Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee

Date: Monday, 28th March, 2022
Time: 1.30 pm
Venue: Brunswick Room - Guildhall, Bath

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

This meeting of the Committee will involve only a quorum of the membership on this occasion.

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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 - Monday, 28th March, 2022

at 1.30 pm in the Brunswick Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 8.

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: 10TH DECEMBER 2021 (INFORMAL) AND 17TH DECEMBER 2021 (Pages 7 - 30)

8. 2022 - 25 SERVICE PLAN AND BUDGET (Pages 31 - 62)

   The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2022 to 31 March 2025.

9. TREASURY MANAGEMENT POLICY (Pages 63 - 72)

The Committee is asked to approve the Fund's Treasury Management policy each year. It was last approved in March 2021. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.

10. UPDATE ON LEGISLATION (Pages 73 - 78)

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

11. PENSION FUND ADMINISTRATION (Pages 79 - 98)

The purpose of this report is to present the Fund's performance for the three months to 31st December 2021 against its key performance indicators (KPI's) in relation to the administration of pension benefits.

12. WORK PLANS (Pages 99 - 108)

Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

13. BRUNEL PENSION PARTNERSHIP - UPDATE (Pages 109 - 130)

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

14. INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 31 DECEMBER 2021) (Pages 131 - 198)

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.

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 10th December, 2021, 2.00 pm

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

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

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Cllr John Goddard (Parish and Town Councils)

Advisors: Steve Turner (Mercer), Josh Caughey (Mercer) and Paul Middleman (Mercer)

Also in attendance: Tony Bartlett (Service Director - Financial Control and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Geoff Cleak (Pensions Manager), Jason Morel (Communications & Public Relations Manager) and Nick Weaver (Chair of Pension Board)

52 WELCOME & INTRODUCTIONS

The Chairman welcomed everyone to the meeting.

53 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Bruce Shearn, Councillor Paul May, Councillor Shaun Stephenson-McGall, Councillor John Cato and Mike Rumph had all sent their apologies to the Committee.

54 DECLARATIONS OF INTEREST

There were none.

55 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Tony Jones addressed the Committee, a copy of his statement is attached as an online appendix to these minutes, a summary is set out below.

I wish to express my concern and disappointment that, following the recent COP 26 meeting in Glasgow, the pension partnership update report does not include specific recommendations for action by the committee that reflect the seriousness of the situation we face following COP 26.

According to the Climate Change Committee (CCC) in its recent report, ("COP 26, Key Outcomes and Next Steps for the UK, 2/12/21"), the Glasgow Climate Pact rightly puts the focus on the 2020s as the critical decade for accelerating climate action. The CCC goes on to say that, in explicitly recognising the severity of climate impacts above 1.5C of warming, the Pact provides the strongest acknowledgement yet of the importance of meeting the 1.5C target.

As individuals we all have a part to play in the action needed for the rapid reduction in greenhouse gas emissions. Financial institutions, such as the Avon Pension Fund, can bring enormous leverage to bear and, following COP 26, have to step up to ensure that they are leading the way out of investment in fossil fuels, not by 2050 but by the end of this critical decade.

COP 26 signalled the start of this process, eg by launching the Beyond Oil and Gas Alliance (BOGA) which is a coalition of countries committing to end new licensing rounds for oil and gas production, with an associate level for countries aiming to phase out oil and gas production, as well as the Glasgow Financial Alliance for Net Zero, a global grouping of 450 financial institutions committed to directing investment away from fossil fuel use.

Why, in this first update report following COP 26, has none of this information, and the need for urgent action been placed before our elected representatives?

The Chairman thanked him for his statement and said that a written response on behalf of the Committee would be issued in due course.

Jackie Walkden addressed the Committee, a copy of her statement is attached as an online appendix to these minutes, a summary is set out below.

Brunel's documentation frequently refers to the Paris Agreement having the goal of limiting global temperature increase to well below 2 degrees Celsius. While this is a goal, the documentation omits the end of the sentence it is part of: ie 'while pursuing efforts to limit the increase to 1.5 degrees'. 'Limit to' should, in reality, mean 'aim for below'. This is important. Scientists believe we are already at over one degree of heating. As global emissions have not been falling in line with the Paris target, we are actually heading for higher than 2 degrees and if all the fossil fuel reserves we have today are used we will be looking at over 8 degrees.

