Global equity returns were flat over the quarter in US dollar terms on the back of heightened fears over recent increases in the price of energy and related supply chain disruptions. However, central banks and in particular the US Federal Reserve continued to assert that the rise in inflation was transitory and would dissipate over time. A weaker sterling led to positive global equity returns in the low single digits for unhedged UK investors.

- Economic activity remained strong although the rise of the delta variant and shortages of people and goods in some sectors slowed activity through the quarter. While governments mostly avoided imposing new lockdowns, activities in certain face-to-face sectors, most notably travel, softened. In addition, ongoing supply disruptions in a range of sectors (most notably the auto sector) led to both less activity and higher prices.

- We expect economic growth to remain strong, although supply disruptions and near term weakness in China, could lead to near term growth being weaker than we had thought. However, any growth shortfall this year may be offset by better growth next year, especially in China and supply constrained sectors. It seems likely that the impact of COVID on economies and markets will fade, especially in those economies that have vaccinated the most.

Performance vs. expected strategic returns

Returns have been above expectations for all equity mandates, given the strength of equity markets since 2019.

BlackRock Passive Global Equity - Returns are above strategic expectations and the mandate has tracked the underlying market.

Brunel Global Sustainable - Strong returns from equity markets and the mandate has now outperformed thanks to a strong third quarter.

Brunel Emerging Markets - Returns are above strategic expectations though the mandate has underperformed benchmark since inception.

Brunel Diversified Returns - Returns above expectation so far thanks to exposure to rising equity markets and some of the asset class positioning of the four underlying managers.

Brunel UK Property - Mandate incepted in January 2021; too early to draw conclusions although property market has fared well so far in 2021.

Brunel Renewable Infra - Returns above expectations (despite contracting over one year period), but mandate is still in the drawdown phase.

Shirley Marsh-Hughes asked if the Value at Risk takes into account the risk strategies put in place.

Josh Caughey replied that it does in terms of reduction in assumed volatility in equities and allows for the ongoing dynamic protection that is in place.

Shirley Marsh-Hughes suggested that within a future report a comparison is shown for VaR without the risk strategies.

Steve Turner replied that that would be possible. He added that they could also attempt to show a comparison with other LGPS funds.

The Service Director for Financial Control and Pensions commented that there is always likely to be an element of risk within the portfolio and asked if the Fund was taking on more risk than normal due to the growth of the portfolio.

Steve Turner replied that the level of risk within the investment strategy would always take into account wider funding elements. He added that work is being carried out on this and was a topic that could be discussed more widely in the future.

He then highlighted some main points within Appendix 5 – Mercer Paper: Managing Inflation Risk to the Panel.

- Given that the Fund's liabilities are linked to inflation, one of the Fund's key risks is that investment returns don't keep pace with the liabilities in an elevated and sustained inflationary scenario. If inflation rises by 1% and the assets don't keep pace, then this would be equivalent to a 30% fall in the value of the Fund's equity holdings (c. £700m funding strain).

- The investment portfolio is robust to a wide range of inflationary scenarios through the direct inflation hedging within the liability driven investment (LDI) strategy, as well as allocations to real assets such as infrastructure and property that provide some inflation sensitivity.

- Important to have lots of diversification within the portfolio because different asset classes will help us in different ways in different times.

<u>Introduction</u>

- Long term secular forces driving disinflation such as globalisation could be turning the other way now.
- Direct inflation risks have also increased as a result of changed central bank philosophies and more monetary/fiscal coordination.
- Governments may prefer to reduce public debt indirectly through higher inflation rather than outright taxation.
- We believe the risk of seeing a wider range of outcomes has increased, including among them:
    - more frequent inflation regime changes
    - higher inflation volatility
    - longer periods of higher inflation levels

Markets may be underestimating the risk of higher inflation

- Inflation levels are currently well above the Bank of England's 2% p.a. target, but most central banks' current view is that this is transitory.
- The risk is that current inflation becomes more entrenched and problematic, noting higher inflation is also associated with higher volatility of inflation.
- Across the developed world, short term inflation is highest in the UK, however, we view the weakening of secular disinflationary forces is a global phenomenon.

What's the fundamental issue with inflation?

- The Fund's liabilities are directly linked to (uncapped) CPI inflation. A rise of inflation by 1% p.a. would increase the size of the liabilities by 20% (all else equal).
- This means that the investment strategy has to deliver an additional 1% p.a. otherwise this would lead to a funding strain putting upwards pressure on contributions.
- The Fund's discount rate for past service is currently CPI + 1.75% p.a. meaning if (CPI) inflation is higher, the Fund's investments need to return more in order to satisfy the discount rate requirements.

Assessing inflation risk

- The likelihood of certain inflationary scenarios occurring has increased.
- Equity/bond dominated portfolios have performed well through the last two decades of disinflation…but a transition to a more inflationary regime could negatively impact both equities and bonds.
- Rising likelihood and adverse impact means inflation exposure for the average portfolio should be reviewed to avoid taking unrewarded risk. This inflation risk may require a re-alignment of portfolios.

Different scenarios are shaped by different inflation drivers…

We consider different forward-looking economic scenarios of how economies and markets could behave under different conditions resulting from different combinations of inflation drivers and other factors that interact.

- Demand-pull drivers: Economic Growth / Monetary & Fiscal Policy
- Cost-push drivers: Supply costs / Labour costs / Technological productivity gains

Pauline Gordon asked if further discussion was required with the Actuary regarding CPI+ and the basis.

Steve Turner replied that around two valuations ago it was common for LGPS to have discount rates that were Gilts based, but struggled to lock into them. He added that a broader discussion with the Actuary would be welcome. He said that Mercer were comfortable with CPI+ basis.

Building scenarios - Incorporating energy transition

- A major scenario that has not been discussed so far is that of energy transition. We believe this is a critical consideration and needs to be considered separately from broader economic scenario analysis.
- Rather than being an economic scenario on its own, we expect it to occur alongside many of the scenarios considered here.

  - The risks and opportunities presented by energy transition are likely to be more dependent on specific strategy selection than higher level asset class allocation, which means it is harder to generalise in an asset class heat-map.

Asset classes to mitigate inflationary environments

Private Debt

- Vast majority of cases a floating-rate asset class that provides a 'hedge' against central bank rate response to inflation.
- Higher starting yields make them a more attractive option than listed floating rate instruments.
- Could become a useful part of the portfolio going forward.

Commodities, and commodity related strategies

- Commodities hedge against cost-push inflation as they tend to exhibit high 'inflation beta'. Economic transformation drives demand for commodities – urbanization and energy transition are structural forces that could support prices over the longer term.
- Volatile, with ESG implications.

Equity Protection to act as a shock absorber.

Summary

No single asset class gives universal inflation protection to all scenarios – we need to invest across a selection of strategies to help broaden the protection and the Fund has many of the building blocks already.

The Fund is well positioned for growth scenarios where inflation moderately exceeds central bank targets (balanced growth) or where central banks force nominal yields below inflation (financial repression) – equities and traditional real assets such as property and infrastructure can provide what we feel to be sufficient protection.

The Fund is vulnerable to the overheat scenario where inflation spins out of control and central banks need to respond. Where they scramble to rein it in, rate risk may become more significant than inflation risk, and floating rate strategies such as private debt may soften the blow. Long nominal bonds (gilts and corporate bonds) are very exposed in these scenarios, suggesting maintaining a low interest rate hedge ratio.

Under the pandemic stagflation scenario where growth and inflation pull the central bank in different directions, the addition of gold or commodities can help protect against tail inflation risks but these present governance and operational difficulties.

Under the hard landing scenario, downside protection that worked in the past such as government bonds will be of limited use for valuation reasons. The equity protection downside strategy will help manage downside risk and introducing gold could be considered as an alternative to government bonds.

Conclusion and next steps

The Fund is well positioned against growth-oriented and/or long term inflation scenarios. Outright inflation protection through the LDI portfolio but with a low interest rate hedge ratio, as well as allocations to equities, infrastructure and real estate with inflation sensitivity.

A next step for the Fund could be to review the level of inflation protection at a portfolio level across the different inflationary scenarios and the impact of different investment strategies. This would look to assess direct and indirect sensitivities.

The Panel could look to increase the inflation hedge ratio (for example, by 10%, up to the current maximum permitted under the risk management framework) via the BlackRock LDI mandate, which could be implemented quickly, however there are practical considerations around the level of collateral required to implement this change. The FRMG will be considering whether the hedge ratios remain appropriate in more detail.

A diversified exposure across a range of assets is a pragmatic solution to help the Fund mitigate various inflationary scenarios.

Shirley Marsh-Hughes asked if we were to increase Inflation Protection without having a high level of Interest Rates protection there would be a risk that we would become out of balance.

Steve Turner replied that it was not impossible to increase Inflation Protection, but that the Fund would have to depart from its current framework and analyse so that risk is not increased elsewhere within the portfolio.

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

34 RISK MANAGEMENT FRAMEWORK

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

- The Liability Driven Investment (LDI) strategy was additive to returns with no triggers breached during this period.
- The Equity Protection Strategy (EPS) was additive to returns in September but has since detracted since inception. It is currently ‘amber’ (under review)

as it needs to be restructured following decision to change the equity allocations.

- All Risk Management strategies are performing as expected.

- The Funding and Risk Management Group (FRMG) has considered how many counterparties the additional global equity exposure should be split across, which counterparty should be selected and the process for implementation.

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 below

35 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel.

Shirley Marsh-Hughes asked if the Taskforce on Climate-related Financial Disclosures (TCFD) report could be shared in advance of the December Avon Pension Fund Committee meeting.

The Group Manager for Funding, Investment & Risk replied that she would do so.

The Panel were minded to note the forward agenda.

The meeting ended at 4.10 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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<tr><td rowspan="2">MEETING</td><td rowspan="2">10 December 2021</td><td>Agenda Item Number</td></tr>
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<tr><td>TITLE:</td><td colspan="2">Update on Legislation</td></tr>
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Appendix 1 – Current matters affecting LGPS administration 19 November 2021</td></tr>
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1 THE ISSUES

1.1 The purpose of this report is to update the Pensions Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. An updated list is included in Appendix 1.

2 RECOMMENDATION

The Committee is asked to:

2.1 Note the current position regarding the developments that could affect the administration of the fund.

3 THE REPORT

The table below provides a summary of the main regulatory updates since the last meeting, including brief comment on what the implications are for the Fund and what next steps will be. Further details can be found in the updated list included in Appendix 1. Alongside the matters listed in the table below, the Appendix also includes an update on the following matters: the Exit Cap, Minimum Pension Age, and Responsible Investment.

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
General Announcements **(N.B. Not included in Report)**	Since the last meeting it has been announced that: The Ministry for Housing, Communities and Local Government (MHCLG) will become the Department for Levelling Up, Housing and Communities (DLUHC) The new Local Government Minister will be Kemi Badenoch MP	https://www.gov.uk/government/news/ambitious-plans-to-drive-levelling-up-agenda https://www.gov.uk/government/people/kemi-badenoch	No action required but to note that the appointment of the new minister is likely to lead to some delays in certain areas compared with prior timetables/expectations.
McCloud Judgment	The Public Sector Pensions and Judicial Offices Bill got its second reading in the House of Lords in September and moved to the Committee Stage on 11 October 2021, followed by the Report Stage on 29 November. Outside of the LGPS, a framework set out by the FBU and LGA in relation to the McCloud Judgment in the Firefighter Schemes requires "Immediate Detriment" cases to be processed in the coming weeks.	https://hansard.parliament.uk/lords/2021-09-07/debates/11830B14-E633-4C98-891F-9BEB6E3EAA67/PublicServicePensionsAndJudicialOfficesBill(HL) https://bills.parliament.uk/bills/3032	Fund to continue work on collating/analysing data from employers in relation to implementing the remedy. Fund to consider resource implications of the need to process Immediate Detriment cases in the Firefighter Scheme.
Cost Control Mechanism	HMT has published both a response to its consultation on the cost management process, and also directions for the 2016 valuation cost controls. SAB have since formally published its report on the 2016 valuation cost management review, which confirms no change to benefits.	https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1023845/The_Public_Service_Pensions_Valuations_and_Employer_Cost_	No immediate action – await further guidance on how revised cost management process will be implemented, in particular with regard to economic check, and also await further update on SAB Tier 3 / employee contribution review. Progress of new Judicial Review by FBU (and BMA) to be followed given may be implications for LGPS at a later stage.

	A response to the consultation issued in relation to SCAPE discount rate methodology still awaited. Outside of the LGPS process the FBU have issued a formal letter before claim for Judicial Review proceedings against the government with regard to the inclusion of the McCloud Judgment in the 2016 cost management process.	Cap___Amendment__Directions_2021.pdf https://www.lgpsboard.org/index.php/projects/cost-management http://fbu.org.uk/news/2021/11/04/fbu-preparing-take-government-court-over-pensions	
The Pension Dashboard	The PDP has now published a summary of responses to the call for input issued in June together with confirmation of the draft timetable for Regulations and its latest progress report.	https://www.pensionsdashboardsprogramme.org.uk/staging-call-for-input-summary/ https://www.pensionsdashboardsprogramme.org.uk/2021/10/26/october-21-progress-update-what-happens-next/	The Fund has recently appointed a dedicated Pensions Dashboard officer to manage the PDP project internally and ensure the Fund is prepared for the requirements of the new regulations once they are published e.g. data quality, ISP considerations and ensuring sufficient resource is available.

4 FINANCIAL IMPLICATIONS

4.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates.

4.2 Any other specific financial implications will be reported as appropriate.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES STATEMENT

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

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. 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.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

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

Contact person	*Geoff Cleak, Pensions Manager; Tel 01225 395277*
Background papers	*LGA Bulletins* *SAB Meeting Minutes* *National Technical Group Meeting Minutes*
Please contact the report author if you need to access this report in an alternative format	

List of current developments affecting or expected to affect Scheme Administration – 19 November 2021

Organisation	Item	Details	Status
HMT / MHCLG	**Public Sector Exit Payments Cap / Consultation on Further Reform to Exit Payments**	**Risk Register Item – R53** **Latest Updates:-** It's expected that a new consultation in relation to the Public Sector Exit Payments Cap will be released in early 2022. However, unlike the previous exit cap, there won't be single set of regulations from HMT that will apply and there will be different solutions across the Public Sector, including for the LGPS. Statutory guidance in relation to "special severance" payments that apply to local authorities is expected soon following the consultation that ended in August. **Previous Updates:-** **On 2 July 2021,** following a request for data from local authorities in April 2021, MHCLG published its first summary of exit payment data covering 2019-20 and 2020-21. Initial indications are that the average exit payment made in 2020-21 across local authorities was £26,000 including pension strain. Further details can be found here. **Also, on 2 July 2021,** Although not directly linked to the exit payments cap, MHCLG commenced a consultation on statutory guidance in respect of "special severance" payments that apply to local authorities i.e. over and above statutory entitlements. The consultation ended on 13 August 2021 and an outcome is awaited. A copy of the LGA's response to the consultation can be found here. **On 9 April 2021,** MHCLG wrote to chief financial officers, of councils and combined authorities, letting them know about a new requirement to provide data on exit payments. Councils will be asked to provide data on all redundancy payments, pension strain payments and other special payments made in consequence of an exit for 2014/15 to 2020/21 by the end of May 2021. The data will be used to inform delivery of the Government's policy to end excessively high exit payments in the public sector.	**Updated**

Organisation	Item	Details	Status
		On 12 February 2021, HMT published the Exit Payment Cap Directions 2021 disapplying parts of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect, meaning the exit cap no longer applies to exits that take place on or after 12 February 2021. HMT expects employers to pay the additional sums that would have been paid, had the exit cap not applied in respect of employees who left between 4 November 2020 and 11 February 2021. On 25 February 2021, The Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 were made and laid before parliament and will come into force on 19th March 2021. These regulations confirm the effect of the disapplication Directions made on the 12th February 2021 but are not retrospective. Despite this revocation, the Government remains committed to implementing reforms to public sector exits which will have the aim of ending excessive payments and bringing practice more in line with the private sector. We understand that MHCLG plans to introduce further changes to exit payments following the recent MHCLG consultation on reforming local government exit pay, however, they will consult again on any further reforms to exit payments before any changes are made. The Government has not confirmed when the exit cap or further reforms will be introduced but we understand an exit cap may be in force later in 2021. **On 22 December 2020**, three requests for Judicial Reviews of the Restriction of Public Sector Exit Payment Regulations 2020 were given permission to proceed. These requests contest the regulations on a number of grounds, including their effect on the LGPS regulations. It is expected the requests will be heard towards the end of March 2021. MHCLG has confirmed that these hearings will affect the timing of LGPS regulation changes. The LGA understand that these proceedings will prevent any direction by the Pensions Ombudsman on this matter until they are complete although they are seeking clarification on this. **On 16 Nov 2020**, APF obtained legal advice on the best course of action to take in the interim period, until the LGPS regulations are amended to accommodate the cap. As a result of that advice we have taken the decision to offer a member who exceeds the 95k cap the option of taking immediate payment of fully reduced benefits or the option to defer their benefits for payment at a later date. This is also in line with the Government and Scheme Advisory Board recommendations. We have also adopted a partial change in the factors used to calculate pension strain costs following a formal recommendation from our Actuary. New processes are now in place to deal with any cases that arise going forward.	

Organisation	Item	Details	Status
		On 30 Oct 2020, SAB published its legal advice together with a commentary for LGPS administering authorities and scheme employers, which can be found as follows:- https://www.lgpsboard.org/index.php/structure-reform/public-sector-exit-payments **On 28 Oct 2020**, a letter was sent from Luke Hall, the Local Government minister, to all LGPS administering authorities in respect of the implementation of the £95k cap from 4th November recommending a course of action to take in the interim period which is that LGPS members caught by the 95k cap, who would normally be forced to take a fully unreduced pension under regulation 30(7), should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost. **On 15 October 2020**, the legislation implementing the £95k cap on exit payments was signed and therefore will come into force on 4 November 2020. This means that the £95k cap will come into force in advance of the changes to LGPS regulations proposed by MHCLG in the further reform consultation, which will amend the LGPS regulations to provide for the payment of reduced pensions in whole (as is the current provision) and in part. As such, from 4 November 2020 up to the enactment of the MHCLG further reform proposals, which is expected in early 2021, there is a position of legal uncertainty. This is due to the apparent discrepancy between the obligations on scheme employers under the Cap Regulations to limit strain cost payments, and the requirement for administering authorities to pay unreduced pensions to qualifying scheme members under existing LGPS regulations. The SAB has requested the views of Counsel on the risks of challenge to administering authorities and the obligations of scheme employers during this period of legal uncertainty. **On 7 September 2020**, MHCLG launched a consultation on changes to the Local Government Pension Scheme (LGPS) and Discretionary Compensation Regulations. The consultation covers the required changes to compensation and pension regulations to implement both the £95K exit payment cap as well as public sector exit payments further reform proposals issued by HMT in 2016. The latter proposals were left to individual departments to implement rather than being via central HMT Directions, currently no other part of the public sector has any ‘live’ proposals to enact the further reform proposals. The MHCLG consultation closes on the 9 November and	

Organisation	Item	Details	Status
		APF are in the process of formulating a response. At this stage there have been no proposals to implement an exit payment recovery process that was also consulted on in 2015. **On 21 July 2020**, HM Treasury published the Governments response to the consultation on restricting exit payments in the public sector. This was followed by the publication of draft regulations which include a list of employers who will be covered by the cap, which is set at a total of £95,000. Exit payments include redundancy payments, severance payments, pension strain costs and other payments made as a consequence of termination of employment. The Regulations will need to be approved by both houses of parliament and will come into force 21 days after that process is complete. We understand it is the intention that the cap will be in force for the end of the 2020 calendar year. This will affect LGPS members in England and Wales who currently qualify for an unreduced pension because of redundancy or efficiency retirement. It will also apply to members whose employer agrees to the early release of their benefits without actuarial reduction, apart from ill health retirement which is excluded. If the cap is breached, then the member may have to take a reduced pension. MHCLG is looking at options to introduce choice to allow members in this position to opt for a deferred pension instead. We also expect the introduction of a standard strain cost calculation so that the cap will apply equally to members across the country. We are expecting a consultation on changes required to the LGPS regulations imminently. **Background:-** The government first consulted on plans to cap exit payments in the public sector in 2015. On 10 April 2019, HMT launched a consultation called 'Restricting exit payments in the public sector: consultation on implementation of the regulations'. The key points in this latest consultation were as follows:- • No change from the earlier proposal that the maximum exit payment will be £95,000. • The cap will apply to a wide range of public sector employers, including employees of councils in England and Wales, fire authorities, police forces, academies and maintained schools.	

Organisation	Item	Details	Status
		• The £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will therefore be severely restricted in some cases. • Certain employers in the LGPS e.g. Universities and Colleges appear not to be covered which will means members would be treated differently within the LGPS depending on their employer on exit. • As previously indicated, there will be provisions for the cap to be waived in some circumstances. However, the tone of the consultation makes clear that any waiver is expected to be the exception rather than the norm. It was expected that MHCLG will run a separate consultation, which will cover amongst other things the agreement and implementation of a common costing methodology and factors for strain payments. HMT received approximately 600 responses, one of which was from APF, and it was expected that they would publish their response in the autumn of 2019 and look to introduce the cap no sooner than 1 April 2020.	
Government	**McCloud Judgement**	**Risk Register Item – R63** **Latest Updates:-** **On 11 October 2021,** The Public Sector Pensions and Judicial Offices Bill moved to Committee Stage. The Report stage will take place on 29 November 2021. It is now expected that any amendments made by the Government in relation to the LGPS and how the remedy will be implemented will emerge at the House of Commons Committee Stage. Funds have also been encouraged to collect data on all members who were active on/before 31 March 2012, not just those on 31 March 2012 given the potential for scope to change as part of the amendments referred to above. Further details on the timing, and the Bill itself, can be found here.	**Updated**

Organisation	Item	Details	Status
		Once the Bill eventually receives Royal Ascent, Regulations for each of the Public Sector Schemes will be released. This is expected in Spring 2022. There will also be a consultation in Spring/Summer 2022 on draft guidance to assist Funds in implementing the remedy. **On 8 October 2021** the Fire Brigades Union and the Local Government Association issued a Memorandum of Understanding and Framework setting out a mechanism to handle “Immediate Detriment” cases emerging from the McCloud Judgment in relation to the Firefighter Schemes in a consistent manner. Whilst this does not immediately impact the LGPS, there will be an impact on the Fund’s available resource in the short-term whilst such cases are considered, which will need to be managed. **On 7 September 2021,** The Public Sector Pensions and Judicial Offices Bill got its second reading in the House of Lords.	
		Previous Updates: **On 19 July 2021,** The Public Sector Pensions and Judicial Offices Bill got its first reading in the House of Lords. The Bill makes provision to rectify the unlawful age discrimination identified by the McCloud Judgment. Chapter 3 of Part 1 of the Bill confirms which members will be in scope in the LGPS and what service is ‘remediable’. Enabling legislation will allow for scheme regulations to be changed to formally implement the McCloud remedy. The second reading of the Bill will take place in the House of Lords on 7 September 2021. **On 13 May 2021,** MHCLG published its Written Ministerial Statement setting out the government’s high level objectives on how the remedy to the McCloud Judgment will be applied. The statement can be found here. **On 8 October 2020** APF issued their response to the consultation which was included as an appendix to this report at the December meeting The SAB response to MHCLG's consultation is available to view in the following location:- http://lgpsboard.org/images/PDF/letters/SAB_FINAL_MCCLOUD_RESPONSE.pdf	

Organisation	Item	Details	Status
		The notes from the SAB meeting in August advised that their response would include representations to allow the LGPS regulations to be on the statute book ahead of those of the unfunded public service pension schemes, where the coming into force date is expected to be Spring 2022. LGPS remedy regulations will not have to wait for changes in primary legislation so different timescales should be possible. Getting LGPS McCloud regulations in place sooner will give all parties more opportunity to put processes in place before they come into effect in 2022. The Board also agreed that work should commence on central guidance on how the regulations are to be applied and how individual cases of poor or missing member data should be handled. **On 16 July 2020**, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS, see link here. In summary, the consultation proposes that qualifying members, all who were active in 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break, would be protected by the application of a revised underpin which will be applied retrospectively for those who have already left the scheme. The consultation runs until 8th October 2020 and we are currently in the process of formulating a response. **At the SAB meeting in February**, the Board agreed to create two working groups to help implement the outcome of the McCloud judgment for the LGPS. These will be a small policy group to help MHCLG consider areas of policy not determined by HMT and a larger implementation group made up of practitioners, member representatives, actuaries, software providers and employers. They will consider the challenges of implementing and communicating the scheme changes. Due to differences in LGPS transitional protection, MHCLG are planning to undertake an LGPS specific consultation on the regulatory changes required to address McCloud. We are expecting the consultation to begin late June / early July 2020. **Background:-** The McCloud/Sargeant cases concern the transitional protections provided to older members of the judges and firefighter pension schemes following their reform in 2015 as part of the public sector pension scheme changes. In December 2018, the Court of Appeal found the transitional protections to be unlawful on the grounds of age discrimination. In June 2019, the Supreme Court denied the Government's request for an appeal and as such the case was returned to an Employment Tribunal for remedy.	