Currently, at one degree C, UN scientists say we are experiencing climate events that they didn't expect at this stage of warming; the models are wrong. In fact, we are already dangerously close to hitting irriversible, catastrophic climage change. In light of this Brunel and its associate funds appear rather complacent in their current approach.

This complacency is also shown in initiatives used to demonstrate care for the environment. For example the ambiguously named mixed-fuel facility in Slough. This is an incinerator and as such is not a solution to the problem. It is green washing it.

The pension funds need genuinely green solutions - not waste to heat, or biomas burning. They also need to heed the warning of the International Energy Agency's report Net Zero by 2050 – Analysis - IEA, which says there should be no new fossil fuel projects after 2021. Accepting weak long-term goals from oil companies (Shell 65% by 2050) is not enough. To help ensure new projects do not go ahead, local government funds need to be divested from fossil fuels without delay.

So what will the fund now do to up its commitment and when will we know it's really protecting the climate from breakdown?

The Chairman thanked her for her statement and said that a written response on behalf of the Committee would be issued in due course. He said that he believed that Avon was at the forefront of the LGPS on this issue.

57 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

58 MINUTES: 24TH SEPTEMBER 2021 (INFORMAL) & 4TH OCTOBER 2021 (PUBLIC & EXEMPT)

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

59 PENSION BOARD DRAFT MINUTES: 30TH NOVEMBER 2021

The Committee were minded to note the draft minutes of the Pension Board from their meeting that took place on 30th November 2021.

60 INTERIM ACTUARIAL VALUATION 2021

The Group Manager for Funding, Investment & Risk introduced this report to the Committee. She said that the interim valuation provides an update to the current funding plan. She added that conversations have been held with the main employers and that current employer contribution rates and deficit payments are not revised as a result of this update.

She stated that the Actuary presented the interim valuation report at a Committee workshop on 01 December 2021.

Paul Middleman, Mercer addressed the Committee and highlighted the following points from the report.

- 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 Risk Management Strategy has helped significantly.

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

- 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.

- 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).

- 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.

William Liew commented that he found it really helpful to have the report at this stage to assist with the budget setting process.

Shirley Marsh-Hughes asked if the assumptions made in the report take into the potential McCloud Judgement outcome.

Paul Middleman replied that although there has not been a final outcome yet, this is expected in the Summer of 2022, they have a good idea of the direction of travel. He added that no material shift was expected and that the assumptions were in the right region. He stated that primary legislation on this issue was needed to be in place by March 2022.

Shirley Marsh-Hughes acknowledged that discussions had been held with larger employers, but asked if all employers were aware that contributions may change.

Group Manager for Funding, Investment & Risk replied that this would not normally happen as the rates can be different for the types of employer and therefore could be misleading at this stage.

Pauline Gordon asked how the assumption of low salary growth would be monitored.

Paul Middleman replied that the assumptions would be adjusted if required and said that the interim review showed pay grades were higher than expected.

The members of the Committee were minded to advise that the following resolution should be made on Friday 17th December.

The Avon Pension Fund Committee notes the outcome of the 2021 interim valuation and 2022 valuation timetable.

61 ANNUAL RESPONSIBLE INVESTMENT REPORT

The Investments Manager introduced the report to the Committee. He explained that 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.

He said that 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.

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

Charles Gerrish said that he had noted the emphasis within the report on the new multifuel facility located in Slough which uses waste as an energy source. He referred to page 106 and asked for continuity on the use of the company names Hermes and EOS between the cover report and the appendices.

The Investments Manager replied that he would make sure that when the Taskforce on Climate-related Financial Disclosures (TCFD) report is published that there is continuity when referring to these companies. He added that the facility in Slough is a Bio-Energy asset and that he would need to refer back to previous documentation to see how has been invested in it.

Shirley Marsh-Hughes commented that the report was comprehensive and easy to read. She suggested whether in future reports the Committee will need to refer to COP 26 more directly.

The Investments Manager replied that it is referred to in the Executive Summary and that a more direct statement could be made within the report.

The Service Director for Financial Control and Pensions added that a good discussion had taken place at the Brunel Oversight Board with regard to COP 26 and that officers would work with Brunel to provide a statement that can be published.

Josh Caughey, Mercer addressed the Committee and highlighted points from within Appendix 3 – Mercer Responsible Investment Total Evaluation (RITE) Analysis.

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 and considers over 75 data points.

RITE Score for Avon

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

- Total Score: A+
- Size average: B+
- LGPS average: B+

Shirley Marsh-Hughes asked if member friendly statements would be required regarding Climate Disclosures.

Josh Caughey replied that they had not seen a need for this yet, but that they will probably develop over time.

The members of the Committee were minded to advise that the following resolutions should be made on Friday 17th December.

i) Approves the Annual Responsible Investment Report for publication.
ii) Approves the Taskforce on Climate-related Financial Disclosures Report for publication.
iii) Agrees the RI priorities for 2022/23.

62 BRUNEL PENSION PARTNERSHIP - UPDATE

The Group Manager for Funding, Investment & Risk introduced the report. She informed the Committee that a meeting of the Brunel Oversight Board had taken place in the previous week.

The Service Director for Financial Control and Pensions added that he had nothing to raise with the Committee and that he intended to circulate some slides from Brunel once they had been received. He said that their budget discussions would take place in January 2022.

The members of the Committee were minded to advise that the following resolution should be made on Friday 17th December.

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

63 INVESTMENT PERFORMANCE & STRATEGY MONITORING

The Investments Manager introduced the report to the Committee. He stated that the Investment Strategy Statement (Appendix 4) had 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.

Josh Caughey, Mercer addressed the Committee and highlighted points from within Appendix 2.

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.

Performance

- 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.

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.

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.

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.

The members of the Committee were minded to advise that the following resolutions should be made on Friday 17th December.

The Committee is asked to:

i) Approve the revised Investment Strategy Statement
ii) Note the information set out in the report and appendices.

64 UPDATE ON LEGISLATION

The Pensions Manager introduced this report to the Committee and said that there were no significant changes at this present time. He highlighted a few points from within the report.

Public Sector Exit Payments Cap

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.

McCloud Judgement

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.

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.

Progress of new Judicial Review by FBU (and BMA) to be followed given there may be implications for LGPS at a later stage.

The members of the Committee were minded to advise that the following resolution should be made on Friday 17th December.

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

65 PENSION FUND ADMINISTRATION

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

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 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.

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.

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%.

Charles Gerrish wished to applaud all staff for their continued hard work. He asked if there would be any impact on the team whilst the five identified officers undertake service delivery of the IDF (Immediate Detriment Framework).

The Pensions Manager replied that it will have a degree of impact, but said that until it begins they were unsure as to how much. He added that the Fire Authority have been advised that there might be recharge implications.

Charles Gerrish commented that the figures relating to Transfers In were a little disappointing and asked if payment was backdated to members.

The Pensions Manager replied that payment is generally guaranteed and calculations are based on the members relevant date being the date joined the fund if applications are made within twelve months of joining.

Richard Orton asked why had performance deteriorated.

The Pensions Manager replied that the Pensions Regulator was clear at the start of the pandemic that the payment of benefits was the priority. He added that staff turnover has had an impact on performance in this area but this was now being picked up as part of the backlog project.

Shirley Marsh-Hughes said that it was good to see the progress being made on the backlog process and asked what staffing options there were in relation to the dashboard, as that had potential to also use a significant amount of resources.

The Pensions Manager replied that it was still early days on the project and that a member of staff had been appointed to oversee it. He said that before release testing will need to take place to make sure that it is fit for purpose and that when it goes live staff will need to be available to field calls / enquiries.

The Communications & Marketing Manager addressed the Committee 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 - 3,765completed surveys (9.1%)

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

Richard Orton asked if the Members' survey was sent to active and deferred members.

The Communications & Marketing Manager replied that surveys were sent to all Member Self Service (MSS) accounts and email addresses held within the database.

Richard Orton asked if follow up requests to complete it were sent.

The Communications & Marketing Manager replied that reminder emails were sent, but that he was quite pleased overall with the response.

Shirley Marsh-Hughes asked if the emails used for the survey were work or personal.

The Communications & Marketing Manager replied that it was a mixture currently and that in the main it would be good to get as many personal ones as possible.

The members of the Committee were minded to advise that the following resolutions should be made on Friday 17th December.

The Committee notes:

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

66 ANNUAL INTERNAL AUDIT REVIEW

The Pensions Manager introduced the report to the Committee. He informed them that since June 2019 the following five audits had been carried out.

- iConnect Project Audit Report
- Scheme of Delegations Audit Report
- Altair IT System Access Audit Report
- Risk Management Audit Report

- COP 14 Audit Report

All five audits received an Assurance Rating of Level 4.

The members of the Committee were minded to advise that the following resolutions should be made on Friday 17th December.