Organisation	Item	Details	Status
		In July 2019, the Chief Secretary to the Treasury announced in a written statement that 'the government believed that the difference in treatment will need to be remedied across all public sector schemes, including the LGPS'. As such, the SAB agreed to establish two working groups, one to assist MHCLG in considering any areas of policy not centrally determined and the second to consider the challenge of implementing and communicating any changes. A consultation, including draft legislation, is expected in the Spring, although there is likely to be a need for changes in primary legislation that may take some time. You can find a dedicated 'Cost Management' page on the SAB website as follows:- http://lgpsboard.org/index.php/structure-reform/mccloud-page	

Organisation	Item	Details	Status
SAB	LGPS Cost Management Process	**Risk Register Item – R47** **Latest Update:-** **On 4 November 2021,** the FBU has issued a formal letter before claim for Judicial Review proceedings against the Government with regard to the inclusion of the McCloud Judgment in the 2016 cost management process. This is likely to be heard in the middle of next year. If upheld, there may be implications for the LGPS. Further details can be found here. **On 15 October 2021,** the SAB published the outcomes of its own 2016 valuation cost management process (following confirmation from HMT on the cost control directions). Full details of the process can be found here and confirmed that there would be no change to benefits emerging from the process once allowance for the McCloud Judgment had been taken into account. However, the SAB has formally commented now that it will still be seeking to review Tier 3 ill-health benefits and employee contributions for the low paid in the future, outside of the cost management process. DLUHC, SAB, GAD will be considering how the revised principles of the HMT process will apply to SAB's own process in readiness for the 2020 valuation assessment being undertaken. **On 7 October 2021,** HMT published the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment Directions) 2021 which allow public sector schemes to conclude their 2016 valuations by setting out how they will carry out the cost control element of these valuations. **On 4 October 2021,** HMT responded to the consultation on the cost control mechanism. The response can be found here and confirmed that: • The mechanism would be changed so that it only covers the reformed schemes. • The corridor would be widened from 2% to 3%. • There would be the introduction of an "economic check" so that when the corridor is breached, a further check of broader economic conditions would be carried out before any breach would be implemented. Whilst not directly addressing concerns raised by LGPS stakeholders (in particular with regard to how the economic check will be carried out for the LGPS), there is an acknowledgement from HMT to discuss these further and agree the appropriate way these changes can be introduced	Updated

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		(alongside consideration of how the changes will impact the SAB cost management process, and also how similar changes can be affected in Scotland and Northern Ireland). A response to the consultation on the methodology used to set the SCAPE discount rate is still awaited. **Previous Updates:-** **On 19 August 2021,** the SAB published its response to the consultation on the cost control mechanism. The response can be found here Similarly, LGA published its response to the consultation on the discount rate, which can be found here. **On 24 June 2021** a Written Ministerial Statement was laid which announced the publication of two consultations. The first was about proposed reforms to the cost control mechanism and covered 3 main areas: • A change to the mechanism so that it only covers the reformed schemes. • A widening of the corridor from 2% to 3%. • The introduction of an “economic check” so that when the corridor is breached, a further check of broader economic conditions would be carried out before any breach would be implemented. The second consultation was about the discount rate used in valuations of unfunded public service pension schemes and potential changes to the SCAPE methodology used. Whilst primarily impacting the other public sector schemes (given the SCAPE discount rate is used to determine contribution rates) any changes would impact the LGPS given it is used by GAD to produce actuarial factors e.g. early retirement etc. Both consultations closed on 19 August 2021. We understand that this is to be one of the main topics of discussion at the meeting of the SAB which took place on 10 May 2021 and await further information of the outcome of these discussions.	

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		At the SAB meeting in November, the Board was reminded of the decision it took when it last met in August to un-pause its own cost cap arrangement until HM Directions including proposals on how McCloud costs are going to be taken into account are published over the coming months. Members were also advised that the Government Actuary's Department is undertaking a review of the cost cap arrangement but that it is unlikely to have any impact on the outstanding 2016 cost cap process or the forthcoming 2020 process. The Government announced updates on the 2016 valuation and cost control mechanism for the unfunded public sector pension schemes advising that the cost control element of the 2016 valuations will now be completed incorporating the cost of implementing the McCloud remedy. There will be no reduction to member benefits as a result of completing the 2016 valuation if the cost ceiling is breached. However, if the cost floor is breached, this will be honoured by implementing increases in benefit accrual and/or reductions in member contributions backdated to 1 April 2019. **The notes from the SAB meeting in August** advise that, unlike the HMT arrangement, there is no compulsion on SAB to include McCloud costs in their cost management arrangement. However, it was agreed that no decision should be taken until the HMT Direction, on how McCloud costs are to be considered, is published early next year. In principle, the Board agreed that the LGPS cost cap arrangement should be un-paused in the same way as the HMT arrangement, but no action should be taken until more details are known. **At the National Technical Group in October,** MHCLG further updated that once the McCloud remedy is agreed, the value of scheme member benefit is likely to increase for many members. The cost control mechanism was designed to include the cost of these and they will be included in the completion of the cost control process. How best to do this in the LGPS will be decided once the remedy details are decided. **On 16 July 2020** the Government made an announcement confirming that the cost control mechanism pause will be lifted, and the cost control element of the 2016 valuations process will be completed for all public service pension schemes. The objective would be to complete the process by next year, taking into account the cost of the proposals to remedy age discrimination as set out in the McCloud consultations which were published that same day. The SAB are	

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		currently considering its position on the SAB employer cost cap process now that the proposals to rectify age discrimination for the LGPS are available. **In April 2020** four unions including the FBU and the GMB filed court proceedings against the Government claiming that the pause in the cost control mechanism is unlawful. The unions are arguing for an improvement in member benefits as a result of the valuation results. **On 17 October 2019** GAD issued a formal request for valuation data as at 31 March 2019 as part of the cost management process that is due to be carried out in 2020. APF data was submitted to GAD ahead of the deadline of 18 November 2019. **On 14 May 2019** SAB published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations. **Background:-** One of the Board's statutory duties, under the regulations, is to introduce and maintain a process to manage costs in the scheme alongside the process introduced by HM Treasury for all public service schemes. You can find a dedicated 'Cost Management' page on the SAB website as follows:- http://lgpsboard.org/index.php/structure-reform/cost-management In September 2018, SAB members were provided with a summary of the statement regarding the scheme valuations for all of the public service pension schemes, including the LGPS, which showed that the cost cap floor had been breached and as a result member benefits would need to be improved. SAB therefore put together a working group responsible for agreeing a package of benefit changes to return the scheme to its total target cost, while also looking at employee contributions at the lower end. It was intended that the resultant package would be put to the full SAB for agreement to ensure that scheme changes could be on the statute book by April 2019. However, in January 2019 the Government announced a pause in the cost management process for unfunded public sector schemes due to uncertainty caused by the McCloud court ruling on elements of the 2015 scheme reforms. In February, SAB learned that this applied equally to the	

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		LGPS and as such it had no option but to pause its own cost management process pending the outcome of McCloud. As a result there were no changes to benefits planned in respect of the cost cap and instead this situation would be reviewed once McCloud was resolved.	
SAB	**Good Governance in the LGPS**	**Previous Updates:-** **On 15 February 2021,** the Scheme Advisory Board published Good Governance: Phase 3 Report which was produced by the Hymans Robertson project team. The Phase 3 report, link here, provides further details on some of the recommendations that were included in the Phase 2 Report. The Board agreed that the Chair should submit the Board's Good Governance Action Plan, link here, to the Local Government minister for consideration. **At the SAB meeting in August 2020**, Hymans updated the Board that draft papers on how the recommendations set out in the Phase II report are to be implemented, will be completed by the end of September 2020. The Board will consider these drafts when it meets in November 2020. If approved, the Board will then consider the process and timing of implementation. **In April 2020**, a virtual meeting of the chairs of the SAB and its two committees was held and it was agreed that Hymans work on Phase III of the Good Governance project should proceed on a limited basis due to COVID-19. They should continue to prepare papers for the SAB's consideration based on discussions already undertaken with the implementation group. However, they should avoid engaging with members of the implementation group, or local government in general at this time. **In February 2020**, the Board agreed that an implementation group, comprising the two former working groups, should be established immediately to prepare a detailed implementation plan for consideration at their next meeting. **In November 2019**, a draft Phase II report into the findings of both working groups was made available to the Board who considered it and agreed that it should be published with comments invited from scheme stakeholders. The report made recommendations for new standards of governance and administration and proposed how they could be measured and assessed independently. The recommendations covered the areas below: • general governance	**No Further Update**

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		• conflicts of interest • representation • skills and training • service delivery for the LGPS function • compliance and improvement You can find the report as follows:- http://lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf Comments on the phase II report were invited to be sent and APF issued a response to this in January 2020 concluding that overall, we were still unsure of the specific problems attempting to be addressed through some of the proposals. It seemed that another layer of governance was being added because there are some local issues around the effectiveness of Local Pension Boards or Fund Administrations. Maybe the Pension Regulator could intervene and deal with these issues as demonstrated in its own recent engagement report. Within the recommendations there were still a lot of 'shoulds' or 'coulds' whereas regulation and a definitive set of standards monitored by the Pension Regulator would be more effective. **In April 2019**, Hymans launched the Good Governance Project Survey to capture as many views as possible from those working within the LGPS with the findings forming the basis for a report which was presented to the SAB in July 2019, you can find the report as follows:- http://lgpsboard.org/images/PDF/GGreport.pdf Work to develop a detailed plan then began and two working groups were established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. **Background:-**	

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		Previously known as the separation project which was developed to identify the potential benefits of further increasing the level of separation between the host authority and scheme manager role. In November 2018, the project was awarded to Hymans Robertson and was also re-named to "Good Governance in the LGPS" which better reflected the aims and ambitions of the project to enhance the delivery of the function within local authority structures.	
SAB	**Tier 3 Employers**	**Previous Updates:-** **At the SAB Meeting in May 2020**, members were advised that the working group set up to take this work forward has not been able to meet but discussions with MHCLG are being progressed. **At the SAB Meeting in Jan 2019**, the Board was advised that the work of the third tier employers' project working group had been put on hold due to competing priorities. **In Sept 2018**, a final version of the Aon report was published and can be found as follows:- http://lgpsboard.org/images/PDF/Tier_3_employers_in_the_LGPS_FINAL.pdf **At the SAB meeting in Jun 2018**, Aon presented members with a summary of the final draft report. The Board was anxious to point out that the report makes no attempt to make any recommendations, instead, it outlines a range of issues raised by stakeholders and how they envisage these concerns being resolved. The Board agreed that the report should be published and that a small working group of Board members will be established to review the concerns expressed by third tier employers in the report and the ways in which they could be resolved. The working group will be tasked to report back to the Board later in the year with a set of recommendations for further consideration. Once approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance. **Background:-**	**No Further Update**

Organisation	Item	Details	Status
		As part of its work plan for 2016/17, SAB wanted to identify the potential funding, legal and administrative issues and liabilities relating to admitted and scheduled bodies that do not benefit from local or national tax-payer backing (Tier 3 employers). The work was split into two concurrent phases: 1) The Board was to work with LGPS administering authorities to gather data regarding the number, membership, liabilities and covenants of these employers. 2) Separately the Board appointed Aon to assist it in further analysis in this area. You can find a dedicated 'Tier 3 Employers' page on the SAB website as follows:- http://lgpsboard.org/index.php/structure-reform/tier-3-employers	
MHCLG	**Consultation on Fair Deal**	**On 10 December 2019,** a representative from MHCLG provided the following update to the LGPS National Technical Group "The analysis of consultation response has been completed. Officials have started to draft the government response but the content of that is still conditional on some further ministerial decisions that will need to be taken once the new government is formed". **Background:-** In Jan 2019, MHCLG launched a policy consultation and draft regulations on 'Fair Deal – strengthening pension protection' in the LGPS. The consultation contained proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government's October 2013 Fair Deal guidance that applies in relation to transfers from central government. MHCLG received around 79 responses, one of which was from APF.	**No Further Update**

Organisation	Item	Details	Status
HMT	**Written Ministerial Statement on Survivors Benefits**	**Previous Update:-** **On 20 Jul 2020**, the Chief Secretary to the Treasury made a written statement on public service pensions, survivor benefits for opposite–sex widowers and surviving male civil partners. The statement was in relation to a Teachers Pension Scheme Employment Tribunal case where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor and confirmed that government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances. We await guidance from MHCLG on what action administering authorities in England and Wales should take.	**No Further Update**
MHCLG	**Consultation on LGPS Local Valuation Cycle and the Management of Employer Risk**	**Risk Register Item – R62 (In respect of Exit Credits)** **Previous Updates:-** **On 27 May 2021,** following a judicial review, a High Court Judge rejected the claim that challenged the lawfulness of the LGPS regulations introduced in 2020 that extinguished a contractors' right to Local Government Pension Scheme "exit credits" with retrospective effect. Full details of the ruling can be found here. One of the recommendations from the ruling was for Funds' policies to not explicitly rule out the payment of an "exit credit" on the sole basis that risk sharing arrangements with the letting employer existed. **In April 2021,** the Fund published its updated Funding Strategy Statement (FSS) following a consultation exercise with employers to outline proposed changes to the FSS to allow for the regulatory changes referred to below linked to employer flexibilities. The updated FSS can be found here. **On 2 March 2021**, MHCLG published statutory guidance to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on employer flexibilities introduced in September 2020. More detailed guidance prepared by the Scheme	**No Further Update**

Organisation	Item	Details	Status
		Advisory Board, to be read in conjunction with MHCLG's statutory guidance, was published on 22 February 2021. MHCLG are defending two claims for judicial review challenging the 2020 amendment to the LGPS Regulations on the payment of exit credits. The claimant in the Northants case was granted permission by the court on 12 November to proceed to a full hearing and the case is listed to be heard in March. **On 2 December 2020,** the secretariat to the SAB emailed pensions managers for comment on a draft guide to employer flexibilities. This was prepared by the SAB in conjunction with representatives from administering authorities and scheme employers. The purpose of the guide is to provide operational and practical assistance to administering authorities and employers when implementing employer flexibilities introduced by the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020. APF issued a response on 7 January 2021. **On 26 Aug 2020**, MHCLG published a second partial response to this consultation covering greater flexibility on employer exit payments and the ability to review employer contributions between valuations. The LGPS (Amendment) (No.2) Regulations 2020 provided for the changes and came into effect from 23 September 2020. A working group has been established by MHCLG to prepare statutory guidance, to accompany the regulations, to assist with the necessary revisions required to Funding Strategy Statements A further response will be made by MHCLG in relation to the other proposals in the consultation (changes to the local fund valuation cycle, interim valuations and the status of further education, sixth form college and higher education corporations in England and Wales) in due course. **On 27 Feb 2020**, MHCLG published a partial response to this consultation covering the proposals on exit credits only. MHCLG will submit a further response to the other proposals covered by this consultation in due course. The response confirms that the majority of respondents supported the proposal to allow administering authorities to take account of an employer's exposure to risk when calculating an	

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		exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 giving effect to these proposals were laid in Parliament and came into force on 20 March 2020. **Background:-** In May 2019, MHCLG launched a 12 week consultation on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covered the following areas: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments (Update - Resolved following second partial response to consultation in Aug 2020 and Amendment Regulations in Sept 2020). 4. Proposals for further policy changes to exit credits (Update - Resolved following partial response to consultation in Feb 2020 and Amendment Regulations in Mar 2020). 5. Proposals for policy changes to employers required to offer LGPS membership MHCLG received around 280 responses, one of which was from APF.	
HMT	**Equalisation of GMPs in public service pension schemes**	**Previous Updates:-** Following discussions between MHCLG and GAD, MHCLG are now liaising with HMT to determine how retrospective adjustments to CETV payments should be applied in public sector	**No Further Updates**

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		schemes and further guidance is awaited on this specific matter. A consistent approach is preferred. **On 20 November 2020,** the High Court ruled that trustees who do not equalise a member's GMP benefits at the time of calculating a cash equivalent transfer value (CETVs) have committed a breach of duty. Defined benefit schemes providing GMPs should revisit historic CETVs made in the past 30 years and top them up where necessary. The judgment does not force organisations to actively correct all pensions transfers; however, employers may look to do so to avoid legal proceedings from members affected. We await further guidance from MHCLG and GAD on how GMP equalisation will be achieved in the LGPS. **Background:-** **On 26 October 2018**, Mr Justice Morgan handed down judgment in Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC, HBOS PLC, Angela Sharp, Judith Cain, Susan Dixon, Secretary of State for Work and Pensions and HMT. The High Court has held that schemes must equalise the discriminatory effects of GMPs and that this can be achieved using several methods. At the time, HMT confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes".	
HMT	**Indexation of GMPs in public service pension schemes**	**Previous Updates:-** **On 23 March 2021,** the Government published its response to the consultation on Guaranteed Minimum Pension (GMP) Indexation in Public Service Pension Schemes (PSPS). The response concludes that the Government has decided to discount conversion as a long-term policy solution and make the interim solution the permanent solution for GMP indexation in PSPS. This approach will mean that PSPS will be directed to provide full indexation to those members (including survivors) with a GMP (or inherited GMP in the case of a survivor), reaching State Pension age (SPa) beyond 5 April 2021. The accompanying HM Treasury Direction (issued under section 59A of the Social Security Pensions Act 1975), implementing the decision, has been updated. The updated direction commenced on 6 April 2021 and applies in England, Scotland and Wales.	**No Further Update**

Organisation	Item	Details	Status
		On 21 December 2020, the LGA and the LGPC submitted a joint response to the consultation setting out their view that they do not consider an extension of full indexation until April 2024 to be enough time, and that they believe it should either be extended for as long as possible, potentially until April 2030, or be made the permanent solution. Their main reason for this response being that the administrators of public service pension schemes are currently undertaking large programmes of work which are unlikely to be completed much before April 2030. A government response on the consultation is expected by April 2021. **On 7 October 2020,** the government published a written ministerial statement and consultation on how it proposes to ensure it continues to meet these past commitments to public service employees regarding the full indexation of public service pensions, including for any related GMP element for members of public service pension schemes. The consultation, which closes on 30 December 2020, considers the policy options available to the government and proposes to extend the interim solution until at least April 2024 or to make it a permanent solution. A link to the consultation can be found as follows:- https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation In Feb 2020, HMRC published a newsletter on GMP equalisation. HMT are working with MHCLG to assess if GMP equalisation must apply to LGPS members' benefits and will notify administrators of the outcome in due course. **Background:-** On 6 April 2016, the government introduced the new State Pension (nSP). The reformed system simplified pension provision but removed the mechanism that enabled those public servants in 'contracted-out' employment between 1978 – 1997 to have their Guaranteed Minimum Pension (GMP) fully price protected. On 1 March 2016, the government announced that public service pensioners reaching SPa after 5 April 2016 and before 6 December 2018, would have the GMPs earned in public service fully indexed by the public service pension scheme.	

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		The government then launched a consultation to consider whether public service pension schemes should pay full indexation on GMP earned while a member of a public service pension scheme, for someone who reaches SPa after 5 December 2018. In Jan 2018, HMT published its response to the consultation directing that the “interim solution” between 6 April 2016 and 5 December 2018 be extended for a further two years and four months. This will cover those members of public service schemes with a GMP who reach state Pension Age on or after 6 December 2018 and before 6 April 2021. During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”.	
Government	**Pension Schemes Bill**	**Previous Updates:-** **On 11 February 2021**, the Pension Schemes Act 2021 received Royal Assent and the provisions within the Act will come into force when the Secretary of State makes regulations for them to do so. The Act paves the way for the creation of Pensions Dashboards and the introduction of new powers for TPR concerning employer debt. It also introduces a requirement to assess, manage and report on climate related risks and extra conditions that members must satisfy before they are able to transfer out their LGPS benefits. The provisions of the Act that will affect the LGPS in the main are:- <u>Climate risk reporting</u> On 27 January 2021, the Government launched a consultation on regulations entitled ‘Taking action on climate risk: improving governance and reporting by occupational pension schemes’ which ran until 10th March 2021. The scope of the regulations do not include the LGPS however regulations are expected from MHCLG to substantially mirror the requirements set out in this document with a consultation on such regulations expected in the near future. <u>Pensions Dashboards</u> Administering authorities should take action to improve data quality to ensure that they are ready to supply the right information to the dashboards once they are live.	**No Further Update**

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		<u>Transfers out</u> We are waiting for secondary legislation to fill in the detail of the extra conditions members must satisfy before they are able to transfer out their LGPS benefits. **On 7 Oct 2020**, the Pension Schemes Bill, which started in the House of Lords and was introduced into the House of Commons on 16 July 2020, had its Second Reading and is due have two days in Public Bill Committee on 3 and 5 November. **On 19 Dec 2019**, the Queen announced, in her speech, that the Government will reintroduce the Pension Schemes Bill which has been introduced in the House of Lords with the second reading on 28 January 2020. The Bill will now move to committee stage. **On 14 Oct 2019**, the Queen confirmed, in her speech, that a new Pension Schemes Bill will be introduced and will:- • strengthen TPR's powers • provide a framework to support pensions dashboards and • introduce regulations covering the right to a pension transfer.	
TPR	**Codes of Practice**	**Previous Update:-** **On 24 August 2021,** TPR published its interim response to its consultation on the New Code of Practice which ran from 17 March 2021 to 26 May 2021. The main areas of concern from respondents focussed on Unregulated Investments and the requirements for schemes to carry out an "own risk assessment". Further details can be found here. It's not expected that the New Code will become effective before Summer 2022. **On 17 March 2021,** TPR launched its New Code of Practice consultation. The consultation closed on 26 May 2021. The draft new code consolidates (with updates and amendments) most of the existing codes of practice, including the public service code of practice 14, into a new	**No Further Update**

Organisation	Item	Details	Status
		online code providing a single up-to-date and consistent source of information. The other codes will be consolidated into the single code at a later date, subject to further consultation. **On 17 March 2021,** TPR launched its New Code of Practice consultation. The consultation closed on 26 May 2021. The draft new code consolidates (with updates and amendments) most of the existing codes of practice, including the public service code of practice 14, into a new online code providing a single up-to-date and consistent source of information. The other codes will be consolidated into the single code at a later date, subject to further consultation. **On 1 September 2020**, TPR confirmed that it intends to launch the formal consultation on a single Code of Practice in late 2020 or early 2021. **Background:-** The Pensions Regulator announced changes to existing codes of practice. The content of the 15 current codes of practice will be combined to form a single shorter code. The changes will reflect the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. Codes most affected by these regulations will be addressed first, and this includes Code of Practice 14 (public sector schemes). Schemes will need to demonstrate that they have an effective governance system within 12 months of the date the updated codes are published.	
HMT	**Consultation on the Increase to the Normal Minimum Pension Age (NMPA)**	**Latest Update:-** **On 4 November 2021** The Finance Bill 2021-22 was published setting legislating for the tax charges announced in the budget and formally confirming that the increase to the Normal Minimum Pension Age (NMPA) from 55 to 57 will go ahead in 2028 As referenced previously, the issue of whether LGPS members will be able to receive payment of benefits between 55 and 57 via the LGPS Regulations has been raised with DLUHC (formerly MHCLG) by LGA and a response is awaited. **On 14 September 2021** a Technical Consultation in relation to the draft legislation published in July 2021 closed.	**Updated**

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		Previous Update:- **On 20 July 2021,** HMT published their response to the consultation on implementing the increase to the normal minimum pension age. The response can be found here. On the same day HMRC published a policy paper and draft legislation which will be introduced as part of the next Finance Bill. This can be found here. Though the Finance Act 2004 will provide for protected pension ages, it will be up to MHCLG whether to allow LGPS members to receive payment of benefits between 55 and 57 via the LGPS Regulations. This issue has been raised with MHCLG by LGA and a response is awaited. **On 19 April 2021,** the Local Government Pension Committee (LGPC) responded to the consultation on increasing the normal minimum pension age (NMPA). You can read the LGPC response on the non-scheme consultations page of www.lgpsregs.org. **On 11 February 2021**, HMT published Increasing the normal minimum pension age: consultation on implementation. The consultation, which closes on the 22 April 2021, re-confirms the Government's commitment to increasing the NMPA and seeks views on the implementation of the rise in NMPA and protections for pension scheme members. It proposes that members who have a right under the scheme rules to take benefits before age 57 at the date of the consultation will be protected from the increase in NMPA. **Background:-** In 2014, the Coalition Government consulted on increasing the normal minimum pension age (NMPA) from 55 to 57 from 6 April 2028 as part of the Freedom and choice in pensions consultation.	

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DWP	Pensions Dashboard	**Latest Update:-** **In October 2021,** there were a number of developments and publications. • The Pensions Dashboards Programme issued a summary of the key themes emerging from its Staging Call for Input that was issued in July 2021, which had just over 60 respondents. The summary can be found here. • It was announced that draft regulations on pension dashboards are expected to be published by the end of 2021 / early 2022. These regulations will set out more details of what data will need to be supplied, how it will need to be supplied and what standards will have to be met. • The PDP also published its latest progress report on 26 October 2021, which can be found here, and which recommends Schemes act now to prepare for the dashboard before legislation requires it.	Updated
		Previous Update:- The Fund has now appointed a dedicated officer to oversee the Fund's ongoing responsibilities in relation to the development of the Pensions Dashboard. **On 5 July 2021,** LGA published its response to the Pensions Dashboards Programme Staging Call for Input. You can read the LGPC response here. **On 1 July 2021,** TPR published its results from the Public Service Governance and Administration Survey 2020-21, which can be found here. Section 4.10 focussed on Pension Dashboards. **On 13 April 2021**, the Pensions Dashboards Programme (PDP) issued an invitation to tender for a supplier to provide the digital architecture for pension dashboards. The chosen supplier will provide the main parts of the digital architecture. This will include the pension finder service, the consent and authorisation service and the governance register. **In March 2021**, the Pensions Administration Standards Association (PASA) published guidance on how to start getting ready for pensions dashboards. This is the first of a series of releases of	

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		PASA guidance for UK pension schemes, trustees and providers on how to start getting ready for pensions dashboards, see link here. **On 15 December 2020**, the Pensions Dashboard Programme (PDP) published the key data standards which will underpin pensions dashboards. Data standards provide a common language to describe the pensions information that will be found and displayed on the dashboards. Pension schemes will need to make sure that their data is consistent with the standards, so that members can access this through the dashboards. With onboarding to dashboards expected from 2023, the PDP urges all schemes to start preparing their data now. **On 28 October 2020**, the Money and Pensions Service (MaPS) published their second Pensions Dashboards Programme progress update report, see link here. The report includes updates on: • the Pension Dashboards Programme's (PDP) high level activity plan • resourcing to deliver next phases of the programme • market engagement to help finalise digital architecture requirements • refining requirements for identity verification • setting up a working group to ensure consumer focus • reviewing feedback. The timetable in the report reveals that the PDP expects the dashboard to be available to retirement savers for the first time in 2023. **In April 2020**, MaPs published two papers:- • Pensions Dashboards Data Definitions – Working Paper (which lists the set of data items that could be included in the dashboards data standards. • Pensions Dashboards Data Scope: Working Paper (which looks at options for achieving early breadth of coverage and confirms that initial dashboards will only include information that is already available on annual statements to enable the maximum number of pension schemes to onboard at an early stage. MaPS requested formal feedback on these papers throughout July and August and are currently reviewing the responses received and will give a summary in the autumn.	

Organisation	Item	Details	Status
		Background:- The Pensions Dashboard is an online service which would allow people to see information from multiple pensions all in one place. Following a feasibility study, conducted by DWP, to explore the options for delivering the Pensions Dashboard, the Government launch a consultation in Dec 2018 setting out the findings of the study and their recommendations for dashboards. In April 2019, the government published its response to the consultation outlining the key details of their plan including:- • Legislation to compel pension providers to make consumers' data available on the dashboard • Staged onboarding of schemes with the majority of schemes participating within 3 to 4 years • The inclusion of state pension data • A commitment to multiple dashboards, with a non-commercial dashboard being overseen by the Money and Pensions Service (MAPS). MAPS will lead the delivery of the initial phase of the pensions dashboards and will bring together a delivery group made up of stakeholders from across the industry, consumer groups, regulators and government. The DWP advises the pensions industry to get ready, in the next three to four years, to submit data. Compulsion will require primary legislation and the Pensions Minister, Guy Opperman, has indicated his Department's intention to include a Pensions Bill in the next Queen's Speech for this.	
Government	**Divorce, Dissolution and Separation Act 2020**	**On 25 June 2020**, the Divorce, Dissolution and Separation Act 2020 received royal assent and will, in the main, come into force on a date to be appointed by Government. The Act will revise the legal process in England and Wales for married couples to obtain divorces and for civil partners to dissolve their civil partnership. It will also update terminology: terms such as "decree nisi", "decree absolute" and "petitioner" will be replaced with "conditional order", "final order" and "applicant".	**No Further Update**

Organisation	Item	Details	Status
SAB	**Responsible Investment**	**Latest Update:-** DLUHC is preparing to issue a consultation on TCFD for the LGPS shortly. (Aside, guidance on asset pooling in the LGPS is also expected.) In October 2021 the All-Party Parliamentary Group on Local Authority Pension Funds recently called on LGPS funds to ensure a “just transition” by mitigating the negative economic and social effects for those currently employed in carbon-intensive industries. The full report can be found here. **Previous Updates:-** **On 8 June 2021,** DWP published regulations in parliament to require schemes with £5bn or more in assets, and all authorised master trusts, to report on how they will manage their climate risk from October this year, alongside Guidance for trustees of occupational schemes. These requirements do not however apply to the LGPS. MHCLG will be consulting on regulations which will require similar levels of risk assessment and reporting later this year. **On 28 April 2021**, Cllr Phillips, Chair of the SAB, announced the launch of the online A-Z guide to Responsible Investment (RI) at the Local Authority RI Seminar. The guide provides a glossary of RI terms, organisations, standards and legislation indexed by its classification (what it is), category (where it fits in Environmental, Social and Governance (ESG)) and status (in the context of the LGPS legislative framework) with related LGPS specific case studies. **On 3 March 2021**, the newly established Responsible Investment Advisory Group (RIAG) met for the first time. It discussed a wide range of responsible investment related issues, including MHCLG’s proposals for Task Force on Climate-related Financial Disclosures (TCFD) reporting within the LGPS and the response to the LGPS All Party Parliamentary Group’s inquiry into a “Just Transition”. The main role of the group will be to advise the Scheme Advisory Board (SAB) and the Investment Committee on all matters relating to responsible investment. It will also be responsible for assisting the SAB in developing and maintaining the online Responsible Investment A to Z website.	**Updated**

Organisation	Item	Details	Status
		At the SAB Meeting in February 2021, the Board was advised that work on preparing the responsible investment A to Z website continues. The first milestone, a working version of the website, has been reached and work will now commence on populating the underlying database with relevant items. The aim remains for the website to go live towards the end of March. The Board also agreed membership of the new Responsible Investment Advisory Group (RIAG) as recommended by the investment, governance and engagement committee. The first meeting of the RIAG is scheduled for early March. **At the SAB Meeting in May 2020,** members were advised that work on preparing an A-Z guide to Responsible Investment will continue over the summer. As agreed in February the guide will not at this stage include any reference to fiduciary duty. The aim is to have a final draft for wider consultation ready to be considered by the Board by mid-August. **On 11 May 2020,** SAB issued a statement on the Supreme Court boycotts judgement as follows:- 'The SAB welcomes the clarity brought by the judgement of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board's view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters'. **On 24 February 2020,** the SAB issued a statement thanking all those who responded to the request for comments on Part 1 of the Responsible Investment draft guidance. They advised that responses have been generally positive, however, some respondents have raised concerns around the issue of fiduciary duty in the context of the LGPS and, in particular, the role and responsibilities of elected members responsible for making investment decisions. The Board is also aware that the issue of fiduciary duty was discussed during the recent case in the Supreme Court involving the Palestine Solidarity Campaign and MHCLG that could shed some light on how the fiduciary duty test applies to investment decision makers in the LGPS.	

Organisation	Item	Details	Status
		More recently, the government has introduced amendments to the Pension Schemes Bill which potentially could have a significant impact on the way in which investment strategy statements are prepared on issues like ESG and climate change. For these reasons, the view is taken that it would be imprudent at this stage to offer any definitive advice or guidance on how the fiduciary duty test applies to investment decision makers in the LGPS. The Board has therefore decided to take stock until it has had the opportunity to evaluate the judgement handed down by the Supreme Court and when more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill. Notwithstanding this decision, the Board is mindful that there are matters outside of fiduciary duty where advice and information would continue to be helpful. The Board has therefore decided to restructure the proposed guidance to explain and clarify the terminology associated with responsible investment and provide investment decision makers with a range of information, case studies and tools to help them meet the challenges associated with responsible investment. The revised document will be circulated in draft to scheme stakeholders for comment in the normal way. This change of direction will not preclude the Board from addressing the issue of fiduciary duty as a separate issue once the Supreme Court judgement in the foreign boycott case has been handed down and when there is more certainty about the government's proposals under the Pension Schemes Bill. **On 3 January 2020,** APF issued their response to the consultation. **Background:-** **At the meeting of the Scheme Advisory Board on the 6th November 2019,** approval was given for the first part of guidance on responsible investment to be published for consultation. The aim of this first part of RI guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy statements. The Board wished to make it clear that there is no intention to prescribe the	

Organisation	Item	Details	Status
		extent to which ESG policies must be adopted as this must clearly remain a matter for local consideration and agreement in accordance with MHCLG's statutory guidance. The Board also agreed that work should commence on drafting part two of the guidance, the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy. As part of the consultation on part one of the guidance, consultees were also invited to submit details of case studies that evidence the successful adoption of ESG policies, in particular, those focused on the risks associated with climate change. Consultees were also invited to suggest other matters that should be included in the part two guidance. The aim will be to have prepared a working draft of the part two guidance in time for it to be considered by the Board when it next meets in February 2020.	

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**10 December 2021**
TITLE:	**PENSION FUND ADMINISTRATION** **Overview & Summary Performance Report**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Performance against SLA & Workload Appendix 2 – Annual Summary of Fund Membership Data Quality Appendix 3 – Progress on Key Projects Appendix 4 – Risk Register Appendix 4a – Risk Dashboard Appendix 5 - Service Plan Monitoring 2021 – 2022 Addendum – Communications Update (Presentation)	

1 THE ISSUE

1.1 The purpose of this report is to present the Fund's performance for the three months to 30th September 2021 against its key performance indicators (KPI's) in relation to the administration of pension benefits.

1.2 The report also addresses the Fund's business operational position from an overall risk perspective

2 RECOMMENDATION

The Committee is asked to Note:

2.1 Fund performance for the three months to 30th September 2021.

2.2 The current Risk Register.

3 COVID-19 AND FUND BUSINESS CONTINUITY

3.1 With multiple lockdowns in place since 23rd March 2020, the Fund focussed on communications across all stakeholders to monitor and manage business operations remotely.

3.2 As the situation continues to evolve it has become clear that there will not be a return to the previous ‘normal’ office working arrangements with the expectation of a more blended working approach being introduced by the employing authority going forward. With a small exception the majority of APF officers continue to work remotely from home with limited access to the office.

4 WORKLOAD

4.1 **Appendix 1** provides details of APF performance up to the end of the last quarter for KPI’s measured against the current SLA. Generally, the Fund continues to operate below its desired target of >90% for most case types (Annex 1) although the case-by-case breakdown (Annex 2) evidences an improvement in critical processes for retirements and death cases from the previous quarter. Overall, however, KPI benchmarking performance has declined over the past year (Annex 3).

4.2 Operationally, on the Member Services team there has been an increase in new monthly tasks over the previous 18 months from circa 1,800 to 2,200 tasks per month with the current outstanding cases totalling 4,980 (an increase of 87% since March 2020). The main volume of work is with member refunds, active member retirements and retirements from deferred status. Member estimate requests have increased by 40% over the same period. General enquiries also remain high in volume and a number of these identified as duplicate chasers.

4.3 As outlined in the previous quarterly report a project has now been set up to manage the outstanding workload identified in Annex 5. The project will run for a period of 6 months from October to March with the aim being to clear down all ‘backlog’ cases. At the same time business as usual will continue to be managed. Officers on Member Services team have been divided into project and BAU and will taper across to BAU as the backlog reduces.

4.4 Detailed progress on the backlog project will be brought to future Pension Committee and LPB meetings for noting and comment. The current overall position is set out below

Member Services Backlog Dashboard as at 15/11/2021 06:46:08

Project Start	11/10/2021	**Starting Backlog**	4,238	**Days Allocated**	171	**Comp Rate (orig)**	24.78	**Projected End**	06/02/2022
Today's Date	15/11/2021	**Completed**	1,254	**Days Elapsed**	35	**Comp Rate (act)**	35.83	Running on Time	
Project End	31/03/2022	**Outstanding**	2,984	**Days Remaining**	136	**Comp Rate (req)**	21.94	**% of Work Remaining**	61.89%

4.5

5 RESOURCE RECRUITMENT & TRAINING

5.1 Recruitment and retention remain a key factor impacting business operations. With a further 2 resignations in the past quarter the administration team is currently carrying 9 vacancies across both employer and member services teams in addition the Technical & Compliance post remains un-filled and posts identified to support service transformation are still in development. The team is also carrying four maternity leave absences across the service at this time.

5.2 As such the agreed phased recruitment plan is behind schedule as staff movement continues to impact progress. Recruitment continues to backfill vacant posts, maternity cover and secondment to projects and overstaffing is being considered at Assistant Pensions Officer level to mitigate the impact of further staff movement.

5.3 To mitigate workload some project work has already been outsourced. In particular; GMP reconciliation project and address tracing project. Further bulk work will be considered for future projects although external resource support is also limited at present due to supplier demand. Mercer consultants continue to provide Technical & Compliance advice and guidance.

6 FIRE PENSION SCHEME – MOU & FRAMEWORK AGREEMENT

6.1 On 8th October the Local Government Association (LGA) and Fire Brigade Union (FBU) agreed on a mutually acceptable memorandum of understanding (MOU) and framework (IDF), setting out a mechanism for handling immediate detriment cases, to assist Fire & Rescue Authorities to make immediate detriment payments to members who have retired or are due to retire.

6.2 It is for each Fire & Rescue Authority as the relevant scheme manager to adopt the IDF. Avon Fire Authority (AFA) will meet to agree its approach in December 2021.

6.3 If the IDF is adopted by AFA this will enable payments to be considered for affected members in advance of the remedying legislation which is expected in October 2023.

6.4 Undertaking delivery of the IDF will be a complex process and will require admin resource with specific technical skills and knowledge to manage. At this time the Fund has initially identified five officers to undertake service delivery.

6.5 Adoption of the IDF will impact business operations as resource is re focussed and work reprioritised in the short term. Further information will be presented to the Pensions Committee and pension Board as the situation evolves.

6.6 The Risk Register (R63) has been updated to reflect the impact of IDF.

7 ANNUAL SUMMARY OF FUND MEMBERSHIP DATA QUALITY

7.1 The scheme Actuary has produced a member data overview following the interim valuation see A**ppendix 2**. This report compares APF current data position to that of 2017 when Mercer first reviewed the impact of poor data against employer liabilities. Mercer have identified key areas where the Fund held poor or missing data to which we have been able to focus data cleansing projects.

7.2 The Employer Services team will be using the 2021 data tool to focus on the main areas of data cleansing in advance of the 2022 valuation. Officers will continue to work with scheme employers to improve member data which will result in both a positive impact on employer costs and improvement in overall accuracy of member information in meeting compliance with TPR requirements.

8 PROGRESS ON KEY PROJECTS

8.1 **Appendix 3** provides the current position on a number of key operational projects currently in progress with an outline of further actions to be taken.

8.2 This is not a comprehensive list of all strategic admin projects and will be developed going forward to reflect APF expectations measured against those as set out in the service plan.

8.3 For completeness **Appendix 5** outlines the Funds progress against the Service Plan.

8.4 Whilst the majority of projects remain in progress and on target some delays have inevitably occurred in other areas and overall strategic objectives will need to be reviewed and recalibrated as the Fund prepares its rolling business plan for 2022/2025.

9 RISK REGISTER

9.1 The Risk Register follows the Council's format for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk. Risks identified cannot be eliminated but can be treated via monitoring.

9.2 The risks identified fall into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

9.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews

The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in November 2021.

9.4 The management of the risk register has been updated with the introduction of a more robust process for identifying and managing risks. The register including likelihood, impact and mitigating actions and overview dashboard are attached at **Appendix 4 and 4a.**

9.5 Following a recent risk management audit, a further review will be carried out of the process and the risk register to make the correlation between the risks identified in the Investment, Funding and Administration Strategies and the risk register clearer.

9.6 The quarterly review took place in November and the management team agreed the following changes and updates:

(i) **R66 - Pensions Dashboard**

A new risk was added to the register to represent the risk to the Fund of not being ready for the implementation of the Pensions Dashboard. The Fund will be in breach of the regulations if it is not able to go live by the compulsion date, likely to be between Sept 2023 & March 2024. The risk of not being ready is currently a relatively low risk as preparations have started. A Project lead officer has been appointed & a project plan is in place. The focus of the project will be data quality, reducing backlogs and ensuring resources & processes are in place to deal with the expected increase in member queries following the implementation date. A data protection impact assessment will also be carried out.

(ii) **R63 – McCloud/Sargeant Judgements**

The impact of the McCloud risk has been increased to (5) almost critical, to represent the significant additional workload to the administration team caused by the fire immediate detriment decision.

(iii) **R28 – Recruitment of Staff**

Although phase 3 of the recruitment project is complete, the risk has been retained at its current high level due to the continuing difficulties of recruiting staff. The Technical & Compliance Advisor role has not been filled, two other resignations have been received and there are still a few posts to backfill due to internal promotions.

(iv) **R08 – Internal Controls**

There was no change to the risk score but following the completion of the last year's internal audit work, reports on IConnect, Scheme of delegation, Altair IT System, Risk Management & COP14, all received an assurance level of 4 'Good'. A full report is included under item 15 and was also reported to the Pension Board in September 2021.

10 RISK MANAGEMENT

10.1 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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

11 EQUALITIES STATEMENT

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

12 CLIMATE CHANGE

12.1 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.

13 OTHER OPTIONS CONSIDERED

13.1 There are no issues to consider not mentioned in this report.

14 CONSULTATION

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

Contact person	*Geoff Cleak, Pensions Manager; Tel 01225 395277*
Background papers	*Various statistical documents.*
Please contact the report author if you need to access this report in an alternative format	

Fund Performance against SLA – KPI's As at 30 September 2021 **Appendix 1**

Annex 1 Overall Performance by Case Type

		Cases Last Quarter Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	**Quote - 15 days**	273	123	45.05%	49	63.00%
	Payment - 15 days	238	208	87.39%	24	97.48%
Retirement (from Deferred)	**Quote - 30 days**	92	29	31.52%	8	40.22%
	Payment - 15 days	246	204	82.93%	22	91.87%
Deaths	**Notification - 5 days**	95	89	93.68%	4	97.89%
	Payment - 10 days	88	86	97.73%	2	100.00%
Refund of contributions	**Quote - 10 days**	179	17	9.50%	5	12.29%
	Payment - 10 days	46	30	65.22%	3	71.74%
Deferred (early leavers)	**30 days**	339	223	65.78%	116	100.00%
Transfers In	**Quote - 10 days**	147	2	1.36%	1	2.04%
	Payment - 10 days	62	1	1.61%	1	3.23%
Transfers Out	**Quote - 10 days**	158	16	10.13%	22	24.05%
	Payment - 10 days	11	7	63.64%	0	63.64%
Estimates	**Member - 15 days**	173	152	87.86%	6	91.33%
	Employer - 15 days	51	39	76.47%	2	80.39%
Divorce	**Quote - 45 days**	66	62	93.94%	0	93.94%
	Actual - 15 days	0	0	100.00%	0	100.00%
Starters	**40 days**	1960	1919	97.91%	0	97.91%
		4224	3207	75.92%	265	82.20%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2
Case No's vs Target

		Tasks Last Quarter							
		Average Days to Process	Actual Days to Process						
			0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	**Quote - 15 days**	12	51	45	27	49	39	31	31
	Payment - 15 days	8	131	36	41	24	5	1	0
Retirement (from Deferred)	**Quote - 30 days**	10	37	6	8	6	11	7	17
	Payment - 15 days	9	128	41	35	22	12	7	1
Deaths	**Notification - 5 days**	11	89	4	1	0	0	0	1
	Payment - 10 days	5	78	8	2	0	0	0	0
Refund of contributions	**Quote - 10 days**	32	14	3	5	5	2	13	137
	Payment - 10 days	15	24	6	3	4	4	2	3
Deferred (early leavers)	**30 days**	13	22	6	36	49	49	61	116
Transfers In	**Quote - 10 days**	25	1	1	1	1	1	9	133
	Payment - 10 days	36	0	1	1	1	0	6	53
Transfers Out	**Quote - 10 days**	39	7	9	22	27	33	4	56
	Payment - 10 days	20	4	3	0	1	0	0	3
Estimates	**Member - 15 days**	12	88	53	11	6	7	5	3
	Employer - 15 days	7	22	9	8	2	3	4	3
Divorce	**Quote - 45 days**	23	11	12	10	7	10	6	10
	Actual - 15 days	0	0	0	0	0	0	0	0
Starters	**40 days**	24	805	101	54	35	13	40	73

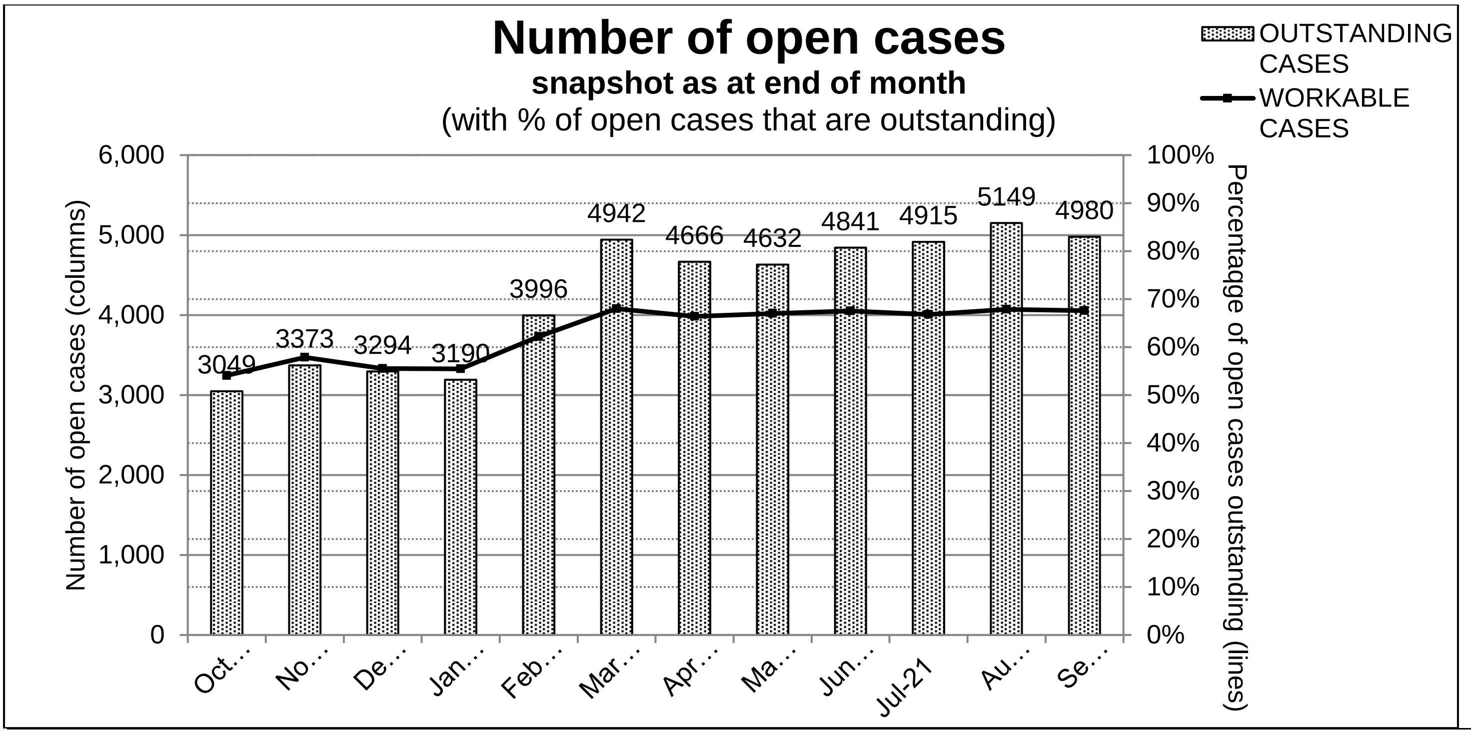
RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

Annex 3 Trend in Overall Performance

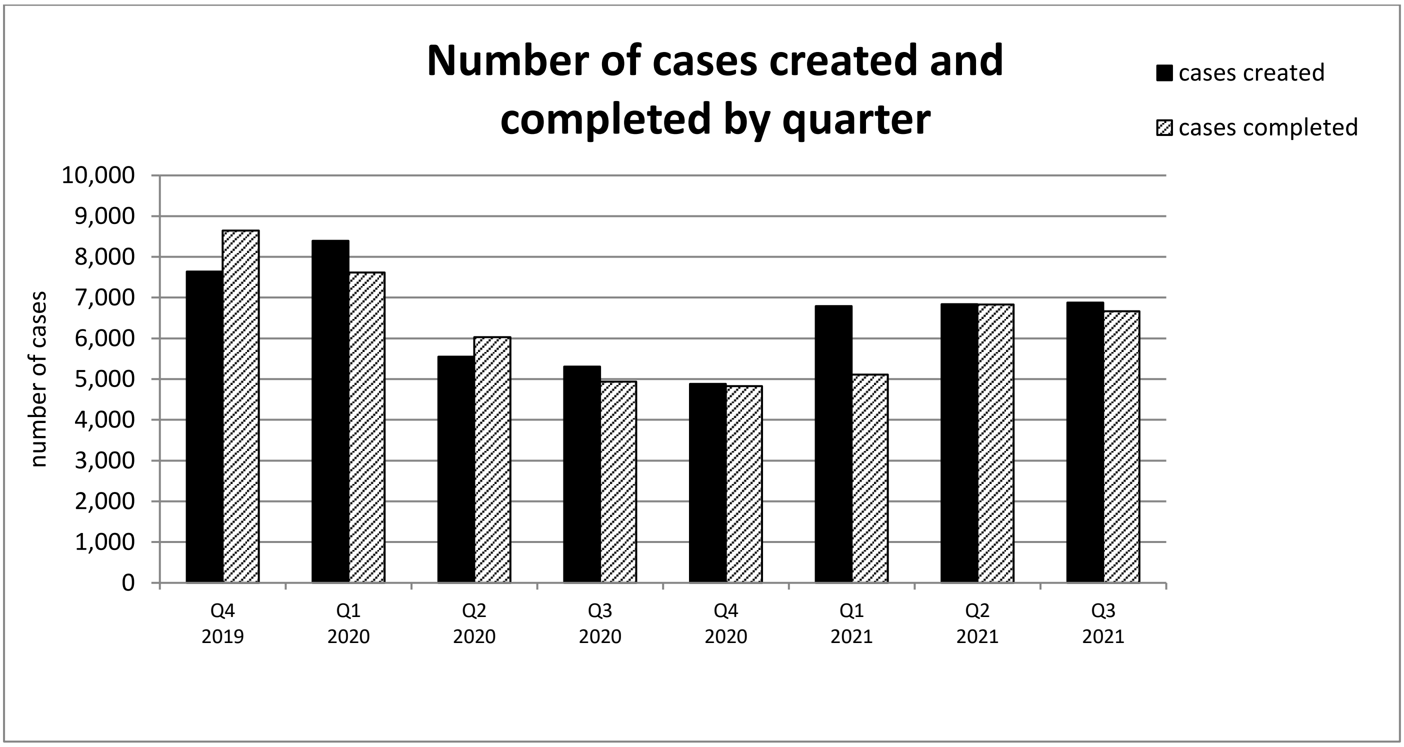
SLA Standards for Processing Admin Tasks						
Work Type	**Target Processing SLA (Old/New)**	**Q4 Oct 20 - Dec 20**	**Q1 Jan 21 - Mar 21**	**Q2 Apr 21 - Jun 21**	**Q2 3 Jul 21 - Sept 21**	**Trend**
Retirement (from Active)	Quote - 5 / 15 days	80.88%	71.26%	55.26%	45.05%	
	Payment - 5 / 15 days	86.24%	75.54%	76.39%	87.39%	
Retirement (from Deferred)	Quote - 30 days	64.94%	45.78%	50.00%	31.52%	
	Payment - 5 / 15 days	95.09%	80.34%	74.03%	82.93%	
Deaths	Notification - 5 days	100.00%	93.13%	87.91%	93.68%	
	Payment - 5 / 10 days	97.78%	84.38%	80.00%	97.73%	
Refund of contributions	Quote - 10 days	14.06%	14.69%	28.57%	9.50%	
	Payment - 10 days	71.43%	32.86%	24.37%	65.22%	
Deferreds (early leavers)	Notification - 20 / 30 days	24.92%	73.40%	65.56%	65.78%	
Transfers In	Quote - 10 days	81.82%	36.14%	41.91%	1.36%	
	Payment - 10 days	62.50%	12.24%	28.57%	1.61%	
Transfers Out	Quote - 10 days	14.58%	4.80%	10.00%	10.13%	
	Payment - 10 days	53.33%	62.50%	47.06%	63.64%	
Estimates	Member - 10/15 days	76.24%	69.41%	45.99%	87.86%	
	Employer - 15 days	85.71%	78.57%	68.97%	76.47%	
Divorce	Quote - 45 days	90.91%	91.03%	90.48%	93.94%	
	Actual - 15 days	100.00%	100.00%	100.00%	100.00%	
Starters	40 days	71.21%	82.49%	72.53%	97.91%	
	Total Cases Processed	2319	5167	4425	4224	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 4



Annex 5



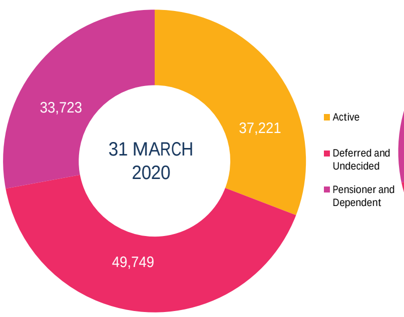
AVON PENSION FUND

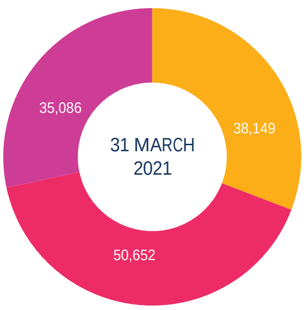
MERCER
welcome to brighter

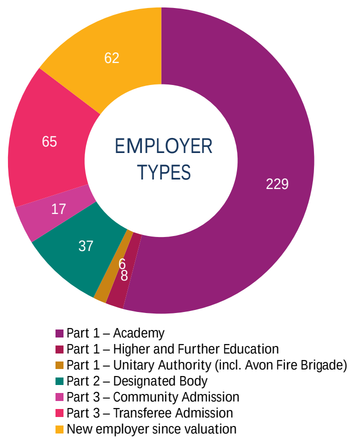
ANNUAL SUMMARY OF FUND MEMBERSHIP DATA QUALITY

STATISTICS

This report shows the movement in the Fund's data from when it was first reported on in 2017 against this year's interim valuation data as at 31 March 2021. This charts below show continuous growth in the Fund over the last 12 months and a significant increase of 62 new employers since the last valuation in 2019. The liability Impact table below shows the financial impact of missing or incorrect data and the direct cost to scheme employers. Since 2017, the Fund has managed to achieve a reduction in the overall pension liabilities for employers of over £30 million. Page 2 shows a breakdown of the main data areas that have the largest impact on liability. The Employer Services team will be using the data from the 2021 report to target data areas that are causing a significant impact on liability and smaller employers with poor data.