The Committee is asked to note the report and outcomes of the Internal Audit work carried out on the Avon Pension Fund.

67 PENSION FUND ADMIN - EXPENDITURE & CASHFLOW

The Group Manager for Funding, Investment & Risk introduced the report to the Committee and highlighted the following points within the report.

- The forecast for the year to 31 March 2022 is for expenditure to be £174,568 below budget.

- 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.

- 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.

- 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.

She explained that the Council's accounts were not yet ready to be signed off by the Corporate Audit Committee and that an update would be given in March 2022.

The members of the Committee were minded to advise that the following resolutions should be made on Friday 17th December.

The Committee notes:

(i) The administration and management expenditure incurred for 7 months to 31 October 2021.

(ii) The Cash Flow forecast as at 31 October 2021.

68 WORKPLANS

The Group Manager, Funding, Investment & Risk introduced the report to the Committee.

Modern Gov Library

She explained officers were seeking to create capacity & improve efficiency by moving some regular monitoring reports out of the meeting pack to an alternative accessible format.

She said that the change to the format of the Committee reports was 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.

She stated that 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.

She added that 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.

Hyman's LGPS online Learning Academy

She informed the Committee that the SAB's Good Governance Review is expected to include additional knowledge and skills requirements for Committee, Pension Board and Officers. She said that Hymans Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).

She stated that 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.

She said that 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.

She added that the Fund has arranged for Hymans to do a short demonstration of LOLA to committee members and officers on 17th December 2021 at 2pm.

Nick Weaver, Pension Board Chair commented that he was encouraged by the material that he had seen from Hymans.

Richard Orton asked if members would be expected to read all the background papers that are saved into the library.

The Group Manager, Funding, Investment & Risk replied that they should if possible.

Charles Gerrish commented that he had concerns over access to the library and asked if the Council's IT would be adequately enabled.

The Group Manager, Funding, Investment & Risk replied that officers will contact members individually to assess their needs.

The members of the Committee were minded to advise that the following resolutions should be made on Friday 17th December.

That the Committee:

i) Notes the changes to the format of future committee reports & introduction of the Modern Gov library from March 2022
ii) Notes the introduction of the Hymans Robertson's LGPS Online Learning Academy from January 2022.
iii) Notes the Committee & Investment Panel workplans and training programme for the relevant period.

The meeting ended at 4.50 pm

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 Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 17th December, 2021, 9.30 am

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

Co-opted Voting Members: Charles Gerrish (Academies)

Also in attendance: Tony Bartlett (Service Director for Financial Control and Pensions) and Geoff Cleak (Pensions Manager)

69 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

70 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 10th December for all members where they had agreed provisional recommendations.

71 DECLARATIONS OF INTEREST

There were none.

72 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

74 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

75 MINUTES: : 24TH SEPTEMBER 2021 (INFORMAL) & 4TH OCTOBER 2021 (PUBLIC & EXEMPT)

The minutes were approved as a correct record and signed by the Chairman.

76 PENSION BOARD DRAFT MINUTES: 30TH NOVEMBER 2021

The Committee noted the draft minutes of the Pension Board from their meeting that took place on November 30th 2021.

77 INTERIM ACTUARIAL VALUATION 2021

The Committee **RESOLVED** to note the outcome of the 2021 interim valuation and 2022 valuation timetable.

78 ANNUAL RESPONSIBLE INVESTMENT REPORT

Charles Gerrish referred to his comments made at the virtual meeting regarding the new multifuel facility located in Slough which uses waste as an energy source and asked for further information on this investment.

The Service Director for Financial Control and Pensions replied that a further response will be supplied to the Committee in due course.

The Committee **RESOLVED** to:

i) Approve the Annual Responsible Investment Report for publication.
ii) Approve the Taskforce on Climate-related Financial Disclosures Report for publication.
iii) Agree the RI priorities for 2022/23.

79 BRUNEL PENSION PARTNERSHIP - UPDATE

Councillor Chris Dando asked what would happen if Brunel decided to increase its fees and charges.

The Service Director for Financial Control and Pensions replied that any changes would require all 10 client funds to approve them. He added that Brunel may decide to scale back on some of their services.

Councillor Paul May asked what the Fund could do if it were unhappy with decisions made by Brunel.

The Service Director for Financial Control and Pensions replied that it was both difficult and expensive to leave Pool and that the Fund has to Pool with someone as a legal requirement.