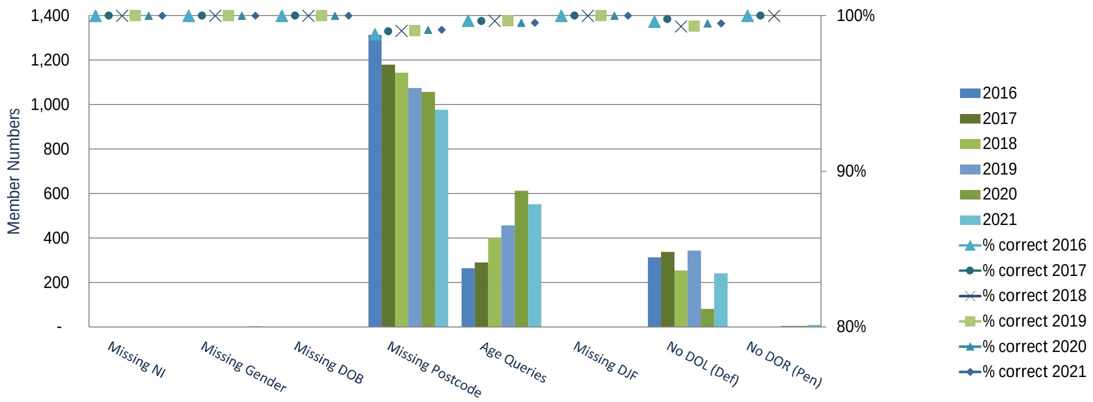






	31 March 2020		31 March 2021
Active Payroll	£646,031,000	Active Payroll	£685,619,000
Deferred Pensions	£65,208,000	Deferred Pensions	£66,601,000
Pensioner Pensions	£155,259,000	Pensioner Pensions	£159,549,000

COMMON DATA



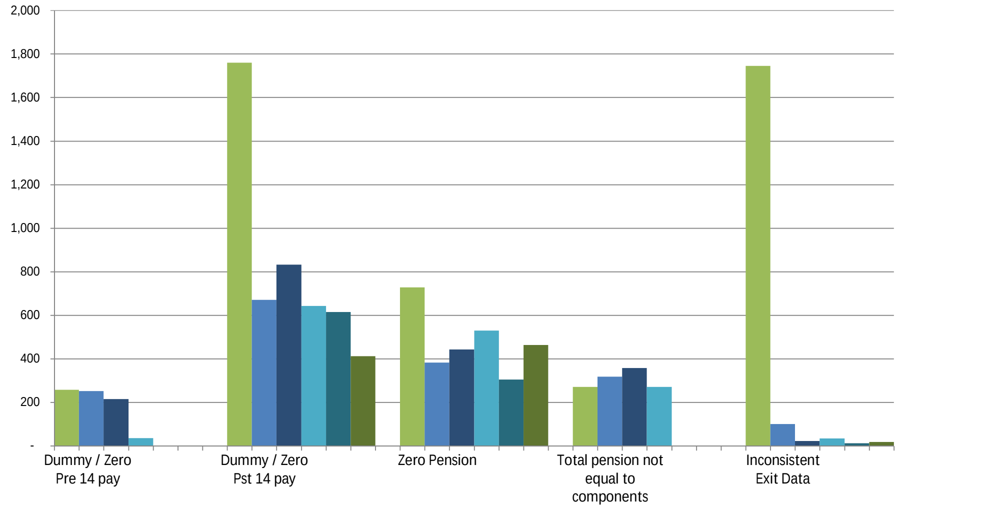
LIABILITY IMPACT

Where data is missing or incorrect (i.e. pension, salary, lump sum, spouses etc), the Actuary is required to estimate this data. A prudent approach will be taken to estimations and this will therefore impact on the liabilities and hence the deficit contributions paid by employers each year. An illustration of the potential impact based on the data provided is shown below:

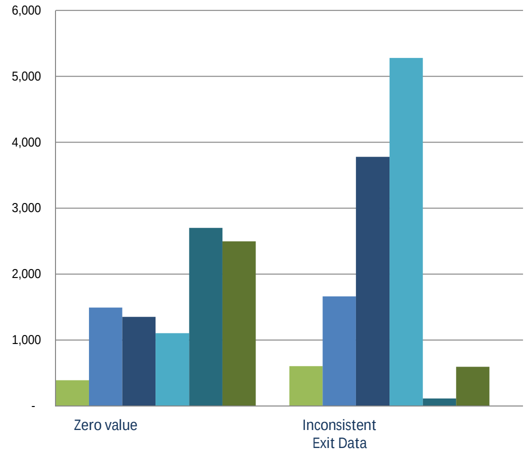
	Active Data Issues	Deferred Data Issues	Pensioner Data Issues	2021 Total Impact	2017 Total Impact	Improvement / Deterioration
Additional liabilities	£6,709,000	£9,545,000	£13,540,000	£29,794,000	£59,826,000	-£30,032,000
Impact on deficit contributions	£524,180	£745,760	£1,057,890	£2,327,830	£3,943,980	-£1,616,150

MARSH & McLENNAN COMPANIES

ACTIVES



DEFERREDS

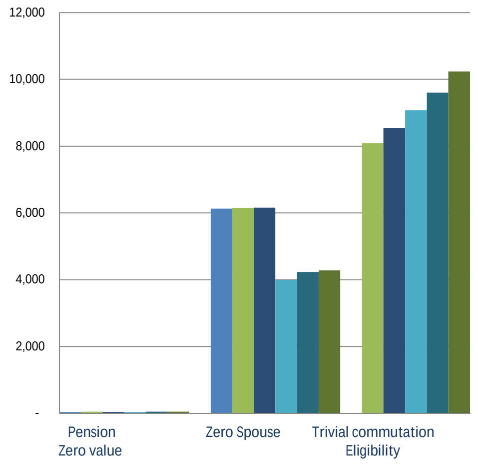


These charts show data improvement in key areas that the Actuary identified for data cleansing and a continuous data improvement across active members.

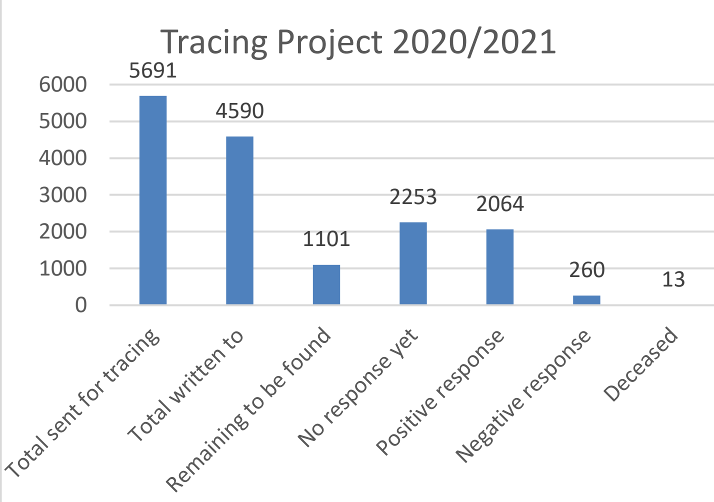
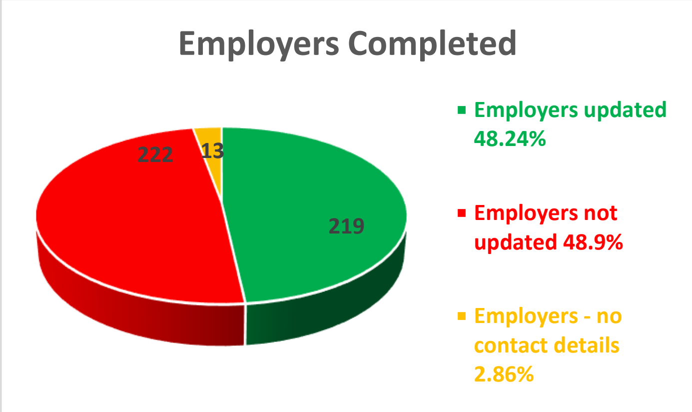
Deferred members with a zero pension includes 'undecided' members where the pension has not yet been calculated and members who are awaiting a refund of contributions.

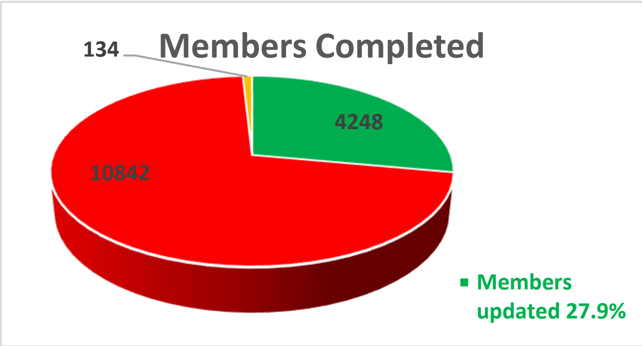
The Fund will be working on these areas to reduce actuary assumptions.

PENSIONERS



This chart shows the number of pensioner members who may have eligibility to commute 'trivia' scheme pension for pension lump sum. The Fund will be undertaking a future project to communicate options to affected members and this will follow completion of the current GMP reconciliation and rectification project. Member benefit trivialisation will impact scheme employer liability.

Item	Details	Action by Fund / Next Steps
Address Tracing	 Total tracing project costs from Mercer to date: £23,909.00	The members that have been written to but no response received have been sent a reminder letter in October 2021 and replies are starting to be received. The members that have not been found by the first 2 levels of tracing will shortly be sent to the tracing agency (via Mercer) for a third and final “premium batch” trace service. The fee for this higher level of search is £8 plus VAT on a no find no fee basis. This will be the last stage of the tracing project with Mercer. New “gone away” cases will be treated under a business-as-usual process, with the Fund carrying out the first stage of tracing followed by referral to the tracing agency for batch tracing. After this 3rd level of tracing a process will be agreed in place to deal with untraced members and to review cases again at Normal Pension Age. Tracing pension members and keeping member addresses up to date is a key requirement of the TPR and data cleansing must continue to form part of our BAU processes.
McCloud		The initial project started in December 2020 and to date we have completed data collection for just under 50% of our employers. The membership completed number is proportionately lower as we have seen returns in the main from smaller employers. The 2 largest employers that require data remedy are yet to make a data return which covers just over 7000 members. We are working with these UA’s to ensure they make data returns by 31/12/2021. Regulation’s timeline: • Regs are currently proceeding through Parliament and are expected in early 2022.

		• Consultation on draft guidance Summer 2022 • Final guidance to be issued Autumn 2022 • Remedy regulations due to come into force Spring 2023 Next steps: Chase employers not yet returned/include communication with FD's Complete all data collection by 31st December 2021 Upload data and deal with queries by 31st March 2022 Consider requirements and resource for remedy in preparation for regulations. Consider how to deal with exited or insolvent employers Consider how to deal with transfers
i-Connect – Monthly Data Returns	**Scheme Totals** Employers with active Members (including maintained schools who outsource payroll) – 465 Active members as of October 2021 - 42249 **Current IC Totals** Employers on IC – 273 (58% of Employers) Employers targeted for IC – 192 (42% of Employers) Active Members covered by IC – 33816 80% of active membership covered by IC (figures as at 7/10/2021)	Since Year End progress has been made to push all small employers to use Online Returns within IC. We now have 100 employers using online returns. The i-Connect team leader has begun spending 2 focused days per week on the project with the following 4 aims: • All employers to by using i-Connect • Hand back loading of data via the portal via IC to employers • Fully utilise all IC tools including dashboard • Roll out the IC document portal to all IC users

		Employer engagement has been low with the project therefore a more focused approach is being taken with the project however BAU must also be a main priority for the IC team. We identified 19 groups of employers including payroll providers to onboard, 4 of which would cover the majority of our active membership. These 4 groups (payroll providers) are now the focus of the project for extract development and onboarding.
Pension Saving Statements	The Fund is required to issue a Pensions Saving Statement (PSS) annually by 6th October if pensions savings in the APF exceed the standard annual allowance. The annual allowance is the maximum amount of pension saving that an individual can make each tax year that benefits from tax relief. The standard annual allowance is £40,000 for the 2020/2021 tax year. The statement includes information that members must consider in determining whether a tax charge is liable.	Analysis and follow-up work undertaken by Quality Assurance team to complete the annual process to assess member savings has been completed. The Fund issued 86 statements for LGPS members and a further 8 statements for members of the Firefighter's Pension Scheme. All statements were issued ahead of the statutory deadline of 6th October.

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Item 14 - Appendix 4

Risk	Risk Number	Impact	RAG	Trend	Mitigating Action
The Fund has not completed all the necessary work in readiness for the implementation of the Pensions Dashboard	R66	The Fund will be in breach of the regulations if it is not able to go live by the compulsion date, likely to be between Sept 2023 & March 2024		New	Project lead officer appointed & project plan in place. Focus of project will be data quality, reducing backlogs and ensuring resources & processes are in place to deal with the expected increase in member queries following the implementation date. Data protection impact assessment to be carried out.
Recruitment of staff	R28	Fund's ability to develop & implement service plan and administer the Fund		◄►	Phase 3 of recruitment plan is now complete. However internal promotions have created further backfill requirements, there have been two further resignations & the Techinical & Compliance Advisor post remains unfilled. Mercer are providing technical support as required.
McCloud/Sargeant Judgements resulting in the extension of protections	R63	Increase in workload on administration side and for scheme employers		▲	On 13 May 2021, a Written Ministerial Statement outlining some key remedy policies was issued. A formal response to the consultation will be published later this year, and the new LGPS regulations giving effect to the changes are expected to come into force on 1 April 2023, and be retrospective to 1 April 2014. Home Office decision to enable FPS members to have early release of benefits under McCloud. LGA & FBU adopt a MOU and Immediate Detriment Framework agreement for relevant Fire Pension Scheme Members subject to approval by Avon Fire Authority. Additional admin resource and reprioritisation of workload required to ensure IDF can be delivered.
Deterioration in financial stability of employers (employer Covenants)	R23	employers not able to meet their liabilities impact on rest of Fund		◄►	Have ongoing Covenant Review ofemployer identified as high risk. No immediate concerns about employers not being able to meet thier liabilities. No contribution queries at present. The covenant cycle for 2021 is presently being finalised with no new issues. Only UoB is in USS and having made enquires we do not believe debt arrangements affect them. Deferred Debt Arrangement policy is in place and a DDA is being developed by us for use.
Failure to earn investment returns	R26	scheme cannot meet liabilities, employer conts could rise		◄►	• Q321 - No material underperforming managers • Agreement by Panel/Cmt in Sept to exit EM allocation due to the financial risk posed by climate change in the region. Advice commissioned to ensure expected investment returns not impacted by decision. • Sept FRMG discussed indicative changes to inv. strategy that would see risk/return increase to help support current valuation assumptions: agreed to adopt 2.7% reduction in contriutions, aligned to a 25bps decrease in the discount rate and to maintain current inv. strategy and review as part of broader IS review next year.
Increase in employers	R56	increased resources needed to support more employers		◄►	Additional resources have been put into Employer Services to support & train employers. A review of resources & processes will be picked up with Digital Transformation review.
Political Pressure to reform the scheme & direct investment decisions eg ESG	R42	National decisions are not in best intersests of the scheme		◄►	Participate in Brunel pool, ISS aligned with Fund's Climate Change policy. Supreme court judgement against SoS re ESG guidance clarifies that government only has power over how funds invests, not what they invest in. Have good local governance but national decisions could impact. Ensure advisors engage on national LGPS issues.
Climate Change Emergency	R60	Significant financial risk to the value of the investments assets		◄►	SAA revised to a higher allocation to climate positive investments. Unable to control global markets in general only through strategy.
Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	R05	Personal data is corrupted, compromised or illegally shared resulting in fines & reputational damage.		◄►	Cyber security benchmarking exercise completed with AON and results analysed August 2021. An action plan is currently being developed and a full report will be taken to Pension Board in Feb 2022 & Committee in March 2022. More training for staff & better process notes being developed to identify SARs and data breaches as a couple have not been picked up on receipt.
Sustainability of working arrangements during Covid 19 outbreak	R64	Unable to deliver service to members and employers		◄►	Steps taken to mitigate the risk of Coronavirus impacting on the service as set out in our business continuity plan. Work has now started on re-design of Keynsham Civic Centre but not likely that staff will be regularly in the office until April 22. Roll out of new IT equipment for all staff is still in progress. Review of future working arrangements, admin strategy and digital transformation plans in place.

Implementation of changes arising from scheme cost cap mechanism	R47	Additional burden on administration. Awareness of members & employers		◀▶	On 16 July 2020 the Government made an announcement confirming that the cost control mechanism pause will be lifted for public sector schemes and the objective would be to complete the process by next year, taking into account the cost of the proposals to remedy age discrimination. The SAB further agreed that the LGPS cost cap arrangement should be un-paused in the same way as the HMT arrangement, but no action should be taken until the HMT Direction, on how McCloud costs are to be considered, is published early next year along with the final remedy details.
Iconnect data from employers	R59	Incorrect member data on records and valuation of employer liabilities		◀▶	Iconnect Team has been set up and extracts are now loaded inhouse. New tolerances in IC will stop a load proceeding without the fund's approval enabling loading to be handed back to some employers. Plans being developed to hand back loading to Employers.
Inadequate knowledge of those charged with governance. Committee Members knowledge is impacted by re-election process. Failure to comply with statutory regulations	R25	delays in decision making for the Committee & Fund. Failure to meet MIFID & TPR regs		◀▶	Hymans NKA reviewed and training planned throughout the year for committee & PB members inline with the recommendations. Plan to recruit in 2022 for ind member. Recruitment for 2 new for PB members has just been completed. Further requirements expected from Good Governance Review. Fund to launch Hymans Online Learning Academy to all Committee & PB members plus some officers.
Brunel fails to deliver its objectives to clients in terms of service delivery	R65	Affects the Fund's ability to achieve its own investment objectives and/or implementing its strategy		◀▶	Client assurance framework is in place providing detailed monitoring by Client Group and Brunel Oversight Board. Avon Panel monitors investment performance and related investment issues; Committee monitors overall service delivery, financial aspects, RI aspects and effectiveness of the governance framework. Avon has Brunel Working Group to discuss any issues or emerging risks and to agree response to SRM/RMs
Late / incorrect contributions from employers	R10	cashflow, employer funding position, TPR breach		◀▶	Monthly reconciliations of contributions continue to be undertaken. Late payers are also monitored and reported to committee/Pension Fund Manager. There is no significant increase in late payers. The top 34 employers are still paying on time.
Service delivery efficiency & customer service	R29	poor member outcomes		◀▶	We have recently introduced mass email communication to the fund for the first time, which was used in May/June 2021 to communicate with our Deferred members regarding the introduction of Annual benefit statements being available to download from our online portal. This will be extended to Active members next year alongside a campaign to extend email communications to a greater portion of the membership. Impact on service of Fire immediate detriment work will be monitored.
Government plans to reform the LGPS eg The introduction of the exit payment cap	R53	This will place an additional burden on the administration resource		◀▶	MHCLG have confirmed that no action will be taken following the consultation they held on the Further Reforms to Exit Payments proposed for the LGPS, instead further consultation is expected in the future. In April 2021, MHCLG wrote to councils requesting for them to provide data on exit payments, which will be used to inform delivery of the Government's policy to end excessively high exit payments in the public sector.
Disaster Recovery & Business Continuity	R01	Fund is unable to operate and members do not receive pension payments in time		▲	Business continuity plan currently being reviewed by Audit. Cyber security benchmarking exercise completed with AON and results analysed August 2021. Further internal assurances required from IT. An action plan is currently being developed and a full report will be taken to Pension Board in Feb 2022 & Committee in March 2022.

Governance Risks

Total: 5

Impact \ Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain
Negligible	0	0	0	0	0
Low	1	0	0	0	0
Medium	1	1	0	1	0
High	0	0	0	0	0
Critical	0	0	0	0	1

Investment & Funding Risks

Total: 10

Impact \ Likelihood	Almost Certain	Likely	Possible	Unlikely	Rare
Negligible	0	0	0	0	0
Low	0	0	2	0	2
Medium	0	0	0	0	0
High	0	3	0	0	1
Critical	0	0	1	1	0

Administration Risks

Total: 13

Impact \ Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain
Critical	0	0	0	0	1
High	0	0	4	1	0
Medium	2	0	2	0	0
Low	0	0	1	1	0
Negligible	0	1	0	0	0

Financial Risks

Total: 2

Impact \ Likelihood	Almost Certain	Likely	Possible	Unlikely	Rare
Critical	0	0	0	0	0
High	0	0	0	0	0
Medium	0	0	1	0	1
Low	0	0	0	0	0
Negligible	0	0	0	0	0

The above tables show the number of risks, broken down by type, and their current risk exposure

Key:- Based on Risk Score

- **1-6** (green)
- **7-14** (amber)
- **15-25** (red)

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Appendix 5 - Service Plan Monitoring Dec 2021

Key Objectives	Tasks	Completion Date	Status
ADMINISTRATION STRATEGY			
COMMUNICATION			
Member digital engagement	Activate online ABS availability - deferreds	Jul-21	**Complete**
	Activate online ABS availability - Actives	Aug-22	**In progress**
	Strategy to Maximise MSS take up	Mar-22	**In progress**
IT STRATEGY			
Improvements			
Progress full employer electronic data delivery	Completion of i-connect project	Mar-22	**In progress behind schedule**
Development			
Progress software developments with Heywood	Development of online leaver form	Mar-22	**Complete**
	Review processes to use portal and roll out to ER's inc training	Mar-22	**On hold**
	Enhanced secure 2 way portal functionality	Mar-22	**In progress behind schedule**
	Iconnect reporting - Dashboard in place and development of pre load data validation in progress	Mar-22	**Complete**
	Hand back loading of files to ER's with tolerance limits	Mar-22	**In progress**
RECRUITMENT & TRAINING			
Recruitment	Project to fill app 10 posts across Member & Employer Services	Jun-21	**In progress behind schedule**
Training & development plan	Introduce staff training programme covering operational & digital transformation requirements	Mar-22	**In progress**
OTHER PROJECTS			
Revise Fire Service model	Develop revised service offer and SLA	Mar-22	**In progress**
Data improvement	Address Rectification	Mar-22	**In progress**
	Care Roll up	Mar-23	**Complete**
McCloud	Data collection exrcise LGPS		**In progress**
	Implementation of remedy - Fire	Oct-23	**On hold**
	Implementation of Immediate Detriment - Fire	Jul-21	**In progress**
	Implementation of MOU & ID Framework Agreement	Dec-01	**In planning**
	Implementation of remedy - LGPS	Mar-23	**In progress**
LGPS Cost Cap Mechanism	Preparation required in case of backdated implementation	TBA	**In planning**

GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-22	**In progress**
Processing Backlogs	To clear outstanding task work set at 'Reply Due' (4000 cases)	Mar-22	**In progress behind schedule**
Pensions Dashboard	To enable Pension Dashboard Compliance	Dec-23	**In planning**
Internal Dispute Resolution Policy	Review general complaints process prior to IDRP and incorporate learning into processes	Dec-21	**In progress**
NEW ADMIN STRATEGY	Service plan & budget to committee	Mar-21	**Complete**
	Develop new strategy document & committee approval	Mar-22	**In planning**
	Consultation & implementation	Jun-22	**In planning**
DIGITAL TRANSFORMATION PROJECT	Review structure & recruit Digital Transformation Manager	Mar-22	**In progress**
	Gap analysis & specification for digital requirements	Mar-22	**In progress**
	Revise Communications Strategy	Mar-22	**In planning**
	Staff training & development plan for digital transformation	Mar-22	**In planning**
	Procurement process for pension system	Dec-22	**In planning**
	System implementation	Dec-23	**In planning**
	Develop control framework	Mar-24	**In planning**
	Implement Digital Office to better support staff	Mar-24	**In planning**
	Channel shift to enable support & consultancy to members & employers	Mar-24	**In planning**
FUNDING STRATEGY			
Covenant assessment of employers during valuation period	Establish policy for monitoring employer covenant between valuations: rolling timetable for reviewing employers; collection and collation of data; identifying higher risk employers for closer monitoring.	Jun-21	**Complete**
	Explore options with employers to mitigate covenant risks	ongoing	**In progress**
Valuation and FSS	Interim review, identify issues to be considered in 2022 valuation	Oct-21	**Complete**
	Update policies for changes in regulations	Mar-21	**In progress**
Actuarial advisory contract retender	Procure using National Framework	Oct-21	**In progress**
Review AVC arrangements	Review range of investment choices for members – high level review by advisor to meet governance requirement	2022/23	**In planning**
	Further work to decide on any changes.	2022/23	**In planning**
Funding Communications Strategy	Agree strategy primarily for employers	Jun-21	**In progress behind schedule**
	o Website	ongoing	**In progress**

	o Forums/ meetings	ongoing	**In progress**
Recruitment	Review resource requirements of Team	Mar-22	**In planning**
INVESTMENT STRATEGY			
Transition of assets	Input as member of Brunel Client Group	Ongoing	**In progress**
	Monitor Avon plan for transitioning assets based on Brunel plan	Ongoing	**Complete**
Review of equity allocations	Assess potential to invest all equity assets in sustainable and paris aligned strategies	Dec-21	**Complete**
Review investment Strategy and appropriate risk level	Post interim valuation review risk appetite required to meet funding objective	Mar-22	**In progress**
Monitor risk management strategies ensuring collateral managed efficiently and decisions taken in timely manner	Liaise with Mercer and Blackrock as to exposures, trigger points and monitoring framework	Ongoing	**In progress**
	Annual review of trigger points and strategy	Annually 3Q	**In progress**
	Arrange Panel & committee training as needed	ongoing	**In progress**
Climate Change disclosures	TCFD: Report in line withh TCFD recommendations for 2020/21 year end reports	Sep-21	**In progress**
	IIGCC: report in line with asset owner commitment	Sep-21	**In progress**
Review of Responsible Investing Policy	Review policy as to effectiveness and incorporate new initiatives post transition of assets , when Brunel service offering more developed	2022/23	**In planning**
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	30/11/21	**In progress**
FRC Stewardship Code	Prepare compliance statement	01/12/21	**Complete**
Team Resources	Appoint Senior Investment Officer	2021	**In planning**
	Consider team structure post asset transition	2022	**In planning**
Investment Communications Strategy	Agree strategy across all stakeholders	ongoing	**In progress**
	o Website	ongoing	**In progress behind schedule**
	o Newsletters	ongoing	**In progress**
	o Forums/ meetings	ongoing	**In progress behind schedule**
GOVERNANCE & FINANCE			

Review governance arrangements following Good Governance Review & the pooling of assets	Review ToR of Committee and Investment Panel	Jun-21	**Complete**
	Review Governance Compliance statement	Jun-21	**Complete**
	Conflicts of Interest Policy	Mar-22	**In planning**
	Policy on Committee Representation	Mar-22	**In planning**
	Training policy	Mar-22	**In planning**
	R&R matrix	Mar-22	**In planning**
	Cyber security	Mar-22	**In progress**
	Review disaster recovery / business continuity plan	Mar-22	**In progress**
	Document process for dealing with ineffective pension boards	Mar-22	**In planning**
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	**In progress**
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in June	**In progress**
Committee & Pension Board	Review papers and content that go to committee and set up library on Modern Gov	Mar-22	**In progress**
Recruitment for Pension Board	new member & employer rep required	Sep-21	**Complete**
Independent Members on Committee	Appoint Independent Member. Terms end 2Q22 (end of 2nd term for one member)	Apr-22	**In progress**
GDPR	Ensure ongoing compliance with regulations	ongoing	**In progress**
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	Dec-21	**In progress**

Bath & North East Somerset Council

AVON PENSION FUND

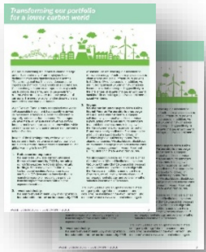
for you, for now, for the future lgps 2014

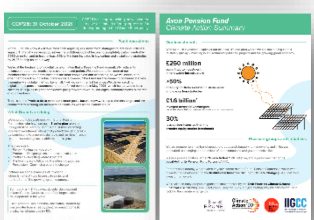
APF Communications update

30th November 2021

1. Climate Emergency comms
2. Press
3. CE animation & eZine
4. Members' ESG survey
5. APF LinkedIn account
6. MSS sign up campaign
7. Internal comms - APF staff newsletter

Climate Emergency ESG communications to date





Spring 2020 newsletter 38,000 - Active members

Spring 2020 newsletter 31,500 - Deferred members

Spring 2020 letter 34,500 - Pensioner members

Summer 2020 newsletter 38,000 - Active members

Spring 2021 newsletter 38,000 - Active members

Spring 2021 newsletter 34,500 - Pensioner members

Summer 2021 newsletter 31,500 - Deferred members

Summer 2021 newsletter 38,000 - Active members

Climate change targets / equity review press release

AVON PENSION FUND

Bath & North East Somerset Council

FINTECH ZOOM

UK pension fund to shift £780m to FTSE Paris-aligned benchmark

by JAMES ALBERT - October 8, 2021

TrustedInsight

Avon, Phoenix Group And Tfl: Pension Schemes Covering Billions Bolster Net-zero Ambitions

responsible investor

Friday Funds: UK pension fund to shift £780m to FTSE Paris-aligned benchmark

The latest developments in ESG-related funds

edie

Avon, Phoenix Group and TfL: Pension schemes covering billions bolster net-zero ambitions

4 October 2021, source edie newsroom

PENSIONSAge

The leading pensions magazine

Avon and TfL pension schemes step up commitment to net zero

total Bristol

AVON PENSION FUND SETS AMBITIOUS CLIMATE CHANGE TARGETS

Pensions&Investments

U.K. pension funds Transport for London, Avon set net-zero goals

bbpMedia

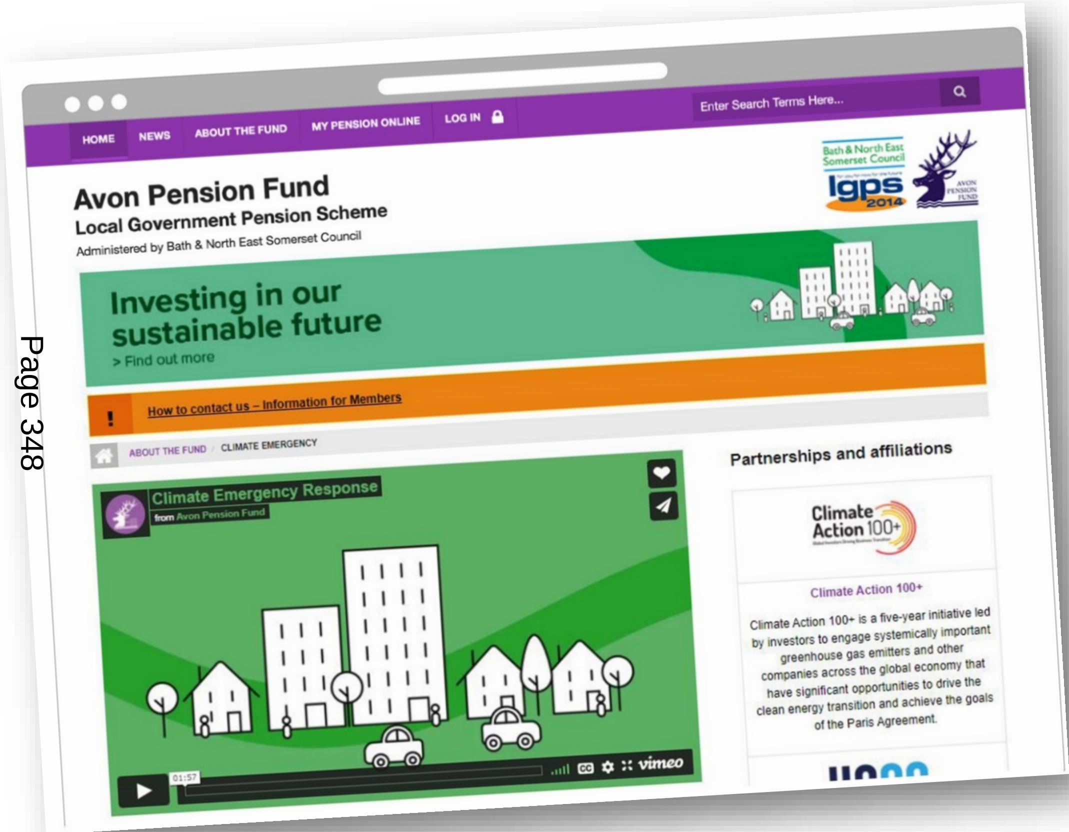
Avon Pension Fund sets ambitious climate change targets..

PROFESSIONAL PENSIONS 25 YEARS

TfL and Avon commit to climate change targets

TfL looks to 55% reduction by 2030 while Avon commits to 43% reduction by 2025

Climate Emergency animation



- Climate Emergency animation - *accessible explanation of our actions and future strategy for responsible investment*
- Hosted in Vimeo
- Over 500 views so far
- Distributed via LinkedIn, email, website and staff newsletters

www.avonpensionfund.org.uk/climate-emergency

Climate Emergency animation

Page 349

North Somerset COUNCIL

THEKN

In this issue:

COP26
Climate Action North So
Carbon Literacy trainin
Carbon Literacy Actio
Spread the word!
New default search e
Measuring your carb
Climate webinar nex
Avon Pension fund
Climate Action em
E-learning course o
Climate action acr
Online support
Picture This exhibiti
Action on climate

THEKNOWLEDGE Keeping you informed

Avon Pension fund climate emergency response

Most high street banks and many private pensions are heavily invested in fossil fuels.

'Greening' your money to ensure it has a positive impact and funds sustainable projects is an important, impactful change everyone can make to tackle the climate emergency.

Avon Pension fund is already recognised as a leader in Responsible Investment.

Following a review of its investment strategy, and in the lead up to COP26, the fund has put together a short animation outlining their approach to investment in response to the climate emergency.

Avon Pension Fund plans to lower its carbon footprint and invest more capital in renewables. The short animation highlights the work they are doing to become a Net Zero pension fund by 2050 or earlier.

You can see it at https://www.avonpensionfund.org.uk/climate-emergency

Climate Action email signature

A new email signature has been developed for anyone who wishes to show support for Climate Action North Somerset, particularly over the next two weeks to coincide with COP26, the UN global climate change conference.

The new signature can be copied from this image and pasted into your signature:

Or it is also attached to the email that accompanies this climate special issue of *The Knowledge*.

www.n-somerset.gov.uk

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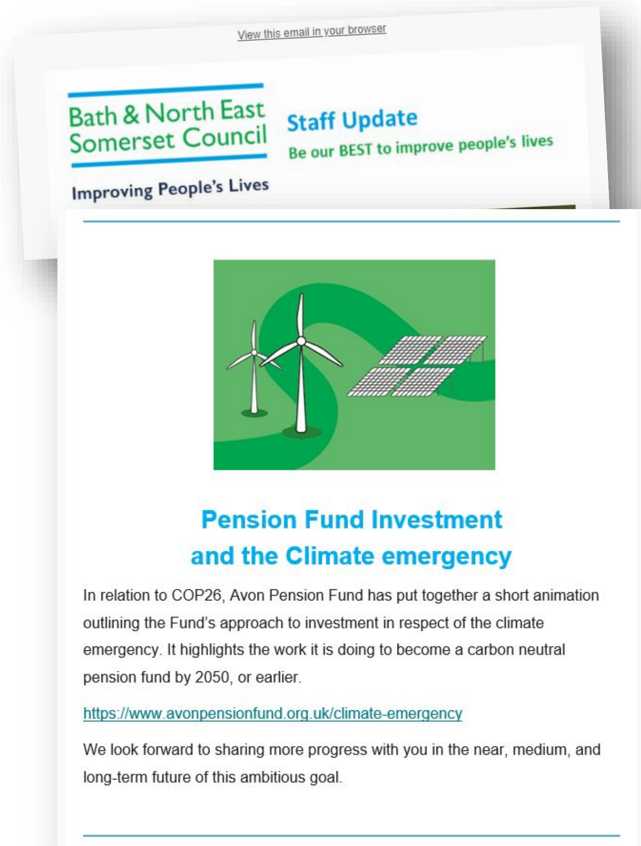


View this email in your browser

Bath & North East Somerset Council

Improving People's Lives

Staff Update

Be our BEST to improve people's lives

Pension Fund Investment and the Climate emergency

In relation to COP26, Avon Pension Fund has put together a short animation outlining the Fund's approach to investment in respect of the climate emergency. It highlights the work it is doing to become a carbon neutral pension fund by 2050, or earlier.

https://www.avonpensionfund.org.uk/climate-emergency

We look forward to sharing more progress with you in the near, medium, and long-term future of this ambitious goal.

ESG eZine - Climate Emergency

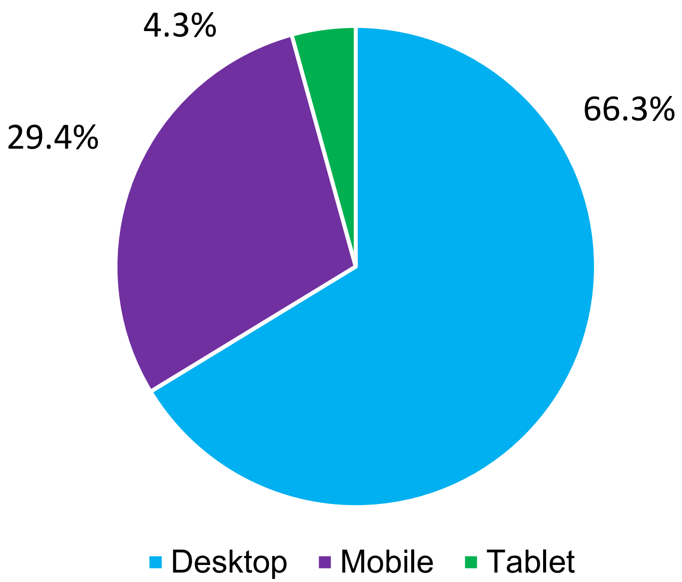
1. Foreword
2. Our Climate Action
3. Climate Emergency Animation
4. About COP26
5. Case Study

- Distributed via **LinkedIn**, **email** and **website**

Google Analytics – APF Members' website

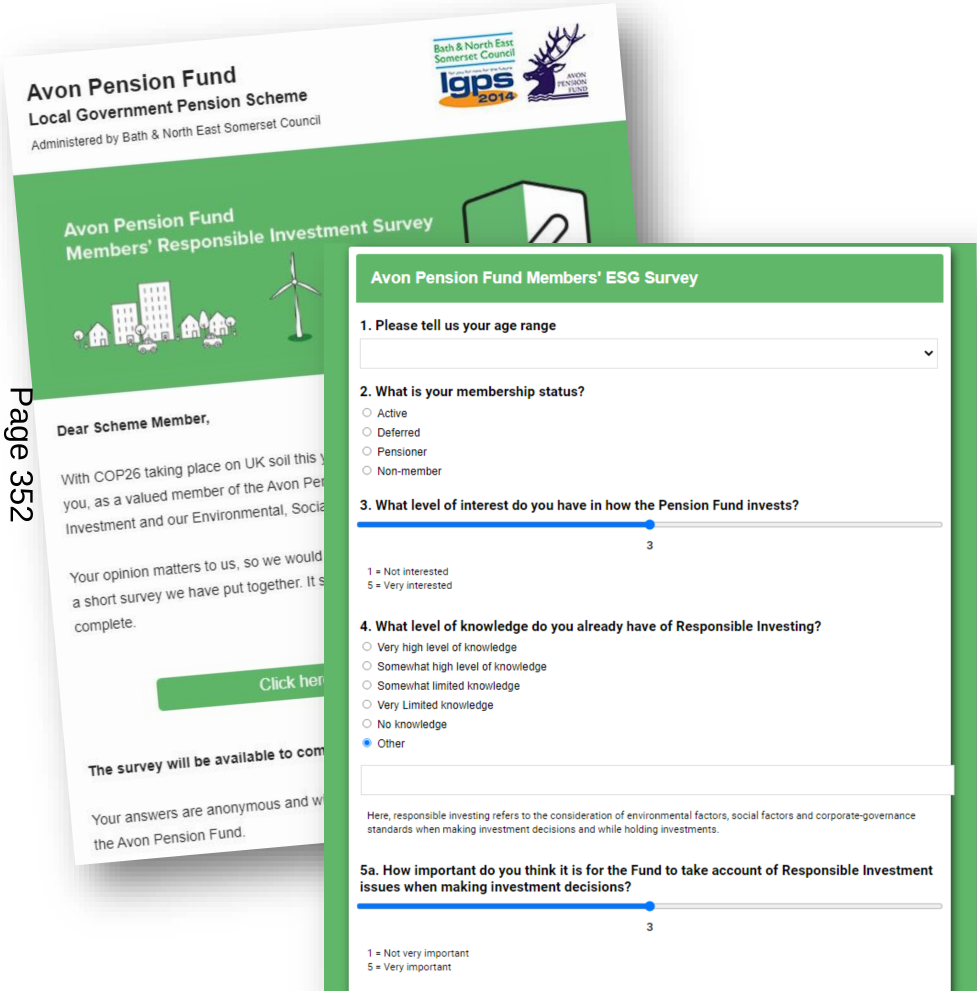
Webpage	Unique views
/	3,490 (23%)
/my-pension-online	1,215
/contact-us	542
/climate-emergency	**484**
/paying-in	441
/nearing-retirement	337
/update-members-how-to-contact-us	337
/thinking-of-joining	330
/no-longer-paying-in	305
/about-the-fund	280

Mobile overview



Data: 29 Oct – 27 Nov 2021

Members' ESG survey


Avon Pension Fund
Local Government Pension Scheme
Administered by Bath & North East Somerset Council
Bath & North East Somerset Council
lgps 2014
AVON PENSION FUND
Avon Pension Fund
Members' Responsible Investment Survey
Dear Scheme Member,
With COP26 taking place on UK soil this y
you, as a valued member of the Avon Pe
Investment and our Environmental, Socia
Your opinion matters to us, so we would
a short survey we have put together. It s
complete.
Click her
The survey will be available to com
Your answers are anonymous and w
the Avon Pension Fund.

Avon Pension Fund Members' ESG Survey

1. Please tell us your age range

2. What is your membership status?
- Active
- Deferred
- Pensioner
- Non-member

3. What level of interest do you have in how the Pension Fund invests?

3

1 = Not interested
5 = Very interested

4. What level of knowledge do you already have of Responsible Investing?
- Very high level of knowledge
- Somewhat high level of knowledge
- Somewhat limited knowledge
- Very Limited knowledge
- No knowledge
- Other

Here, responsible investing refers to the consideration of environmental factors, social factors and corporate-governance standards when making investment decisions and while holding investments.

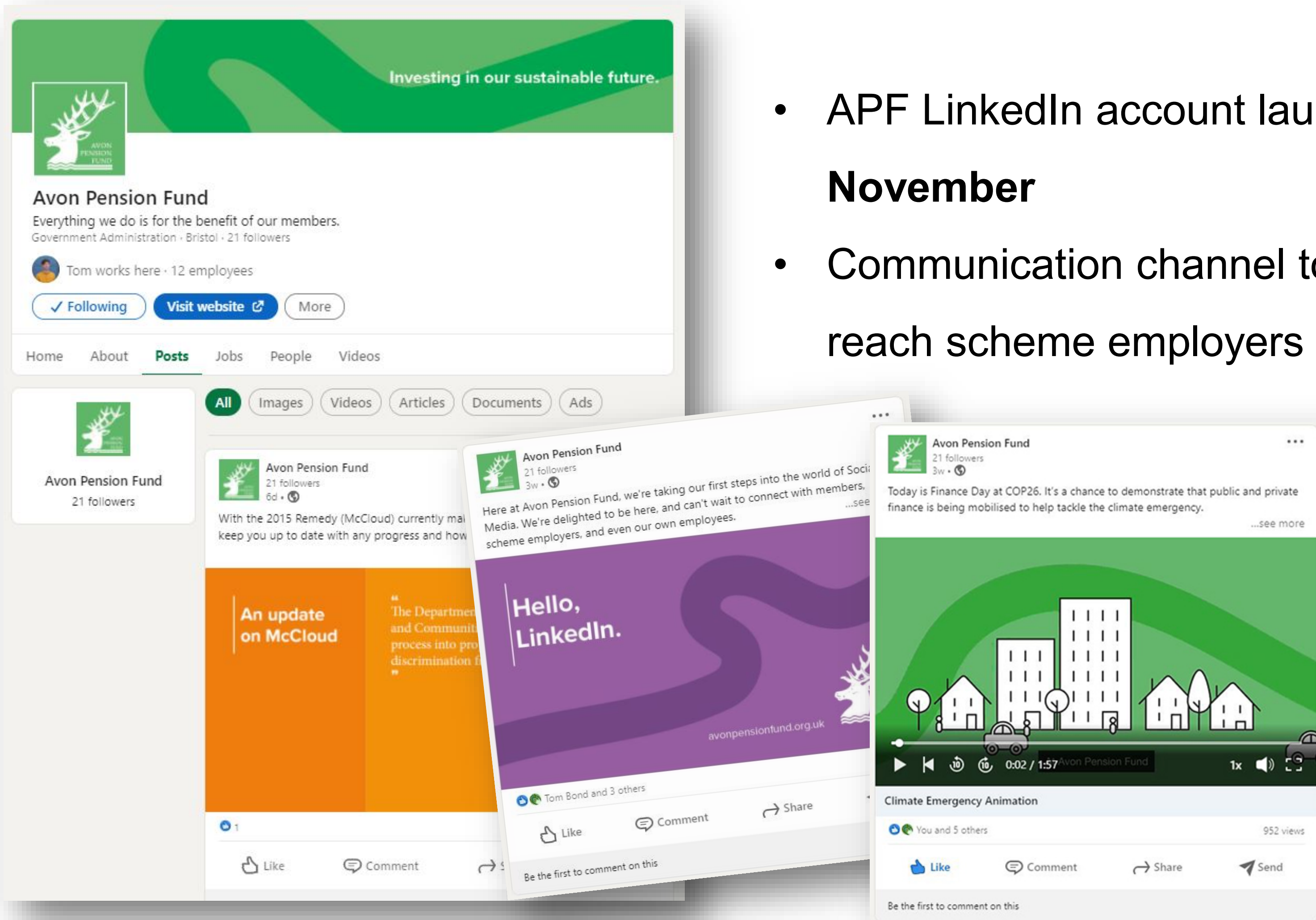
5a. How important do you think it is for the Fund to take account of Responsible Investment issues when making investment decisions?

3

1 = Not very important
5 = Very important

- **41,365** emails delivered
- Closing date **30th Nov 2021**
- **3,668** completed surveys (8.8%)

APF LinkedIn account



- APF LinkedIn account launched **November**
- Communication channel to reach scheme employers

APF 2021 Annual Benefit Statements

Avon Pension Fund

Local Government Pension Scheme

Administered by Bath & North East Somerset Council

Dear Scheme Member,

Scheme administrators are currently in the process of preparing the dispatch of your latest Annual Deferred Pension Statement.

This email is to notify you in advance of some changes we are making to the way we communicate this information to you.

This year, as well as posting your statement to you, we're also making them available via the **my pension online** service. We will notify you shortly when your statement is available to view online and give instructions on how to access it.

Why are we making Annual Deferred Pension Statements digital?

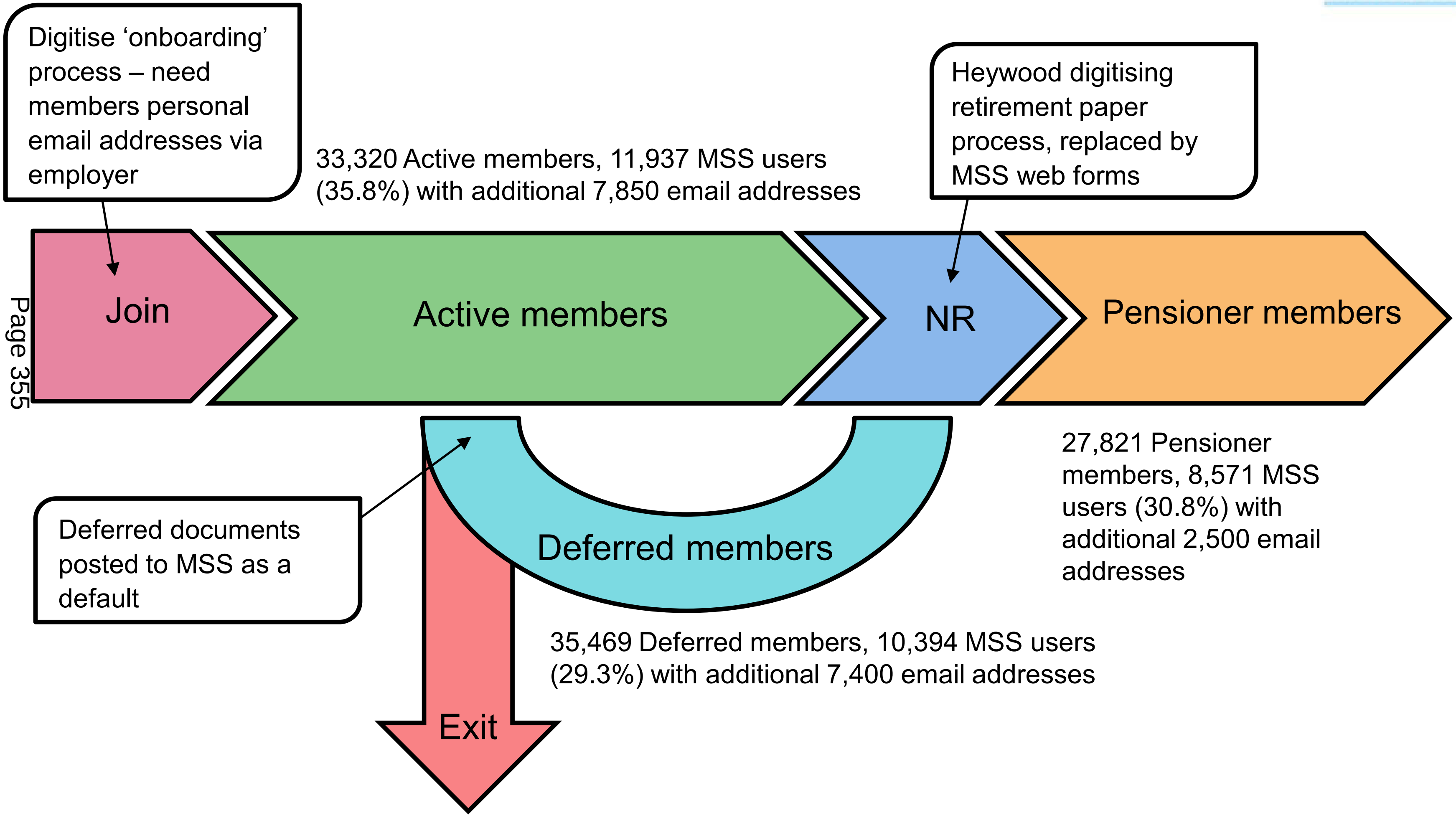
Having pledged to align Avon Pension Fund with the climate goals of the Paris Agreement, we must do all we can as an organisation to limit our carbon output – and that includes reducing our use of paper. Going forward, our goal will be to communicate with members digitally where possible, so if we have the means to contact you digitally, we will do so in the first instance.