He added that if the Fund were to join another Pool it would then likely be as a junior partner and therefore have less influence. He stated that the Fund had been on a significant journey since they began their work with Brunel and that he felt it had been successful so far.

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

80 INVESTMENT PERFORMANCE & STRATEGY MONITORING

The Committee **RESOLVED** to:

i) Approve the revised Investment Strategy Statement
ii) Note the information set out in the report and appendices.

81 UPDATE ON LEGISLATION

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

82 PENSION FUND ADMINISTRATION

Councillor Chris Dando asked if there was an update on the availability of new IT equipment for staff.

The Pensions Manager replied that the majority of staff were managing with what they currently have and that as part of the phased rollout of new laptops they were expecting to receive them by the end of the financial year.

The Committee **RESOLVED** to note:

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

83 ANNUAL INTERNAL AUDIT REVIEW

The Committee **RESOLVED** to note the report and outcomes of the Internal Audit work carried out on the Avon Pension Fund.

84 PENSION FUND ADMIN - EXPENDITURE & CASHFLOW

Councillor Paul May asked to be assured that the underspend quoted within the budget would not be removed as it was still required to fund the vacancies mentioned.

The Service Director for Financial Control and Pensions replied that the budget is controlled by the Committee and said that there is no intention for it to be removed.

The Committee **RESOLVED** to note:

(i) The administration and management expenditure incurred for 7 months to 31 October 2021.

(ii) The Cash Flow forecast as at 31 October 2021.

85 WORKPLANS

The Committee **RESOLVED** to:

i) Note the changes to the format of future committee reports & introduction of the Modern Gov library from March 2022
ii) Note the introduction of the Hymans Robertson's LGPS Online Learning Academy from January 2022.
iii) Note the Committee & Investment Panel workplans and training programme for the relevant period.

Councillor Paul May, on behalf of the Committee, wished to thank all officers and staff within the Council, the Fund and their advisors for their continued hard work.

The meeting ended at 9.55 am

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 March 2022**	AGENDA ITEM NUMBER
TITLE:	**2022 - 25 SERVICE PLAN AND BUDGET**	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Annex 1: 2022-25 Service Plan and Budget Report
Appendix 1 – Scope of Avon Pension Fund
Appendix 2a – Service Plan Monitoring of Objectives 2022
Appendix 2b – Service Plan Completed 2021
Appendix 2c – Service Plan Projects on hold 2022
Appendix 3 – Admin Strategy Transformation Roadmap
Appendix 4 – High Level Admin Structure Chart
Appendix 5 – Budget & Cash Flow Forecast

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2022 to 31 March 2025.

1.2 The Service Plan (Annex 1) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

2.1 That the Committee approves the 3 Year Service Plan and Budget for 2022-25 for the Avon Pension Fund.

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.

3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2022-25

4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three-year budget supports the objectives and actions arising from the plan including work relating to the investment strategy, risk management and compliance and improvements in the administration of the Fund.

4.2 The main focus of this plan is as follows:

(i) Implement a new service operating model to facilitate digitalisation and process automation and increase operational efficiency and capacity.

(ii) Implement a digital office hub to support staff wellbeing and provide access to resource tools and training opportunities.

(iii) Ensure Brunel is delivering the Fund's strategic objectives and actively participate in Brunel's 2022 Stocktake to ensure the Fund's RI objectives are met

(iv) Ensure the investment objectives are consistent with the funding objectives of the 2022 valuation and that all RI risks are being managed including our climate objectives and targets and the Risk Management Strategies.

(v) Implement policies that enable greater flexibility in managing employer risk and scheme exits

(vi) Improve further the stakeholder communications strategy for investment strategy and climate change

(vii) Manage the ongoing burden on Fund administration resulting from the McCloud remedy (including Fire scheme related MOU and Immediate Detriment framework) the GMP rectification exercises and the planned introduction of the DWP Pensions Dashboard Program.

(viii) Implement the recommendations from the Good Governance Review and The Pension Regulator's Single Code of Practice.

4.3 Full details of the 2022-25 Service Plan are included in the Annex 1. Appendix 2 of the Service Plan shows the new medium-term targets for 2022-25 together with completed targets against the 2021/22 plan and planned projects temporarily paused.

5 BUDGET FOR 2022-25

5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2022 are included as **APPENDIX 5** to the Service Plan.