This doesn't mean we won't contact you by post if that's what you'd prefer. You'll be able to update your communications preference to your preferred method through your **my pension online** account, or simply by getting in touch if you don't have an account.

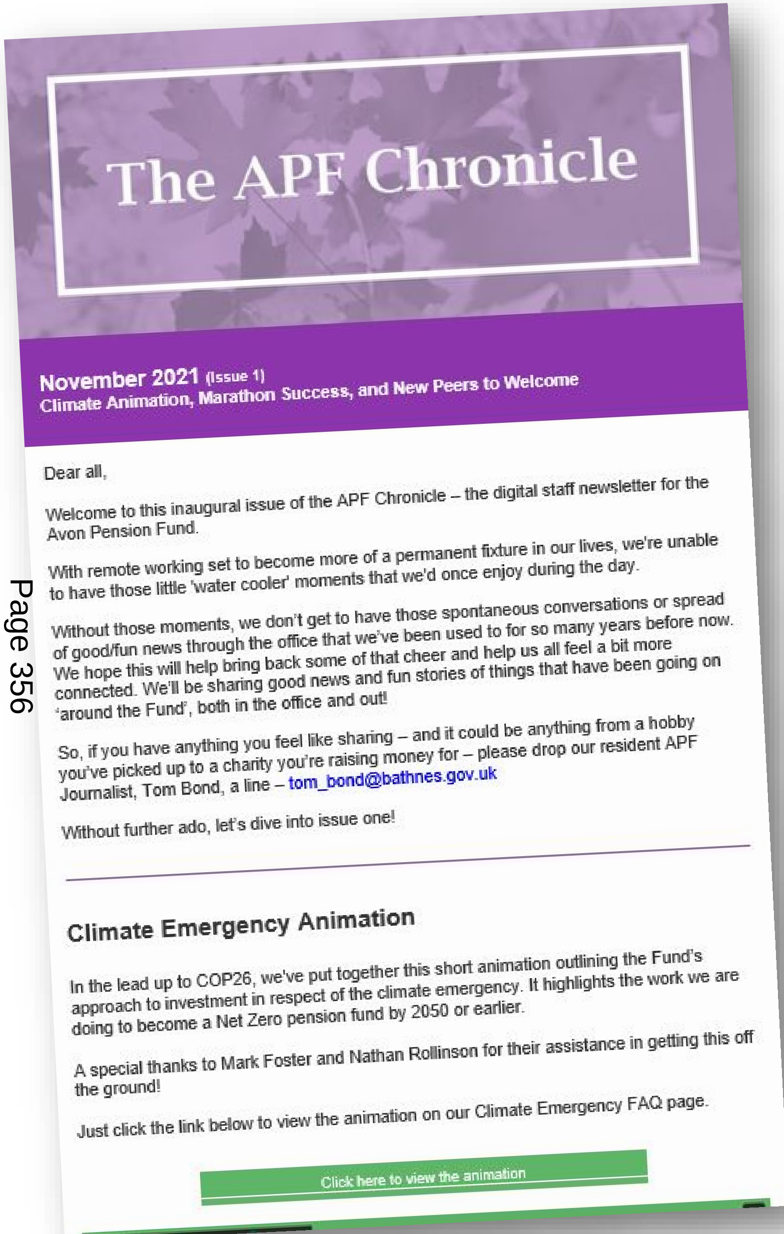
If you require any assistance regarding your statement or anything else regarding your pension, please don't hesitate to contact a member of our team using the button below.

- **June 2021** - Deferred members ABS available online for the first time
- Bulk email sent to Deferred members who had signed up for MSS (approx. **10,000**)
- **810** members accessed their ABS digitally
- As part of the digital transformation process this facility will be extended to **Active MSS members** in **August 2022**

APF member journey



APF staff newsletter



The APF Chronicle

November 2021 (Issue 1)
Climate Animation, Marathon Success, and New Peers to Welcome

Dear all,

Welcome to this inaugural issue of the APF Chronicle – the digital staff newsletter for the Avon Pension Fund.

With remote working set to become more of a permanent fixture in our lives, we're unable to have those little 'water cooler' moments that we'd once enjoy during the day.

Without those moments, we don't get to have those spontaneous conversations or spread of good/fun news through the office that we've been used to for so many years before now. We hope this will help bring back some of that cheer and help us all feel a bit more connected. We'll be sharing good news and fun stories of things that have been going on 'around the Fund', both in the office and out!

So, if you have anything you feel like sharing – and it could be anything from a hobby you've picked up to a charity you're raising money for – please drop our resident APF Journalist, Tom Bond, a line – tom_bond@bathnes.gov.uk

Without further ado, let's dive into issue one!

Climate Emergency Animation

In the lead up to COP26, we've put together this short animation outlining the Fund's approach to investment in respect of the climate emergency. It highlights the work we are doing to become a Net Zero pension fund by 2050 or earlier.

A special thanks to Mark Foster and Nathan Rollinson for their assistance in getting this off the ground!

Just click the link below to view the animation on our Climate Emergency FAQ page.

Click here to view the animation

- Inaugural issue of the APF Chronicle
- Climate Emergency Animation
- Marathon Man
- New faces join APF
- A fond farewell

Any questions?

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**10 December 2021**
TITLE:	**Internal Audit Update**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - iConnect Project Audit Report Appendix 2 - Scheme of Delegations Audit Report Appendix 3 - Altair IT System Access Audit Report Appendix 4 - Risk Management Audit Report Appendix 5 - COP 14 Audit Report	

1 THE ISSUE

1.1 The purpose of this report is to provide an update on Internal Audit activity.

1.2 The report and its appendices are important for the Committee to consider in the context of their understanding of the performance and management of the fund.

2 RECOMMENDATION

2.1 The Committee is asked to note the report and outcomes of the Internal Audit work carried out on the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

2019/20 & 2020/21 Internal Audit Work

4.1 Internal Audit reviews the Pension Fund operations as part of its annual internal audit planning process (risk assessing all Council activities) and this results in audit reviews being scheduled each year.

4.2 Internal Audit presented this report to the Pension Board on 21st September 2021.

4.3 The Internal Audit Service has carried out and reported on 5 audit reviews since June 2019 and the Audit reports are attached at Appendices 1 – 5. For each of the 5 reports the audit opinion recorded an Assurance Level 4 – 'Good' and there were not any significant issues to the bring to the Boards' attention.

4.4 The 2020 Audit Review of compliance with the Code of Practice 14 (Final Report issued in July 2021) is of particular interest to the Board and therefore the background and findings of this particular review are summarised below.

Code of Practice 14 Review

4.5 The scheme is regulated and overseen by the Pensions Regulator who has a number of regulatory tools, including issuing "Codes of Practice", to enable it to meet its statutory objectives. Other bodies and agencies undertake key roles, particularly the Local Government Pension Scheme Advisory Board (SAB), the Ministry for Housing Communities and Local Government, and CIPFA, which sets the accounting standards.

4.6 Codes of Practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions. Code of Practice 14 (COP 14) is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation, or requirements, relating to the governance and administration of the scheme.

4.7 COP 14 requirements have been subject to Internal Audit review annually for several years, and for the financial year 2020/ 21, the focus of the audit scope was to assess / verify that:

- Board Members are conversant with Pension Scheme legislation and standards
- Board Members do not have a conflict of Interest
- the Board has equal representation from employers and employees
- Information about the Pension Board is accessible and up to date.

4.8 The report noted many strengths in terms of compliance with Code of Practice 14 requirements including:

- The current induction training session is comprehensive and covers key topics such as: the pensions legislative framework, governance arrangements and roles and responsibilities, including that of the Scheme Advisory Board and the Pension Regulator.

- In compliance with COP 14 requirements, Pension Board members are asked to declare any conflicts of interest at the start of each meeting. This requirement is recorded in the minutes of the meeting.

- Online information about the Pension Board is accessible through the Avon Pension Fund website and this was reviewed and found to be up to date.

4.9 The Audit Review resulted in two medium risk weaknesses being reported to management for action. One was related to a new Board Member having not completed / submitted a Register of Interest Declaration Form and the second was the completion of the Pension Regulators Toolkit by Board Members was not evidenced. The recommended actions were agreed to be implemented and this will be subject to an Audit 'Follow-Up' review before the end of the financial year.

5 RISK MANAGEMENT

4.1 Forward planning and training plans form part of the risk management framework

5 EQUALITIES STATEMENT

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

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint 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.

7 OTHER OPTIONS CONSIDERED

7.1 None

8 CONSULTATION

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

Contact person	Andy Cox (01225 477316) / Tariq Rahman (01225 477256)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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Audit West

Internal Audit Report

Confidential

Avon Pension Fund
i-Connect Project

June 2020

Bath & North East Somerset Council

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	**The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary**
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

Assurance Summary:

Assessment	Area Reviewed
Good	Project governance arrangements
Satisfactory	Project Planning, including allocation of resources and completion of tasks to agreed timescales
Good	Adequacy of training and support provided to employer bodies
Satisfactory	Issues management – e.g. identification and resolution of data quality issues
Good	Counter Fraud – review of risks and controls (prevent / detect)
Good	i-Connect system security
Good	i-Connect system resilience

Detailed Report

Opinion

We have assessed the framework of internal control to be at 'Level 4 - Good'. A total of 6 audit recommendations are detailed in the Action Plan section of this report.

Scope and Objectives

The audit is intended to provide management with independent assurance that risks associated with the I-Connect project have been and are currently being managed effectively.

The scope of our audit was set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Background

Avon Pension Fund is responsible for administering pensions in respect of 28,815 active members, working for 403 employers. The number of employers joining the fund in recent years has increased significantly and this in turn has led to very labour-intensive processes for the collection and upload of member data to Altair. This combined with a need to comply with The Pension Regulator (TPR) requirements around data quality have acted as drivers for the current i-Connect project.

The use of i-Connect by pension funds as the primary means of submitting member data is currently quite low. This means that APF have been unable to rely on lessons learned elsewhere and are in a very real sense leaders in seeking to fully adopt and utilise this relatively untested platform.

Context & Audit Comment

The review forms part of the 2019-20 risk based Internal Audit Plan.

To arrive at our conclusions, we have engaged with officers from APF Employer Services Teams, as well as seeking input from other areas such as BANES IT where relevant. These discussions have enabled us to gain an understanding of the project, its ongoing implementation and the underlying i-Connect system itself. Supporting evidence such as service plans and meeting minutes have been used to inform our assurance on project management, whilst walkthroughs, records of data input along with sample testing have been used to inform our assurance on system effectiveness and data quality.

Our results show that overall, management of the i-Connect and the operation of the system itself are deemed to be a good standard. Whilst setbacks have been encountered this is not unusual for such projects and although the project is now on hold temporarily, the majority of member data is now submitted using i-Connect.

A small number of recommendations have been made for areas where we have deemed further improvement to be possible.

No findings were deemed to constitute a high-risk level. Medium risk findings are set out later in this report. Low risk findings, for example where controls had generally been effective but an isolated lapse with limited impact was found, have not been reproduced within this report but have been discussed and agreed separately with the Pensions Manager.

Project Management

The i-Connect project is one of a number of workstreams outlined in the most recent APF Service Plan, covering the period 2019-22. The plan itself was drafted by Senior Management within APF and was presented to the Pensions Committee on 22 March 2019 by the Head of Business Finance and Pensions, at which time it was formally approved. The project can thus be seen to be endorsed and driven by management at the most senior levels.

We reviewed subsequent minutes and reports from the Pensions Committee meetings and from these were able to confirm that progress updates on the project were being reported and noted.

Whilst the above demonstrates a good degree of oversight by Senior Management, we noted that the project itself is not delivered using a prescribed methodology such as Prince2, with its adopted project manager/board structure, defined stages, project documentation and so forth. The application of a scaled down version of such methodologies for future projects may be worth considering.

Performance Measures

We sought to confirm whether performance in relation to i-Connect was monitored. From a review of recent Committee Reports it was noted that there are two relevant indicators. These relate to the % of employers who submit data electronically and % of active membership who are included. Whilst these figures are not exclusive to i-Connect, i.e. some of the % will relate to employer self-service, they do nonetheless provide a good indication of how well the project is proceeding in achieving agreed outcomes / objectives. As at the December Committee meeting, we noted that 66% of employers were now signed up, which covers a total of 96% of active members, with 86% of members data coming through i-Connect. These figures indicate that good progress has been made in the project so far, but that there is still some way to go before the project achieves its goal of fully migrating all employers to iConnect

In terms of the reporting functionality within i-Connect and how well it supports the generation of performance information and other statistics, this is an area of development. Current processes for consolidating the necessary information require greater manual input than would be case if the software included an effective reporting system. Heywood are understood to have approved a budget for the development of this area and are keen for APF to be involved.

Team Capacity

The project has suffered from capacity issues. One impact of this has been backlogs in resolving queries that arise during the validation process for CSV files. Although additional resources have now been approved in the form of a new i-Connect team within the Pensions Administration Section, it is likely to be some time before these backlogs are fully cleared. Although there are fewer employers uploading CSV files as compared with online returns (both are part of i-Connect) the number of members whose data is included within the CSV uploads far exceeds that of online returns.

Project Timescales

Work to improve the take up of electronic data submission has been underway since 2018 and can be seen as one of the tasks within an earlier APF Service Plan covering the period 2018-21. It was initially planned that all employers would be migrated to i-Connect and using either online returns or CSV uploads by March 2020. A data breach in 2019 and its subsequent impact on how CSV files are to be validated have caused the project to be put on hold and this is likely to remain so for several months ahead.

On a positive note however the project has already had a great deal of success, as can be seen by the figures quoted in the performance section above.

Training and Support

To assist employers in transitioning to i-Connect (known as 'onboarding'), APF were able to demonstrate that suitable support was in place and being made available. Detailed, step by step guidance documents, written by the software vendor, are issued to employers as reference material. These documents are suitably tailored to the method of data submission which the employer is planning to use, whether that be online returns or CSV file uploads.

Online returns are generally considered to be a straightforward method of data submission and as such there is introductory training available, but this is on request rather than being a mandatory requirement. Day to day telephone and email support are also provided.

For employers opting to submit data via a CSV file, introductory training has been a mandatory part of the induction process. This was necessary due to the more technical nature of the process which requires the employer's payroll system to generate a CSV file in a precise defined format which includes all necessary data fields.

Evidence of the training and support was seen in the form of correspondence and in a separate log of training and support which the Employer Services Team maintains.

Data Submission – Online Returns

We conducted a walkthrough of the process used by employers and found it to be generally effective and user friendly. Each monthly submission is based on data submitted during the previous period, which is then manually adjusted by the user to take account of changes that have occurred during the period. Both financial and non-financial data for each employee can be amended by working through the various screens.

Whilst the system helpfully applies some automated validation during the process; the extent of this validation is somewhat limited and there is scope for this to be improved going forward. We understand that APF have provided feedback to the vendor in relation to this.

In the event that a record within the online return is detected by the software as being problematic (classified as a failure, error or suppression), these are clearly indicated on the summary page and processed by APF during their monitoring.

Data Monitoring – Online Returns

APF have processes in place for monitoring the submission of online returns. The monitoring process includes the identification of late returns, which the officer is then able to follow up with the employer. As well as return dates, the monitoring officer also checks the summary page of the most recent submission for red flags that may indicate potential issues. These are recorded within a separate log and followed up with the employer until resolved. The issues log could be improved further to more clearly record cases where there are multiple queries ongoing.

Data Submission – CSV Submission

We conducted a walkthrough of the process used to upload CSV files. It is noted that, since October 2019, the process has changed, and employers are no longer allowed to directly upload data files to i-Connect but must instead submit the file to APF for validation checks. This has arisen due to issues with the quality of data submitted by employers and will remain in effect for the foreseeable future.

Submission of member data via a CSV file is relevant to larger employers, generally those with more than 50 employees. It is more technical in nature to setup and requires employers to have a compatible payroll system as the data extract has to be produced to precise requirements. A template CSV file was viewed and found to include a full range of relevant data fields which included both financial and non-financial information.

Data received by APF is run through a validation checker and if the file fails this process it is returned to the employer along with any necessary details. Once validation has been passed, APF upload the data file to i-Connect, at which point the summary details are again validated using a second set of checks which are then independently reviewed. Only at this point will the monthly data go through its final submission within i-Connect.

Data Monitoring – CSV Submission

The validation and upload process undertaken by APF and referred to above ensures that data is being thoroughly checked.

As with online returns, employers who submit CSV files should upload them to APF by the 22nd of each month, however this is not something that is actively monitored and so delays in submissions may go undetected for some time.

A further problem with the CSV validation is that it can be quite labour intensive for APF and this has led to backlogs in clearing queries and resolving the various errors that can arise during validation. The recently established i-Connect team should in the coming months allow these backlogs to be cleared.

Reconciliation – Altair to Employers Payroll System

Ensuring that the correct member data is held is essential for effective pensions administration. As such a reconciliation between the data held by APF and that held by employers is a very useful tool. For employers using i-Connect, part of the process of uploading data is to compare it against data already held by APF on Altair from prior submissions. For online returns this comparison is done visually, on a line by line basis by the employer. For CSV uploads this is done by the system and presented as summarised information to the uploader. This in effect is a process of reconciliation between the two systems and helps ensure that data issues arising from mismatches are highlighted and resolved.

In our walkthroughs of online returns and CSV uploads we confirmed that this reconciliation process was working as intended.

Reconciliation – Altair to General Ledger

Employers submit an 'LGPS50' return each month notifying APF of the gross amount of contributions to be paid in that period. This LGPS50 is reconciled to amounts received into the bank account and amounts subsequently posted to the general ledger. This is an established process that works well. The value of member contributions uploaded to Altair however is by a completely separate process and a long standing difficultly has been the development of a reliable process to reconcile the Altair data to the LGPS50. We discussed ongoing developments with the Finance Manager and confirmed that a relatively new process is now in place which should, in time, result in an effective solution to this problem. Further work on this is necessary to embed and refine the process however initial indications on the potential for success are favourable.

Data Security and Resilience - i-Connect

We reviewed the current contract between APF and Heywood for the use of the i-Connect system to determine whether suitable clauses had been included to cover data security. On the whole we found that such clauses had been included, such as a commitment to comply with article 32 of the General Data Protection Regulation, which specifies that appropriate technical and organisational measures appropriate to the risk must be applied in respect of data security. We also note that the supplier creates a short-term backup of the data as a contingency against data loss and has stated any data breaches will be notified to APF within 48 hours. Further clauses were relevant, but in some cases nonspecific, which may create problems in the event of dispute. For example, the vendor states that they will address system breakdowns promptly and restore services as soon as reasonably practicable, but do not go so far as to guarantee system uptime of say 95%. In some ways such non-committal assurances are unsurprising given that the service also relies to an extent on wider communications infrastructure that is outside of its control. In section 8 of the contract, we find the vendor setting out all the limitations to its liability in the event of a contractual breach. This includes a limit of financial liability up to a maximum of 125% of the annual fee. Whilst this may be applicable in terms of restitution payable to the customer, the vendor would no doubt find itself liable to much higher penalties in the event of a significant data breach, where this was due to a lack of control by the vendor.

In terms of actual system resilience, we discussed this with officers who regularly use i-Connect and were informed that at the current time there are no issues caused by the system being unavailable. This has improved since the system was first introduced, at which time there were regular system outages during peak times of the month. Trend patterns on these outages was collected by the Data Control team and communicated to the vendor who were then able to implement a fix.

Password policy settings for the i-Connect system were generally satisfactory. Passwords must be complex but also relatively short and do not expire. A potential issue that requires further investigation is around the use of shared login details. We understand these were quite common when the system was first introduced and that although all new users have unique login credentials there may still be a small number who do not.

Other aspects of security that could benefit from improvement include quality checks when a new employer is setup as a user and greater flexibility in the level of access which is granted to APF staff, who currently all have administrator privileges.

Data Security – Globalscape

Globalscape is a separate system to i-Connect, however we wished to include it in our considerations as it is a key tool used to exchange information between APF and employers. This includes query sheets and copies of the CSV files that are subsequently uploaded to i-Connect. As such the system needs to be well managed with strong access controls to protect the personal data being exchanged.

Unfortunately, despite making enquiries with BANES officers, we were unable to obtain any information such as a copy of the current contract or information on security and user management. Based purely on information published on the Globalscape website, the system would appear to be a large provider of file transfer solutions across all business sectors and that encryption is utilised.

<u>Audit Summary Findings</u>

We identified the following strengths:

- The project is fully endorsed and driven by senior management
- Updates on progress have been periodically reported to the Pension Committee
- The majority of members now have their data submitted using i-Connect
- Detailed user guides and day to day support are available to employers

- i-Connect allows both financial and non-financial member information to be updated automatically
- Regular monitoring of online returns allows late submissions to be promptly identified and chased
- i-Connect includes automated data quality control checks including mandatory fields, validation and tolerance checks
- Each upload to i-Connect acts as a reconciliation between the employer payroll system and Altair
- Data security requirements have been established within the contract for services between APF and Heywood
- System resilience is good at the present time and is understood to have improved since first implementation

We identified the following weaknesses:

- Project delays have caused the original delivery timeframe to be exceeded
- The Project has generated additional and unexpected workloads which in turn have caused the project delivery costs to increase
- Due to delays, planned outcomes such as a streamlining of the process for updating Altair and reductions in workload at the Pension Fund's end may not be realised in the short to medium term
- The reporting functionality within i-Connect is underdeveloped, leading to inefficiency when preparing management information
- The process for reconciling Altair to the LGPS50 is in development but requires further work and more time to become embedded
- User management could be improved by confirming there are no shared logins in use and by increasing the options for tailoring user access permissions (this links with the separate October 2019 Altair Application IT User ID & Authentication Audit report planned for 'Follow- up' during Summer of 2020.)

Audit & Risk Personnel:

Lead Auditor: Gary Spratley

Acknowledgements:

Sincere thanks to Geoff Cleak (Pensions Manager), Claire Newberry, (Employer Services Manager) and other members of the Employer Services Teams for their help and assistance during the review.

ACTION PLAN

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	**Reporting Functionality** Reporting functionality within i-Connect is considered to be underdeveloped and does not allow management and performance information to be easily produced. This means that greater time and manual input are required when producing this data than would otherwise be necessary.	Inefficient process leading to increased pressure on resources.	APF should continue to engage with Heywood in order to press for improved reporting functionality. Maintaining a log of desired system improvements which can be periodically discussed with Heywood in order to gauge progress may assist with this.	Ongoing engagement with Heywood. We now have the use of Heywood's AHA portal for raising development requirements and ideas. APF are involved in the working party for the development of the submission management development working group for latest signed off developments. Responsible Officer: Employer Services Manager Target Date: December 2020

<table>
<tr><th colspan="5">MEDIUM RISK EXPOSURE</th></tr>
<tr><th></th><th>Weakness Found</th><th>Implication or Potential Risk</th><th>Recommendation(s)</th><th>Responsible Officer
Management Comments
Implementation Date</th></tr>
<tr><td>M2</td><td><u>Capacity Issues</u>

1. As at the time of testing, there was no proactive identification and chasing of employers who had not uploaded their CSV file through Globalscape by the deadline of 22nd each month.

2. For CSV files that have been received, capacity issues have also led to backlogs in resolving data issues identified during the CSV validation process. Such queries need investigating either in house by APF or fed back to the employer to resolve.

Management are aware of this issue and additional resources in the form of a new i-Connect team have been approved. Once established and embedded, the new team should help alleviate the capacity issues in the coming months.</td><td>Member data on Altair will not be up to date.

Increased workload may also lead to more errors or shortcuts being taken during processing.</td><td>1. Employers who have not submitted their CSV file on time (via Globalscape) by the due date should be identified in a timely way and chased. Reminders should be issued to relevant employers when the deadline is approaching and those who fail to submit their CSV file on time should be promptly chased.

2. All data issues that arise from the CSV validation process should be promptly investigated and resolved, either internally by APF or by referring back to the employer.</td><td>1.Monitoring of employer submissions received on time has always been in place but was not a main priority for the project. This also lapsed in Oct-Dec 2019, when we took the data loading inhouse, however this is now back up and in place and being further developed from April 2020 onwards. Central logs are now in place to log and monitor employer submissions and performance.
Target Date: April 2020

2. Data output/ validation queries are now reviewed and processed on a monthly and monitored on a central spreadsheet. This is now in place following the recruitment of the i-Connect team.
Target date: Complete

Responsible Officer: i-Connect Technical Lead</td></tr>
</table>

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M3	**<u>Project Completion</u>** The iConnect project has not been delivered on time. The project has also required additional resources in the form of an i-Connect Team to be approved and as such has not been delivered within the scope of the original service plan budget that was approved by the Pensions Committee on 22 March 2019.	Benefits from the project's completion may be delayed.	APF should ensure that a lesson's learned exercise is undertaken so that the causes of any overruns/overspends can be properly understood and future projects can benefit from this.	This is not an issue as budget was not set for the i-Connect team. I-Connect team was a separate restructure within the business to respond to business needs and was approved by Committee. A project plan was in place for the period of the initial i-Connect project which ended January 2019. Further development and progress of i-Connect will now be incorporated into the overall work plan for Employer Services. Responsible Officer: Employer Services Manager Target Date: December 2020

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M4	**Automated Data Quality Checks** Although systems are in place which automatically validate and compare member data uploaded through iConnect, these could be improved further to ensure that data quality is maintained. With regard to online returns for instance, validation of national insurance numbers works to some degree but failed to identify a temporary NI number that was in an incorrect format. Screens such as that for pay and contributions also do not contain basic arithmetical checks to ensure figures in each row are balanced. With regard to CSV file processing, the format checker and process log spreadsheets are very useful in highlighting potential issues, however during discussion it was indicated that further development is necessary to ensure the output from these is optimised.	Without optimised and automated data quality checks, the potential for errors is increased.	APF should work with the vendor and with officers internally to further develop and improve systems for the automated validation and quality checking of member data. Maintaining a log of desired system improvements which can periodically be discussed with Heywood or with officers internally may assist with this.	APF are working with Heywood on developments but are restricted by the CLASS development process. CLASS have signed off a new IC development to develop reporting and a dashboard to monitor employer returns. APF are on the development working party. Target Date: December 2020 APF now have access to AHA, Heywood development ideas portal. APF have developed validation and checking processes to verify the employer data in advance of file upload. This will be fully implemented by May 2020. Target Date: June 2020 Responsible Officer: Employer Services Manager

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M5	**Reconciliation of Member Contributions** Members contribution data within Altair is not fully reconciled to amounts received from employers and reported in their LGPS50 returns. Work has been underway to develop a method for this and has progressed to the stage where a summary of variances can be produced and passed across to the Data Control Team for investigation, however further work is needed to resolve technical difficulties in the process, and further time is necessary to be able to demonstrate that the new process is working effectively with all variances cleared promptly. We also note that the process being developed is restricted to member data uploaded to Altair via iConnect so does not include member data that is updated via different methods such as end of year upload. At present there was also no formal process for the reconciliation to be independently signed off once complete.	Without a reliable reconciliation process, incorrect payments from employers due to error or fraud may go undetected.	Planned work on this process should continue and a body of evidence over time should be developed to demonstrate that the process is both effective and embedded. The process should also include independent sign off by a Senior Officer such as the Finance Manager, once the final process is in place.	Work will be undertaken with the fund accountant to tie up the reconciliation of contributions of monthly data upload. Software development with Heywood (ERM) is required to support this and we have identified the following areas for improvement in reporting: • No in month adjustments are shown on I-connect • No deficits are shown on I-connect or they are included within employer contributions, so difficult to identify. • No ARCS are shown on I-connect • AVC's also not shown on I-connect • Maintained Schools have separate employer codes on Altair but not on 50's Target Date: December 2020 Responsible Officers: Finance & Systems Manager, Pensions and Projects Accountant and Employer Services Manager

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M6	**System User Checks** There are no quality control checks to ensure that when a new employer is setup on the i-Connect system, they have been given the correct access. If a new user is associated in error with a different employer, this could lead to a data breach whereby the user may have access to detailed employment records from another employer. This is especially the case with the online return method.	Unauthorised access to personal data.	A system for having a second team member check that the user is setup correctly would be beneficial. This would need to occur at the point in time when the user is first setup, as the system generates automated notifications to the user as soon as this is completed.	Ideally this should be an automated process and we will engage with Heywood regarding improvements to this. In the meantime, an internal process will be developed to control user sign off. Responsible Officer: Employer Services Manager & I-Connect Technical Lead Target Date: September 2020

Internal Audit Report

Confidential

Avon Pension Fund
Scheme of Delegation – Financial Authorisations

August 2020

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	**The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary**
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

Assurance Summary:

Assessment	Area Reviewed
Good	Ensure that delegations enable APF to administer the fund efficiently, effectively and safeguards assets.
Good	Ensure that delegations / authorities have been scrutinised and approved by the responsible Officer / Board / Committee.
Good	Ensure that the formal record of delegations is available to Officers.

Detailed Report

Opinion

We have assessed the framework of internal control to be at 'Level 4 - Good'. A total of 1 audit recommendation is detailed in the Action Plan section of this report.

Scope and Objectives

The audit is intended to provide management with independent assurance that the proposed Scheme of Delegation for officers able to authorise financial transactions is fit for purpose and ensures reasonable control over the Fund's assets The officers in question are those directly employed by Bath and North East Somerset Council (BANES) administering the Avon Pension Fund (APF) or working in areas such as Treasury Management. The review is not therefore intended to cover the Fund's investment portfolio, which as at 30 September 2019 was valued at just under £5billion, as this is handled by external fund managers.

The scope of the audit, as originally agreed with management in the separate Audit Brief, is reproduced in the Assurance Summary section above, along with our assessment of each area as at the time of testing.

Background

Avon Pension Fund (APF) is responsible for ensuring the safe custody of its financial assets. During its day to day administrative operations, there are significant financial transactions that occur, such as the payment of pension benefits to retired members, the transfer of pension benefits where a member wishes to switch schemes, the movement of funds for cashflow purposes and the authorisation of expenditure from APF budgets. These transactions vary in amount but can exceed £10m. Suitable authorisation processes are necessary in each case and it is to this end that APF have developed and will maintain a central record of authorisations.

Context & Audit Comment

The review forms part of the 2019-20 risk based Internal Audit Plan.

To arrive at our conclusions, we have engaged with key officers including the Pensions Manager and Governance and Risk Advisor to discuss the rationale behind the development of the new Scheme. We sought to provide input at an early stage by conducting some initial research in order to be able to share good practice with APF during the Scheme's development. Further discussions were held once the draft Scheme had been prepared and feedback provided on the proposed limits, their reasonableness and whether they enable sufficient control over the Fund's assets. A further secondary consideration was that delegations should enable workflow as opposed to creating undue delays. Sample testing against the new Scheme was also carried out in order to validate current compliance.

Background Research by Devon Audit Partnership

We sought in this instance to determine whether other similar funds had published their own Schemes of Delegation in order to provide APF with a starting point from which to build their own document. We used internet searches for this and also contacted another nearby Fund to determine whether they had conducted any similar work in this area.

Internet searches found little evidence of publicly available schemes, with the exception of a document from Oxfordshire County Council which had included some financial transaction types and details of officers and their authorisation limits. Details were then passed to relevant APF Officers.

The other nearby Fund with whom we enquired was found to be in a similar position to APF in that they had a number of separate governance documents such as the Administering Authority's Constitution and a Governance Compliance Statement establishing mostly high-level delegations but did not have a centralised list of financial transaction types, limits or the officers able to authorise. This information was also shared with APF.

Development of the Scheme of Officer Authorisations

We discussed with the Governance and Risk Advisor the methodology applied in producing the new Scheme and reviewed supporting evidence gathered during its compilation. Information from a number of sources had clearly been considered during the Scheme's compilation and this included existing delegations established within the BANES Council Constitution, limits already established by way of APF internal procedures, feedback from other managers within APF and some input from ourselves.

Consideration of the Scheme of Officer Authorisations

The newly produced summary document is considered fit for purpose and will provide reasonable control over the Fund's assets without compromising workflow. In order to achieve this, consideration has been given to adjusting the authorisation limits for certain transactions. The proposed adjustments, which apply in relation to member benefits, appear reasonable and should help to prevent possible delays that may otherwise occur.

The Scheme contains the key financial transaction types that are carried out on a day to day basis by APF Officers. This includes budget expenditure, the movement of funds for cashflow purposes, approval of pensioner payroll runs and calculations relating to member benefits.

In most cases, the transactions are stratified such that higher values will require increasing levels of scrutiny or seniority in signing off. This should help mitigate risk whilst ensuring officers at suitable levels are accountable for decision making.

BACS payment runs are used for paying pension benefits to members and also for transferring pension benefits to other funds. The payroll team are responsible for creating the BACS run, whilst APF managers are then required to check the details and authorise the payment, which is actioned within the software application itself. As such the final authorisation can only be done by users that have been granted access to the payments system by a System Administrator. We reviewed a system report listing current authorisers and confirmed that the overall number was not excessive and consisted of current managers within either APF or BANES.

We reviewed the list of APF cost centres and associated officers who may authorise expenditure from them. Here again we found evidence of a stratified approach to authorisation, with most cost centres having a cut-off point at around £25k, beyond which a more senior officer was required to authorise. All cost centre expenditure authorisers were managers. We noted one cost centre which had only a single authorising officer. This was discussed with the Finance Manager who confirmed that budget holders are able to assign their authorisation privileges to a delegate in the event of absence such as annual leave or sickness. This should mitigate the risk of delays in authorising expenditure during such times. For most other cost centres, there were at least two authorising officers able to approve expenditure up to £25k.

For the approval of member benefits, which may include transfers out, lump sum payments and death grants, APF have found that the existing level of sign off was not always practical and could cause delays in processing. As such the proposed scheme seeks to relax the limit at which sign off by the Pensions Manager or Head of Service is required from £100k to £150k, with the Member Services Team Leader now able to sign off transactions below this value. We note that this type of transaction carries a relatively low risk of fraud And is further compensated for by other existing controls such as separation of duty which prevents a single officer from carrying out all steps required in making a payment and also the fact that payment run reports would be independently reviewed by an officer other than the one authorising the amount to be paid.

Investment decisions and the management of the Fund's £4billion assets are managed by external fund managers and the Brunel Pension Partnership. Treasury management activity for cashflow purposes, where money is moved between BANES current account and APF money market fund accounts, is however still managed within the organisation. These transactions occur relatively frequently and can reach values approaching £10m. Under the proposed Scheme of Delegation these transactions are initiated and authorised by the BANES Treasury Management Team and in particular those officers authorised to conduct deals on behalf of the Authority. This seems appropriate and is a continuation of existing practices.

Approval of the Scheme of Delegation
To ensure that the proposed Scheme of Delegation is reviewed and approved at a suitable level, the intention was for this to be carried out by the Pension Committee. As part of the audit work we reviewed past Committee minutes where we noted similar documents being discussed such as the Pensions Committee Terms of Reference (which also includes a number of delegations to officers) and the Governance Compliance Statement. It was concluded that it was reasonable and appropriate for the Committee to formally approve the new Scheme of Delegations. Since the issue of the draft version of this report, the Committee was consulted on the Scheme of Delegations developed and the minutes of the meeting record its approval on the 26th June 2020.

Sample Testing
For each transaction type, we carried out limited sample testing to determine who the authorising officers were and therefore the levels of compliance. In most instances the proposed Scheme mirrors current practice so issues were not expected. This proved to be the case and the large majority of our sample were indeed authorised in accordance with the Scheme and adequately evidenced.

We noted one transaction dating back to September 2019 in respect of member benefits which had not been authorised as required. From discussion it was determined that this may have been due to the necessary officers being absent during the period in question; however, on further investigation it seemed that there was some confusion regarding the level of authorisation required. This provides a good example of why the proposed Scheme is necessary as it will provide a central and accessible reference point for officers across the Service.

A further relatively minor issue identified pertained to background information held by APF on which BANES officers are authorised to conduct Treasury Management deals, as these officers are responsible for the movement of funds between APF money market fund accounts and the BANES current account. It was identified from a transaction examined that the TM Officer carrying out the transfer was not recorded on the list held by APF. Enquiries were made and it was identified that the list of Officers was not up to date and that the TM Officer was included in the current list maintained by the Corporate Finance Team that administers the Treasury Management function. The issue was therefore that the APF was not being kept informed of changes of personnel and their role and responsibilities.

Summary
Overall, it is our opinion that the new Scheme compliments the framework of internal control and provides a useful and accessible reference point for officers during day to day activities helping to ensure than financial transactions are authorised in line with the approved scheme and framework of control. The delegations were considered reasonable and not reliant on a single point of authorisation which would impact on efficiency and effectiveness. As such the Scheme represents a good starting point which can be expanded and refined as necessary going forward.

No findings were deemed to constitute a high-risk level. Medium risk findings are set out later in this report. Low risk findings, for example where controls had generally been effective but an isolated lapse with limited impact was found, have not been reproduced within this report but have been discussed and agreed separately with the Pensions Manager.

Audit Summary Findings

We identified the following strengths:

- In developing the Scheme, APF have taken into consideration information made available by other Schemes
- The Scheme covers all key financial transactions that occur during day to day administration of the Fund
- In most instances, stratified limits have been applied, ensuring accountability at a suitable level
- The Scheme provides a good balance between control and operational efficiency and effectiveness
- Over reliance on a single point of authorisation has been minimised wherever possible

We identified the following weakness:

- A large payment processed in 2019 had not been fully authorised in accordance with delegations in place at the time. This was due in part to a misunderstanding of the authorisations required.

Audit & Risk Personnel:

Lead Auditor: Gary Spratley

Acknowledgements:

Sincere thanks to Geoff Cleak (Pensions Manager), Carolyn Morgan, Governance and Risk Advisor, and members of the finance and payroll teams for providing information and supporting evidence during the review.

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication or Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	**Testing identified a payment of Member Benefits which did not comply with the new proposed Scheme of Officer Authorisation or the limits which were in place at the time the transaction occurred.** Benefits for member GD, valued at £332k, were processed in the 'immediate' payroll run of 27 September 2019. The benefits were authorised by the Technical and Compliance Advisor. Under the current arrangements this should also have been authorised by either the Head of Service or Pensions Manager, however neither were involved in this transaction. From discussion we determined that the two designated authorising officers were absent at the time the authorisation took place, but that there also appeared to be some misunderstanding with officers around who the designated officers were.	Transactions may not be authorised appropriately, reducing accountability and increasing the risk of error or fraud.	1. All transactions should be authorised in accordance with the Scheme of Officer Authorisations. 2. APF should ensure all relevant officers have ready access to the Scheme of Officer Authorisations and are clear on its requirements.	The case identified by IA was due to an oversight in the approval process. The Scheme of Delegations is now in place and operational having been formally approved by the Pensions Committee in June 2020. Pensions Manager – July 2020

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Audit West

Final Internal Audit Report

Confidential

APF - Altair - IT System Access

September 2020

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	**The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.**
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives
Good	1. Internal Users – Avon Pension Fund staff have access to the system based on the concept of least privilege.
Satisfactory	2. Administrators – High level access is relevant and is effectively monitored to minimise the risk of abuse / error.
Satisfactory	3. External Users – Employers, Third Party Vendors and Scheme Members are only granted access to the system and data based on their individual or business needs and in compliance with data protection legislation, rules and regulations.

Detailed Report

Opinion

Internal Audit has undertaken a review of the access controls over the Avon Pension Fund (APF) Altair system. The framework of internal controls has been assessed and given an assurance rating of “**Substantial Assurance**”. A total of 8 audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment

The Avon Pension Fund (APF) is responsible for administering pensions in respect of 28,815 active members. Pensions for eligible staff are administered by 403 employers which include councils, government agencies and schools.

The APF uses the Altair application to provide pensions administration for local government pension schemes (LGPS) and a review of this area was part of the agreed Audit Plan for 2020-21. This piece of work reviewed access to the Altair system to ensure that it has been provided based on the concept of “least privilege”. More specifically, the audit reviewed the processes for:

- Creating and removing accounts.
- Password configuration policies.
- Controls over administrator level access.
- Third party access controls.

In order to gain access to Altair, and following management authorisation, users are set up and assigned levels of access appropriate to their roles by the Financial Systems Team. The levels of access assigned, along with any changes made within Altair are monitored and managed by the Financial Systems Team through a series of monthly monitoring tasks. LGPS Employers submit pension scheme data to Altair regularly using either the iConnect pay data submission platform or as a .csv file upload to the B&NES’ secure file transfer solution “Globalscape”. Employers can access their pension information through the Employer Self Service (ESS). Once an employer has been granted access to ESS and they log in with a username and password, ESS enables employers to view and amend (subject to the level of access granted by APF Employer services) their staff data held on the pension administration system. In addition, pension members can sign-up to the Member Self Service (MSS) and view their pension online, update details and use online pension planning tools.

This audit review focused on access to the Altair system, and findings include a lack of a formal access policy, weak password configurations and a limited record of monitoring/housekeeping checks performed. Furthermore, the importance of having an automatic lockout function enabled has been highlighted in respect of the increased emphasis on homeworking, following the outbreak of COVID-19.

We identified the following strengths

- There are documented registration and de-registration procedures in place for Altair.
- A monthly monitoring report is produced and reviewed to ensure users have appropriate levels of access to Altair.
- Altair users are forced to change their password before first use and on password reset requests.
- The Altair System Audit log is reviewed on a monthly basis.
- Temporary passwords are issued to Altair users securely via Council email.
- An up to date signed contract and non-disclosure agreement with the software vendor is in place to allow access to the network.

We identified the following weaknesses

- A periodic review of iConnect user access is not performed.
- iConnect user accounts do not automatically disable after periods of inactivity.
- The Altair Access Policy is in draft form only and it does not align with the guidance published in the Information Security Policy.
- A schedule of housekeeping tasks is not maintained, resulting in limited accountability or continuity for future checks.
- The Altair password configuration requirements are not aligned with the Council's Information Security Policy.
- The Council's Remote Working Policy document has been superseded and requires removing from the Intranet by Information Governance.
- The Altair application does not automatically lockout users after a period of inactivity.

The assurance rating given is: *'Level 4 – Substantial - The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary'.*

However, a number of weaknesses were identified which would affect the control environment. More specifically, these are the recommendations relating to the Altair Access Policy and the liaison with the vendor to determine the feasibility of the inclusion of system updates in the next release. It is important that all recommendations are implemented by the agreed dates specified in the action plan to mitigate the risks identified.

Audit & Risk Personnel

Lead Auditor: Pat Jenkins.
Audit Manager, IT and Finance: Tariq Rahman.

Acknowledgements:

Sincere thanks to Geoff Cleak, John Hewlett, Matt Williams, Sean Smythe, Claire Newbery, Claire Moon and all service staff for all their help and assistance throughout the Audit Review.

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	A periodic review of user access for the automated Employer pay-data submission system (iConnect) is not performed, and Employers are not monitored to determine whether user access is still appropriate. There may be iConnect users who either have inappropriate levels of access or who no longer require access.	Unauthorised or inappropriate levels of system access, leading to the risk of fraud through the manipulation of pay data.	iConnect user access should be reviewed on at least a quarterly basis to ensure user access to the system is still current and relevant. A record of these checks should be maintained. Employers should be reminded on at least a bi-annual basis to notify APF of any required changes to user access. A record of these checks should be retained.	**Agreed** **Responsible Officers:** Financial Systems & Development Manager, John Hewlett. Pensions Manager, Geoff Cleak. **Implementation Date:** 30th September 2020 The Financial Systems & Development Manager will liaise with the Avon Pension Fund to implement the audit recommendation. Standard paragraph now included in all periodic employer newsletters as a reminder to employers to notify APF of any authorised contact changes.
M2	iConnect user accounts do not automatically disable after periods of inactivity. Accounts remain active unless manual intervention is undertaken to disable the account.	Unauthorised system access and the risk of fraud through the manipulation of pay data e.g. a user may leave but they are still able to log in and submit pay data.	The Financial Systems Team should liaise with the software vendor and arrange for the iConnect application to be configured to automatically disable users after a pre-defined period of user inactivity. Also see M1 above.	**Agreed** **Responsible Officers:** Financial Systems & Development Manager, John Hewlett. Pensions Manager – Geoff Cleak **Implementation Date:** 1st September 2021

				The Financial Systems & Development Manager will liaise with the vendor to determine the feasibility of implementing the audit recommendation.

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer** **Management Comments** **Implementation Date**
M3	The Altair Access Policy is currently in draft form only and therefore it has not been circulated to users.	Existing users may not have been set up in-line with the policy. Users may have excessive access privileges. Potential for GDPR breach.	The draft Altair Access Control Policy should be finalised by the Financial Systems Team, reviewed and approved by the Systems and Development Manager and circulated to all users.	**Agreed** **Responsible Officer:** Financial Systems & Development Manager, John Hewlett. **Implementation Date:** 1st December 2020.
M4	The draft Altair Access Policy does not align with the guidance in the Council's Information Security Policy (InfoSec Policy) document.	Weaker access control is provided than the Council requires, resulting in an increased risk of system compromise.	The Altair Access Policy should align its guidance with the best practice outlined in the Council's InfoSec Policy, where appropriate, to ensure consistency across the authority. The access policy should also include the following elements: 1. Security requirements of the application. 2. Policies for information dissemination and authorisation. 3. Relevant legislation regarding protection of access to data and	**Agreed** **Responsible Officer:** Financial Systems & Development Manager, John Hewlett. **Implementation Date:** 1st December 2020.

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
			services. 4. Standard user access profiles for common job roles in the Council. 5. Segregation of access controls. 6. Requirements for formal authorisation of access requests. 7. Removal of access rights.	
M5	Altair housekeeping & monitoring checks performed by the Financial Systems Team are not logged or recorded.	Lack of accountability for checks performed and inadequate continuity should the member of staff responsible be absent.	To ensure accountability and continuity, a central record of periodic system housekeeping checks should be developed and maintained by the Financial Systems & Project Lead.	**Agreed** **Responsible Officer:** Financial Systems & Development Manager, John Hewlett. **Implementation Date:** 1st December 2020. A new change control master spreadsheet is due to be implemented for all financial systems. The Financial Systems & Project Lead (MW) confirmed that this could additionally be utilised as a recording log for all system maintenance.

LOW RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
L1	The password configuration parameters currently in use for Altair do not align with the password for life guidance outlined in the Council's InfoSec policy. The current Altair 'Minimum Password Strength' is set at 'Mild' with a minimum password length of 6 characters, which requires at least four of the below: - Lower Case Characters - Upper Case Characters - At Least One Numeric - At Least Two Numerics - At Least Three Numerics - At Least One Special Character - At Least Two Special Characters However, the Information Security Policy states: Use a minimum of **fifteen** characters with at least one character from three of the following four classes: • Lower case characters • Upper case characters • Numbers • Symbols	Risk of unauthorised system access through exploitation of a weak password configuration.	The Altair Password configuration policy should be updated by the Financial Systems Team to strengthen security and meet the Council's Info Sec Policy guidance. If the current password parameters cannot meet this guidance, then a change request should be raised with the software vendor.	**Agreed** **Responsible Officer:** Financial Systems & Development Manager, John Hewlett. **Implementation Date:** 1st December 2020.

LOW RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
L2	The Altair application which is accessed by Internal APF users does not auto-lock or require users to log back in after periods of inactivity. The lack of application automatic lockout is mitigated by an automatic lockout on Council machines.	With increased home and mobile working, there is a heightened risk of sensitive information being exposed (through unlocked computers, shoulder-surfing etc.) without an automatic lock-out enabled.	The Financial Systems Team should liaise with the software vendor and arrange for the Altair application to be configured to automatically lock after a reasonable period of user inactivity.	**Agreed** **Responsible Officer:** Financial Systems & Development Manager, John Hewlett. **Implementation Date:** 1st September 2021. The Financial Systems & Development Manager will liaise with the vendor to determine the feasibility of implementing the audit recommendation.
L3	The Council's Remote Working Policy is out of date and requires review. Due to COVID-19, 'working from home' has been upscaled dramatically by the Council. With the majority of the workforce now stationed predominantly at home or working remotely, the risks associated with the safeguarding of sensitive data are heightened, therefore it is important that an up-to-date remote working policy is in place.	A large proportion of the Council's workforce are stationed at home or remotely, including those with access to sensitive systems. There is an increased risk of loss or unauthorised access to sensitive data.	The Council's Remote Working Policy should be reviewed and updated by the Information Governance Team to strengthen the Council's defences against cyber risks and reflect homeworking on a larger scale.	**Agreed** **Responsible Officer:** Information Governance Manager, Sean Smythe **Implementation Date:** 1st December 2020. The Remote Working Policy has recently been absorbed into the Information Security Policy and more importantly the Acceptable Use Policy. The out of date Remote Working Policy will be removed from the Intranet.

Audit West

Internal Audit Report
Confidential

Avon Pension Fund – Risk Management

November 2020

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	**The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.**
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives
Good	1. Ensure compliance with the Pension Regulator rules and guidance related to the management of risk.
Good	2. Ensure that risks and internal control measures related to the management of the Pension Fund and safeguarding of its assets are being identified, assessed, documented and scrutinised.
Good	3. Ensure that Avon Pension Fund decisions are fully informed based on risk/ opportunity assessments and subjected to scrutiny/ challenge

Detailed Report

Opinion

Internal Audit has undertaken a review of the controls over the Avon Pension Fund (APF) Risk Management process. The framework of internal controls has been assessed and given an assurance rating of “**Substantial Assurance**”. A total of 3 audit recommendations are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment

The pension fund has circa 38,064 active members and pensions for eligible staff are administered by 443 employers which include councils, government agencies and schools.

B&NES Council has delegated responsibility for administering the pension fund to the Avon Pension Fund (APF) Committee which is the formal decision-making body for the fund. The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework.

The APF Committee and administering authority are scrutinised by the Pension Board ensuring that the governance surrounding the scheme remains robust and fit for purpose.

The scheme is regulated and overseen by the Pensions Regulator. Other bodies and agencies undertake key roles, particularly the Local Government Pension Scheme Advisory Board (SAB), the Ministry for Housing Communities and Local Government, and CIPFA, which sets the accounting standards.

The APF Committee is responsible for ensuring that there is an adequate risk management framework in place to ensure compliance with the regulations and to address the risks faced by the Fund. The risk management process is supported by the Senior Management Team and the APF Committee. An audit of the APF Risk Management process was part of the agreed Audit Plan for 2020-21.

The risk management process, used by APF, is based on the CIPFA 'Managing Risk in the Local Government Pension Scheme' guidance. However, the BANES risk register template and the risk scoring system has been adopted and the risk register template is linked to the Council's Corporate guidance.

Overall, the control framework in place and operating for the management of risk was found to be effective. Good practice was apparent in a number of areas reviewed and these are detailed in the section below.

We identified the following strengths

- The APF created a new position in April 2019, the Governance & Risk Advisor. The purpose of this post was to have knowledge, oversight and overall management of the risks that could impact on the pension fund.
- A new risk management process was developed and implemented circa March 2020 which required the attendance of risk owners at quarterly risk management meetings. These meetings have had a good rate of attendance and they have taken place regularly, despite the Covid-19 pandemic.
- There is a process in place to identify, evaluate and implement controls to mitigate risks and record them on the risk register. Risks are delegated to APF Service Managers (total of eight people), based on the risk area. As part of this process, a risk evaluation form has been introduced which specifies a unique risk identifier number, the risk area, the risk score, the mitigations, the review date and the risk owner. The Risk Register is reviewed regularly by the management team and it is reported quarterly to the Avon Pension Fund (APF) Committee.
- The Governance & Risk Advisor actively chases the risk owners for any actions that are due prior to the quarterly Risk Management meetings.
- The Risk Register is reviewed quarterly by the APF management team so that any amendments to the risk profiles coincide with the dates for the quarterly APF Committee meetings. This ensures that strategic decisions are made based on current risk information.
- There is a recently approved (June 2020) detailed Terms of Reference (ToR) document in place that describes the purpose, scope and authority of the APF committee. The ToR also states the frequency of the committee meetings, membership and there is a focus on risk management.

- The APF Committee has had sight of the three APF Strategies and they have given formal approval for each strategy, after consideration of the risks. The Administration and Funding strategies were last reviewed circa June 2019, while the Investment Strategy is more recent, having been approved in September 2020.

- Appropriate senior officers from the Avon Pension Fund (APF) actively attend the APF Committee where discussions around risk and its management featured in all of the minutes reviewed.

- Investment and Funding risks are managed by specialist teams, within the APF, who are supported by external Investment & Actuarial Advisors. These advisors (Mercers) attend the APF committee meeting to provide Investment updates, funding position updates, or if they are reporting on the results from the full / interim valuation. The Investment Advisors present an annual report on the Risk Management Strategies for Investments and the most recent report was presented in September 2020.