5.2 The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and

those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are highly dependent upon investment performance. They also include governance and compliance expenses which are a consequence of the Fund's policy response to regulations, employer activity, and advice for the funding and investment strategies. The budget also includes the estimated costs of the pension board as the LGPS regulations require the costs of local pension boards to be met by the local fund.

5.3 The budget approved for Administration in 2021/22 was £3.2m. The proposed budget for 2022/2023 increases to £3.4m. The increase will include the appointment of a Digital Services Manager to strengthen the management team and the addition of a Pensions Payroll officer to build in operational resilience. Temporary additional resource has been added to kick start the digital services team and finally resource has been identified to manage the initial administration requirements as a result of the expected DWP Pensions Dashboard Program.

5.4 Governance and compliance costs are set to rise driven by increasing actuarial costs mainly due to the 2022 triennial valuation. In addition, the Good Governance review highlighted the need to increase training for committee members and staff.

5.5 The transition of assets to Brunel has achieved lower fees rates overall in terms of basis points per million sterling. In 2022/23 investment management fees (including those for Brunel) are expected to rise due to the higher than expected value of assets and the gradual increase in the Fund's assets invested in private markets which incur higher fees. In 2019 we had 16% invested in private markets; currently we have 23%. Performance fees (on legacy mandates) are forecast to also rise this year as asset values recover to pre pandemic levels. The management costs for Brunel (for operations and service delivery) are shown separately.

5.6 Cash flow management is crucial as the Fund becomes less cashflow positive (which is exacerbated by prepayments of employer contributions) and investments in private markets increases. The notice period for private market drawdowns are relatively short, thus the investment strategy must ensure there is adequate cash or near cash on a continuous basis. Monitoring of the 3-year cashflow forecast is part of the process.

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 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

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

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its

assets from climate change and 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.

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 persons	**Budget** – Dave Richards, Finance & Systems Manager (Pensions) (01225 395259) **Service Plan --** Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Group Manager Funding, Investments & Risk (01225 395306)
Background papers	Various Accounting Records

Annex 1

THE AVON PENSION FUND

SERVICE PLAN

2022 - 2025

PREPARED BY:

TONY BARTLETT, LIZ WOODYARD, GEOFF CLEAK and DAVE RICHARDS

MARCH 2022

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APPENDICES

APPENDIX 1	SCOPE OF THE AVON PENSION FUND
APPENDIX 2	OBJECTIVES TARGETS & PROGRESS OF THE 2022-25 PLAN
APPENDIX 3	ADMIN STRATEGY TRANSFORMATION ROADMAP
APPENDIX 4	HIGH LEVEL ADMIN STRUCTURE CHART
APPENDIX 5	BUDGET & CASHFLOW FORECAST 2022-25

AVON PENSION FUND SERVICE PLAN
2022-25

1 BACKGROUND

With Covid restrictions finally easing across the UK the sense of normality has been replaced by the disbelief over the situation in Ukraine and the worldwide repercussions this will have. The Fund will not be immune from this, as trade and asset values are impacted by sanctions and geopolitical tensions, but the Risk Management Strategy, which was further strengthened during the past year, should provide some immediate cushioning. More importantly is the medium to long term outlook which will play into the 2022 valuation and investment strategy review which now looks to be far more challenging, with increasing concerns around inflationary impacts.

Operationally the Fund has had mixed success during the Covid isolation period with the Investment Strategy able to move ahead more easily into asset transition, expansion into private markets and renewables whilst making significant moves to combat climate change. The administration service however continues to have challenging performance, a combination of staff turnover and difficult operating conditions, but there are positive signs this has now turned a corner particularly with teams now able to operate more frequently in an office environment.

Having spent much time reviewing the challenges faced by the Administration a new operating model has been developed which will provide greater focus on digital enablement and support functions whilst still maintaining distinct Member and Employer services. This new model will allow the strengthening of the management team to enable transformation and project work to be more easily delivered and include greater flexibility in job structures through career grade roles which will support ongoing recruitment and retention. This new model will be delivered over the next twelve months. It is expected during this period that the Fund will be able to move into new offices at the River Suite Keynsham, scheduled for completion towards the end of the calendar year.

On the regulatory front, more “guidance” can be expected for the LGPS to align with government policy on Carbon reduction, Levelling Up and unsurprisingly Foreign Policy all of which will influence investment strategy; whilst at least on the Administration side much work has already been done on McCloud with the remedy still anticipated along with a revised Exit Cap, while the Pensions Dashboard is gathering momentum

Finally whilst the Fund will continue to implement technology to enhance Member and Employer digital services and in particular self-service, much more work will be undertaken on Cyber resilience as the threat levels across the public sector increase.