- A review of the APF Committee minutes confirmed that risk management informs proposals put forward such as fossil fuel divestments and the recent impact of the Covid-19 pandemic.

- The APF demonstrates good practice by having a risk management section within the "Avon Pension Fund Annual Report" which also has a summary of the risk register and the actions taken to manage the risks.

We identified the following weaknesses

- The Administration, Funding and Investment strategies have been updated in the last fifteen months but there was limited analyse of risks related to each strategy.

- A formal process to record the outcomes from the Risk Management meetings is not in place.

- The APF Risk Management Life Cycle process document does not provide enough information, such as links to relevant forms.

Audit & Risk Personnel

Audit Manager, IT and Finance: Tariq Rahman.
Head of Audit: Andy Cox.

Acknowledgements:

Sincere thanks to Geoff Cleak, Liz Woodyard and Carolyn Morgan for all their help and assistance throughout the Audit Review.

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	There are three strategies (Investment, Funding, and Administration) that provide strategic direction and key objectives for managing the Pension Fund. It was not possible to easily understand the specific risks and mitigating actions required related to each individual strategy document. Furthermore, there is no specific section within the Administration Strategy related to risk and associated counter measures.	Non-compliance with the Code of Practice 14 which requires the main risks associated with objectives, functions and activities to be identified. Those tasked with approving APF Strategy documents (decision makers) are not being provided with all the necessary information to verify that risks directly linked to the adoption of a Strategy have been identified and managed.	A risk assessment for the Administration Strategy should be carried out to identify specific risks and countermeasures. The risks on the strategy documents and the risk register should be reviewed to ensure that there is a direct correlation between the risks and mitigations in the two documents.	**Agreed** **Responsible Officers:** Governance & Risk Advisor, Carolyn Morgan. **Implementation Date:** 31st March 2021. A risk assessment for the Administration Strategy will be carried out by the due date. An extra column will be included within the Risk Register to cross reference to the relevant strategy. Additionally, the risk register will be reviewed to ensure that wording corresponds to the strategy documents.
M2	A formal Terms of Reference for APF Risk Management Group has not been agreed / adopted. Linked to this the auditor noted that meeting minutes or outcomes are not maintained for monitoring purposes.	Outcomes from the meetings cannot be easily followed-up. Lack of continuation with the risk management life cycle in the event that the Governance & Risk Advisor left.	The Governance & Risk Advisor should write and table a 'Terms of Reference' for the Risk Management Group to adopt. The 'Terms of Reference' should specify the operation of the group including the need to maintain minutes or a record of outcomes for actioning which can then be monitored for implementation.	**Agreed** **Responsible Officers:** Governance & Risk Advisor, Carolyn Morgan. **Implementation Date:** 31st March 2021.

LOW RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer** **Management Comments** **Implementation Date**
L1	A Risk Management process document was seen that outlined the process for the APF risk management lifecycle. However, this document does not provide sufficient detail such as assignment/role of the responsible officer for each risk, importance of implementation dates or hyperlinks to relevant forms.	Staff may not be fully aware of the APF Risk Management Lifecycle.	The Risk Management process document should be updated to ensure that sufficient detail is provided for key stages of the Risk Management Lifecycle as outlined in the Council's Risk Management Toolkit. This document should be version controlled and have an assigned author.	**Agreed** **Responsible Officer:** Governance & Risk Advisor, Carolyn Morgan. **Implementation Date:** 31st March 2021.

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Audit West

Internal Audit Report

Confidential

Avon Pension Fund (APF) Pensions Governance - Code of Practice 14

July 2021

Executive Summary

Audit Opinion:

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure.

Assurance Summary:

Assessment	Key Control Objectives
Good	Ensure that Pension Board members are conversant with Pension legislation and Scheme rules & policy (links to 'Resolving Issues' section of COP e.g. reporting breaches of law).
Good	Ensure that the Scheme Manager is satisfied that new/ existing Board Members do not have a conflict of interest.
Good	Ensure compliance with scheme regulations on representation and the principles of proportionality, fairness, transparency and skills.
Good	Ensure that Information about the Pension Board is accessible and up to date.

Detailed Report

Opinion

Internal Audit has undertaken a review of the controls over the Avon Pension Fund (APF) Code of Practice 14. The framework of internal controls has been assessed and given an assurance rating of "**Substantial Assurance**". A total of three audit recommendations, and one opportunity, are detailed in the Action Plan.

Scope and Objectives

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

Context & Audit Comment

B&NES Council administers the Avon Pension Fund on behalf of approximately 464 employing bodies mostly situated in the former Avon County Council area. The four unitary councils account for circa. 50% of the contributing members. The total number of scheme members as at 31 March 2021 was 125,322, of whom 31% were contributors, 28% were pensioners, 34% deferred pensioners & 7% undecided leavers.

There are 89 Councils which administer the Local Government Pension Scheme (LGPS) in the United Kingdom and the Avon Pension Fund is one of the larger funds, with circa £4.5bn value.

The Local Government Pension Scheme (LGPS) is a statutory scheme, with all benefits guaranteed. The LGPS provides pensions based on final salary for service until 31 March 2014 and on Career Average Revalued Earnings (CARE) for service accruing from 1 April 2014.

The scheme is regulated and overseen by the Pensions Regulator who has a number of regulatory tools, including issuing "**Codes of Practice"**, to enable it to meet its statutory objectives. Other bodies and agencies undertake key roles, particularly the Local Government Pension Scheme Advisory Board (SAB), the Ministry for Housing Communities and Local Government, and CIPFA, which sets the accounting standards.

Codes of Practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions. Code of Practice 14 (COP 14) is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation, or requirements, relating to the governance and administration of the scheme.

COP 14 requirements have been subject to Internal Audit review for several years, and for the financial year 2020/ 21, the focus of the audit scope was:

- Appointment of new Pension Board members
- Board Members are conversant with Pension Scheme legislation and standards
- Board Members do not have a conflict of Interest
- The Board has equal representation from employers and employees
- Information about the Pension Board is accessible and up to date.

Attendance at non-mandatory training events was found to be 67% for the financial year 2020/ 21. Pension Fund Management should consider methods for increasing the uptake at these events because they provide an opportunity for Board members to review reports in detail and to understand/ comment on the future direction of the fund.

Overall, the control framework in place and operating for the management of the COP 14 elements reviewed was found to be effective. Good practice was apparent in several areas reviewed and these are detailed in the section below.

We identified the following strengths

- The Council's constitution contains the Terms of Reference for the Pension Board and it clearly states that the Board is a scrutiny function only – i.e. the Board does not have decision-making powers.

- When new members to the Board are appointed, they are sent a detailed communication informing them of the required reading material that would be necessary for them to carry out their scrutiny function adequately. This is further re-enforced at a formal induction training session.

- For the financial year 2020/21 to date, there is a 100% attendance rate for mandatory induction training for new members.

- The current induction training session is comprehensive and covers key topics such as: the pensions legislative framework, governance arrangements and roles and responsibilities, including that of the Scheme Advisory Board and the Pension Regulator.

- The Governance & Risk Advisor maintains an up to date “Training and Attendance” log. The document is used for recording attendance at meetings and training events. It also records when a member was appointed, and the seminars/ training attended.

- Pension Members’ Work Plan and Training Plan is a standing Pension Board agenda item.

- The Pension Board Terms of Reference document is provided to members as part of the recruitment process and is also presented annually in Board meeting papers. The last time it was reported to the Board was in November 2020.

- In compliance with COP 14 requirements, Pension Board members are asked to declare any conflicts of interest at the start of each meeting. This requirement is recorded in the minutes of the meeting.

- The general principles of conduct identified by the Committee on Standards in Public Life (Nolan Principles), are brought to members attention as part of the induction process and members are required to sign the Code of Conduct.

- There are a number of methods used to inform and educate Board Members of changes in pension legislation, these includes:

    - a monthly bulletin that explains any regulatory updates and changes to the scheme produced by the Local Government Employers (LGE).
    - LGPS regulatory updates is a standard agenda item for Pension Board meetings (which occur four times per year).
    - Member training - attendance at LGPS seminars and workshops.

- The membership of the Avon Pension Fund Pension Board complies with the requirements of the Local Government Pension Scheme regulations.

- Online information about the Pension Board is accessible through the Avon Pension Fund website and this was reviewed and found to be up to date.

We identified the following weaknesses

- Internal Audit was informed that all members have completed the Pension Regulator’s Toolkit, but this was not evidenced for all members.

- One out of three new Board Members had not completed a Register of Interest Form and/ or evidence was not held to record that they had signed a declaration agreeing to abide by the Member Code of Conduct.

- Evidence is not held to verify that an Independent Officer has reviewed declarations and made a judgement or provided guidance on action to be taken based on the declaration submitted.

We identified the following opportunity

- A checklist should be developed that could be used by Pension Fund management to monitor the Pension Board's governance arrangements, including the compliance with the requirements of COP 14.

Audit & Risk Personnel

Audit Manager, IT and Finance: Tariq Rahman.
Head of Audit: Andy Cox.

Acknowledgements:

Sincere thanks to Geoff Cleak, Carolyn Morgan and Mark Durnford for all their help and assistance throughout the Audit Review.

Action Plan

MEDIUM RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
M1	**Declaration of Interest/ Code of Conduct** One out of three new Board Members had not completed a Register of Interest Form and/ or evidence was not held to record that they had signed a declaration agreeing to abide by the Member Code of Conduct.	Conflicts of Interest could result in unintentional bias in the scrutiny function that members carry out. Members may not be aware of the standards expected of them when they discharge their duties.	The Democratic Services Officer in liaison with Scheme Manager / Pension Board Lead Officer should write to all Pension Board Members requesting that they: 1) complete and submit the Register of Interests form before attending the next meeting of the Board. 2) sign the Code of Conduct declaration.	**Agreed** **Responsible Officers:** Democratic Services Officer, Mark Durnford. **Implementation Date:** 1st October 2021
M2	**Pension Regulator's Toolkit** Internal Audit was informed that all members have completed the Pension Regulator's Toolkit, but this was not evidenced for all Board Members.	Non-compliance with COP 14 requirements. Poor/ incorrect opinions and advice could be given if members do not have the necessary knowledge or understanding.	The Governance & Risk Advisor should confirm with Pension Board Members that they have completed the Pension Regulator's Toolkit. The individual training records, for each member, should be updated accordingly.	**Agreed** **Responsible Officers:** Governance & Risk Advisor, Carolyn Morgan. **Implementation date: Immediate** The Governance & Risk Advisor has now contacted outstanding members to request for evidence.

LOW RISK EXPOSURE				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
L1	**Independent Review of 'Declarations of Interest' submitted** Evidence is not held to verify that an Independent Officer has reviewed declarations and made a judgement or provided guidance on action to be taken based on the declaration submitted.	Conflicts of Interest could result in unintentional bias in the scrutiny function that members carry out.	The Democratic Services Officer should liaise with the Governance & Risk Advisor on an annual basis to confirm that they have reviewed the Register of Interest for all members, considered any risks and, if necessary, notified the Scheme Manager. Records of these checks should be maintained.	**Agreed** **Responsible Officers:** Democratic Services Officer, Mark Durnford. **Implementation Date:** 1st January 2022

OPPORTUNITY				
	Weakness Found	**Implication of Potential Risk**	**Recommendation(s)**	**Responsible Officer Management Comments Implementation Date**
01	**Annual Governance/ COP 14 requirements review** Apart from Internal Audit activity, formal review of the governance arrangements related to COP 14 requirements is not carried out.	Potential non-compliance with governance, and COP 14 requirements, may not be identified and corrected in a timely manner.	A checklist should be developed that could be used by Pension Fund management to monitor the Pension Board's governance arrangements, including the compliance with the requirements of COP 14. Examples of areas that could be included are: • Annual review of the Terms of Reference. • A review of the Conflicts of Interest and ensuring that these are recorded within a Register of Interest. • A review of attendance at meetings & training sessions. • Completion of relevant documentation by new members. • Online Pension Board information is accessible, relevant, and current. The level of compliance to this checklist should be reported to the Pension Board.	**Agreed** **Responsible Officers:** Governance & Risk Advisor, Carolyn Morgan. **Implementation Date:** 1st October 2021

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Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	10 DECEMBER 2021	AGENDA ITEM NUMBER	
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2021 (2) CASHFLOW FOR YEAR TO 31 OCTOBER 2021		
WARD:	ALL		
AN OPEN PUBLIC ITEM			

List of attachments to this report:

Appendix 1 Summary Financial Accounts: Year to 31 October 2021
Appendix 1A Summary of main budget variances: Year ending 31 March 2022
Appendix 2 Cash Flow for year to 31 October 2021

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the year to 31 October 2021. This information is set out in Appendices 1 and 1A**.**

1.2 This report also contains the Cash Flow forecast for the year to 31 March 2022. This information is set out in Appendix 2.

2 RECOMMENDATION

That the Committee notes:

2.1 The administration and management expenditure incurred for 7 months to 31 October 2021.

2.2 The Cash Flow forecast as at 31 October 2021.

3 FINANCIAL IMPLICATIONS

3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the 7 months to 31 October 2021 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2022 is for expenditure to be £174,568 below budget.

4.3 Within the directly controlled Administration budget expenditure was predicted to be £147,610 under budget. The forecast reduction in directly controlled expenditure is mainly related to salaries, in particular delays in filling vacant posts.

4.4 In the part of the budget that is not directly controlled expenditure was predicted to be £26,958 under budget. Again, the forecast reduction relates to a delay in filling a vacant post.

4.5 The Funding and Risk Management Group (FRMG) first convened in August 2021 and has met monthly since then. The FRMG comprises of APF Investments team and Mercers, and it reports back to the Investment Panel quarterly. Extra costs for the year to 31 March 2022 relating to the monthly meetings and reports are currently being funded by known underspends in the consultancy budget and contingency. Therefore the forecast outturn is currently predicted to be on budget.

5 CASH FLOW FORECAST

5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows are managed by divestments and taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The 2021 - 2024 Service Plan included a cash flow forecast showing a gross in-flow of c£196.1m and a gross out-flow of c£195.9m giving a net inflow in 2021/22 of £0.2m. The forecast gross inflow included £27m divestments and investment income.

5.3 Excluding divestments, the actual cash flow to 31 October was an inflow of c£11.8m against a budgeted inflow of £8.1m for the same period. The difference was mainly due to higher than budgeted contributions received (£3.4m).

5.4 The forecast outturn for the year to 31 March 2022 is currently a cash inflow of c£6.4m more than predicted in the Service Plan. It is currently predicted that than predicted contributions will lead to a positive cashflow before transfers to/from the custodian of £20.4m.

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 appropriate investment, funding and administration strategies in place and that they are regularly monitored. In addition, it monitors the risk register, annual budget and compliance with relevant investment, finance and administration regulations.

7 CLIMATE CHANGE

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

8 OTHER OPTIONS CONSIDERED

8.1 There are no other issues to consider.

9 CONSULTATION

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

Contact person	David Richards Finance & Systems Manager (Pensions)) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2022

	7 Months To End 31st October			FULL YEAR 2021/22		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Administration Costs	68,045	86,197	18,152	116,647	112,439	(4,208)
Communication Costs	94,882	73,798	(21,084)	162,655	162,655	0
Payroll Communication Costs	63,430	79,394	15,964	108,737	108,737	0
Information Systems	199,652	483,530	283,878	342,261	342,261	0
Salaries	1,270,813	1,070,495	(200,318)	2,178,537	2,035,135	(143,402)
Central Allocated Costs	281,719	281,719	0	482,945	482,945	0
Miscellaneous Recoveries/Income	(128,812)	(90,233)	38,579	(220,821)	(220,821)	0
Total Administration	**1,849,729**	**1,984,901**	**135,172**	**3,170,961**	**3,023,350**	**(147,611)**
Governance & Compliance						
Investment Expenses	10,284	3,490	(6,794)	17,629	17,629	0
Investment Governance & Member Training	335,766	354,503	18,737	575,600	575,600	0
Members' Allowances	23,762	(0)	(23,762)	40,735	40,735	0
Independent Members' Costs	33,833	30,541	(3,292)	58,000	58,000	0
Compliance Costs	467,293	347,314	(119,979)	801,075	801,075	0
Salaries	451,773	421,464	(30,309)	774,467	747,509	(26,958)
Central Allocated Costs	18,239	18,239	0	31,267	31,267	0
Brunel Expenses	14,583	7,399	(7,184)	25,000	25,000	0
Compliance Costs recharged	(112,000)	(132,808)	(20,808)	(192,000)	(192,000)	0
Total Governance & Compliance	**1,243,533**	**1,050,141**	**(193,392)**	**2,131,773**	**2,104,815**	**(26,958)**
Pensions Board	**26,250**	**195**	**(26,055)**	**45,000**	**45,000**	**0**
Global Custodian Fees	25,667	25,667		44,000	44,000	
Brunel Management Fees	898,350	898,350		1,280,000	1,280,000	
Investment Fees	11,117,164	9,760,662		19,057,997	25,119,889	
Total Investment Fees	**12,041,181**	**10,684,678**	**0**	**20,381,997**	**26,443,889**	
NET TOTAL COSTS	**15,160,693**	**13,719,915**	**(84,276)**	**25,729,731**	**31,617,055**	**(174,568)**

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Appendix 1A

Summary of main budget variances: Year ending 31st March 2022

Variances Analysis of the forecast full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most significant reasons for variance
Administration costs	(4,208)	Staff travel for Administration Team
Salaries	(143,402)	Reduced salaries expenditure due to delays in filling vacant posts against budget in Benefits team
Administration	**(147,610)**	
Salaries	(26,958)	Reduced salaries expenditure due to delay in filing vacant Senior Investment Officer post.
Expenditure outside direct control	**(26,733)**	
Total	**(174,343)**	

***() variance represents an under-spend, or recovery of income over budget**

+ve variance represents an over-spend, or recovery of income below budget

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Appendix 2

Cash Flow Forecast

		SEVEN MONTHS TO 31ST OCTOBER 2021			FULL YEAR 2021/22		
		Forecast Per Service Plan	**Actual**	**Variance**	**Forecast Per Service Plan**	**Out-turn Forecast**	**Variance**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Benefits Outflows							
Benefits	Pensions	(95,500)	(95,795)	(295)	(163,714)	(164,221)	(507)
	Lump sums	(13,062)	(12,839)	223	(22,392)	(22,009)	383
Total Benefits Outflows		**(108,562)**	**(108,634)**	**(72)**	**(186,106)**	**(186,230)**	**(124)**
Inflows							
Deficit recovery		2,309	2,977	668	3,958	5,103	1,145
Deficit recovery - paid in advance		7,553	7,344	(209)	7,553	7,344	(209)
Future service Contributions		63,066	66,499	3,433	108,113	113,999	5,886
Future service Contributions - paid in advance		49,487	49,489	2	49,487	49,489	2
Total Contributions		**122,415**	**126,309**	**3,894**	**169,111**	**175,935**	**6,824**
Net Cash Flow (excluding Administration & Investment costs)		**13,853**	**17,676**	**3,823**	**(16,995)**	**(10,294)**	**6,701**
Investment Income received as cash			5	5		9	9
Net Transfers In & Out (budgetted as zero)		0	(426)	(426)	0	(731)	(731)
Administration costs		(5,739)	(5,490)	249	(9,838)	(9,411)	427
Net Cash Flow/(Out-Flow)		**8,114**	**11,765**	**3,651**	**(26,833)**	**(20,427)**	**6,406**

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**10 December 2021**
TITLE:	**WORK PLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Committee Work plan** **Appendix 2 – Investments Panel Work plan** **Appendix 3 – Training Programme 2019-21**	

1 THE ISSUE

1.1 Contained in this report are details of a change to the format of Committee reports for noting. From March 2022 certain monitoring reports will only be available on the Modern Gov Library.

1.2 The Fund has signed up to the Hymans Robertson's LGPS Online Learning Academy (LOLA) and committee members are asked to undertake training modules from January 2022.

1.3 Attached to this report is the work plan for the Committee and a separate one for the Investment Panel which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

1.4 The provisional training programme for 2021/22 is included as Appendix 3.

2 RECOMMENDATION

2.1 That the committee:

a) Notes the changes to the format of future committee reports & introduction of the Modern Gov library from March 2022

b) Notes the introduction of the Hymans Robertson's LGPS Online Learning Academy from January 2022.

c) Notes the Committee & Investment Panel workplans and training programme for the relevant period.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider. The cost of the LGPS Online Learning Academy licences is within the budget already agreed.

4 THE REPORT

4.1 Modern Gov Library

a) The plan to create capacity & improve efficiency by moving some regular monitoring reports out of the meeting pack to an alternative accessible format was first brought to Committee in the review of governance arrangements in December 2018.

b) The change to the format of the Committee reports is to reduce the size of the meeting reports pack so that there is more focus on papers where the Committee are required to make decisions.

c) To facilitate this change the plan is to use the 'Library' within Modern Gov to store some of the monitoring reports. This means that the reports/appendices are still available for Committee members to read but would not be part of the reports pack for the actual meeting. Any issues that need to be brought to the Committee's attention will be included in a paper on the formal agenda pack.

d) Over the last year a trial with a few committee members has taken place using the library and feedback has been used to improve how reports are displayed and filed within the library.

e) From March 2022 the following monitoring reports will mainly be available on the Modern Gov library only:

(i) Regulatory Update
(ii) Investment Performance Monitoring (appendices and supporting detail)
(iii) Budget Monitoring

f) The monitoring reports from the Administration report & the workplans are expected to follow in June 2022.

g) Each of the monitoring reports will be included in the reports pack as an agenda item once a year and any matters arising can also be discussed at meetings as required.

h) In order to ensure all members have the correct access to Modern Gov and the library, The APF Communications Team, led by Jason Morel, will contact all members in January 2022 to provide the relevant support & training required.

i) The use of the library for monitoring reports will be kept under review.

4.2 Hyman's LGPS online Learning Academy (LOLA)

a) The SAB's Good Governance Review is expected to include additional knowledge and skills requirements for Committee, Pension Board and Officers. Hymans Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).

b) The training is split into a number of modules covering the revamped CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14. (The training will be updated to reflect the Single Code of Practice once published). Each module contains up to 6 short presentations of 20 minutes or less.

c) The training has been designed so that it can be done in bite sized chunks, including supplementary information, such as definitions of common jargon, links to additional learning material and a short quiz at the end of each module.

d) Included in the modules are sessions on:

(i) Introduction to the LGPS
(ii) LGPS Governance & Regulators
(iii) Administration & Fund Management
(iv) Funding & Actuarial Matters
(v) Investments
(vi) Current Issues – McCloud, Goodwin and Cost Sharing

e) The Fund has arranged for Hymans to do a short demonstration of LOLA to committee members and officers on 17th December 2021 at 2pm. The session should take approximately 30 minutes. Invites have already been sent to members. The session will be recorded and distributed for those that cannot attend.

f) Following the demonstration all Committee members will be provided with login details and will be asked to complete the training modules.

g) A quarterly newsletter will be issued to inform members of the training modules to be completed over the following quarter to support the next meeting agenda.

4.3 **Workplans**

The purpose of the work plans is to provide members with an indication of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations.

4.4 **Training Programme**

The provisional training programme for 2021/22 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. Following participation in the National Knowledge Assessment conducted by Hymans Robertson LLP a training plan has been put together based on the recommendations of the assessment, which covers the requirements of the CIPFA Knowledge & Skills Framework.

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2022	2023
25 March 24 June 23 September 16 December	24 March 23 June 22 September 15 December

5.2 Investment panel meetings as currently scheduled:

2022
25 February
27 May
09 September
25 November

6 RISK MANAGEMENT

6.1 Forward planning and training plans form part of the risk management framework

7 EQUALITIES STATEMENT

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

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

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

Contact person	Carolyn Morgan, Governance and Risk Advisor, 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

Committee Workplan	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**
Quarterly Items								
PB minutes								
Brunel Update								
Report on Investment Panel Activity								
Review of Investment Performance (including Brunel Portfolios)								
Update on Legislation								
Pension Fund Administration –Performance Indicators and Risk Register								
Budget & Cash flow Monitoring								
Workplans								
Annual Items								
Annual Review of Risk Register								
Budget and Service Plan								
Treasury management Policy								
Annual Employer Update								
Roles & Responsibilities of the Committee, Governance Compliance Statement								
Annual Review of Investment Strategy & Performance								
Brunel Corporate update (presentation by Brunel)								
Annual Responsible Investing Report								
Annual Review of Risk Management Strategies								
Interim valuation Results / Section 13								
FRC Stewardship Code								
Review of Admin Strategy								
Recommendation from Panel on Equity allocations								
Recommendation from Panel on Risk Appetite								
Review of FSS								
2022 Valuation and FSS								
Review of ISS								
To be circulated outside of Meetings								
CMA Order Compliance (for Investment Consultant)								
Noting of Final Accounts 2020/21								
Approval of Committee’s Annual Report to council & PB Annual Report for noting								
Training Requirements								
Actuarial Methods & Valuation - Workshop 1								
Admin Strategy & Governance - Workshop 2								
Investment Performance & Risk Management- Workshop 3								

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Appendix 2

Investment Panel Workplan	Feb-21	May-21	Sep-21	Nov-21	Feb-22	May-22	Sep-22	Nov-22	Feb-23	May-23	Sep-23	Nov-23
Quarterly monitoring Items												
Review performance & RM Framework												
Transition of assets - update												
Annual Items												
Annual Risk Management review												
Strategic items												
Brunel Private Market presentation												
Decision to top up Private Markets Cycle 2												
Legacy assets management												
Brunel CIO presentation (vision and strategic priorities)												
Equity portfolio allocations project												
- workshop 1												
- workshop 2												
Brunel Listed markets update												
Decision of Private Market allocations for Cycle 3												
Options for Legacy Infrastructure Portfolio												
Review of LDI triggers given new liability benchmark (post 2022 valuation)												
Low risk corporate bond strategy – updated benchmark outcome (post 2022 valuation)												

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Appendix 3
Committee Training Plan

Type of training	Date	Hymans NKA Recommendations
Workshop	24-Sep-21	Equity Review Workshop
Workshop	Dec-21	The impact of COVID-19 on the Fund + actuarial methods, McCloud impact, exit credits and Section 13 Valuation training sessions – purpose, role, outcomes etc. 2022 Actuarial Valuations
Workshop	Mar-22	Pensions administration + the role of the Board/Committee Pensions Governance
Workshop	Jun-22	Investment performance and risk management

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