Administration

The post COVID return to a new normal will see services delivered in a mixed environment of virtual and collaborative working. The most obvious outcome of moving to hybrid working is that all communication, engagement and operations now have to be timetabled and planned. With limited visibility there is increased pressure on the management team to ensure all operations are effectively maintained. Whilst the development of digital tools to support this area are beginning to emerge, at present there remains a reliance on increased

management effort to sustain the status quo. A number of previously planned developments have been paused as a result but the need now to fully embrace digital operational capability provides a further logistical and management resource drain. Ensuring there remains sufficient management focus in key areas is now a major challenge for the administration and it is recommended that the management team is strengthened in quite specific area to accommodate this. Also, the increase in resource across the Pensions Payroll team to build resilience and assist with operational support is also recognised.

The new operating environment also requires structural transformation to support it and whilst the service has adapted, the change is far from complete. The development and implementation of a new operating model incorporating a tiered structure will maximise digital service delivery whilst separately providing greater focus and control on workload and performance. A business support and development function will subsume the remaining services and lead on commissioning activity and projects. Whilst this transformation is being established a project to kick start some of this work particularly the delivery of digital services and Customer support will be implemented. More detail of the planned transformation workstreams and timetable are contained in Appendix 3. A high-level admin structure chart to support the transformation process and maintain business operational needs is shown as Appendix 4. It is anticipated that the net cost of this structural change will be £148k with some of the costs being met by existing budgets.

Investments & Funding

Significant progress has been made in the last twelve months to prepare for the next strategic cycle of the 2022 triennial valuation and strategic investment review. Specifically

a) The interim valuation provided an indication of the issues that will need to be considered at the next valuation; however, the funding level has improved (was c. 100% at the time of the exercise) which should provide more flexibility when setting the funding strategy at the valuation.
b) Our covenant assessment process is in place, providing a risk based approach to managing employer risks which will feed into the 2022 valuation.
c) The review of the allocation across the equity portfolios has been completed, resulting in a switch from the passive Low Carbon Equity portfolio to the new Paris Aligned portfolio and exiting the dedicated Emerging Market Equity portfolio.
d) Setting new climate targets for short and medium term. These intermediate targets to reduce the absolute emissions of the equity portfolio by 43% by 2025 and 69% by 2030 (versus 2020 baseline) provide clear milestones during the transition period for the Fund to achieve net zero by 2050.
e) Publishing our TCFD statement in 2021 to demonstrate our commitment to reducing our carbon exposure.
f) Restructuring the Equity Protection Strategy (EPS) to implement a dynamic strategy where the protection level adapts to evolving market conditions, thus removing timing risk. It also has a lower governance burden.
g) Creation of the Funding and Risk Management Group (FRMG) to provide a more robust and efficient governance framework for the Investment Risk Management Strategies. Whilst these strategies were developed and implemented there was significant and ongoing involvement of the Investment Panel. The new framework

ensures the Committee/Panel focuses on delivery and strategic effectiveness rather than detailed operational aspects.

h) Completion of transition of our assets to Brunel; this milestone was reached in 2Q21 and the relationship is now evolving towards strategic focus and business as usual monitoring of service delivery.

In addition, we have increased communications with our members regarding our investment strategy and approach to Responsible Investing (RI). This included a short animation to explain our strategy to achieve a net zero asset portfolio, a member survey on Responsible Investing and articles in newsletters discussing some of our sustainable and renewable investment assets.

The key project for 2022 is the triennial valuation which always involves significant engagement with our employers. Given the growth in the employer portfolio since the last valuation, this will be complex with more individual employer issues that will need consideration. In addition, we are seeing more movement and changes within the employer base as employers are more actively monitoring and managing their pension liabilities, especially given the 'flexibilities' now permitted in the regulations. This in turn has led to greater engagement and workload for the team with more of the team's resource being used to manage employer risk. It also means we are commissioning more legal and actuarial advice to ensure the Fund is fully protected. Having reviewed the impact of this on team resources during 2021, the Funding & Actuarial team will be strengthened by adding a senior post to support (and deputise for) the Funding & Valuation Manager. This will ensure there is sufficient resource for policy development and implementation as well as dealing directly with employers.

The investment focus for the year ahead is the strategic investment review (aligned with the valuation) and Brunel's 2022 (Paris Agreement) Stocktake. These projects will be run in parallel as the Fund will need to consider the outcome of the 2022 Stocktake before it finalises its strategic policy. It is planned that the strategic review will conclude in 1Q23. The strategic review will consider the level of return and risk required to achieve our funding strategy given the current funding position and outlook for markets as well as the risk management strategies we have in place to protect our funding position. The 2022 Stocktake will build on the Brunel's industry leading work already completed in 2021 to develop Paris aligned benchmarks for equity portfolios and will assess the need for selective divestment. In addition, during 2022 we expect further guidance on pooling, TCFD disclosures and LPGS role in Levelling Up from DULHC which may put further demands on the team.

The addition of a Senior Investments Officer (SIO) in early 2021 has enabled the Investments team to increase its member communication output as well as successfully complete two major projects (the equity portfolio review and EPS restructuring). With the transition of most of the assets (and related operational risk) to Brunel, the level of ongoing workload is now stable and the team is adequately resourced. This team also supports the FRMG which has increased the level of monitoring done internally on the Risk Management Strategies to ensure we are proactively managing key risks such as inflation and market volatility.

Addressing the Climate Emergency

The Fund's strategy to reduce its carbon emissions and exposure encompasses all aspects of its activities. As part of B&NES Council it is committed to achieving the Council's goal of being net zero by 2030. In respect of its operations it will achieve this by fully digitalising its service delivery to members and employers, accepting that it will have to provide non digitalised service to those that are not electronically enabled in the meantime. In addition, use of technology to enable remote working and online learning and seminars will reduce the carbon emissions from commuting to work and travel to conferences and seminars.

Alongside the operational strategy, the investment strategy embeds responsible investing throughout the investment process starting with setting the investment objectives. A number of climate change objectives are in place and the implementation of the investment strategy will be consistent with achieving these goals. These goals will be kept under review as the development of UK and international government policies, advances in technology and creation of investment solutions should mean the milestones can be brought forward over the next 5-10 years.

As a responsible investor the Fund will continue to improve its disclosure on its climate related and broader stewardship activities by reporting annually in line with the Task Force on Climate-Related Financial Disclosures and the Financial Reporting Council's Stewardship Code. In addition, we will be developing further our interaction with members and employers about our activities and how, as an investor, we are promoting change and demonstrating leadership in the field of responsible investment.

Governance

The Scheme Advisory Board's (SAB) Good Governance review has set out several recommendations which would improve the Governance of the LGPS. The Phase 3 report was published in February 2021 and contained details on the implementation of the recommendations. The timeline for the statutory guidance necessary for Good Governance recommendations to take formal effect is in the hands of the DLUHC; however, SAB recommend that in the meantime LGPS funds identify any gaps and take steps to improve governance against the recommendations without waiting for statutory guidance.

In 2021/22 we reviewed our governance arrangements against the recommendations. We are pleased to say that we meet most of the recommendations but have an action plan to address aspects where our arrangements/policies could be improved. Where it will add value, we will get support from advisors to develop the policies or provide support. An example of this is the use of the Hyman Robertson's Learning Academy by committee and board members as well as officers. Other areas to be developed are a Fund specific Conflicts of Interest Policy, Representation Policy and Training Policy.

The Pension Regulator (TPR) is expected to publish its Single Code of Practice later in 2022 with new modules covering cyber security, transfers and scams of particular note. The Fund is currently undertaking a review of its position against the new code and particularly in regard to cyber security. A report on the findings of our cyber security review plus action plan for will be presented to committee and pension board in the summer of 2022.

As the Good Governance Review has increased the workload relating to governance, a junior post is being created to support the Governance and Risk Advisor.

Workload

For a number of years the Fund has increased resources to meet the ongoing challenge of employer and regulatory growth and for the time being there is no sign of this abating. The operating circumstances have been challenging over the past two years during which, productivity and particularly the management of new developments and projects have remained challenged in respect of delivery times. The service plan priorities have been reviewed and realigned to reflect a gradual emergence from operating constraints and provide a more realistic delivery timescale. The key to success now very much hinges on the necessary developments in technology to enable efficient hybrid working; essential for project delivery strategy and policy development, cultural and social cohesion. The Administration Strategy is under review to ensure that all the issues experienced by the service through this difficult period can be recognised and addressed. The admin strategy will be refocused on areas of communications, training and transformation but the size of the challenge ahead should not be underestimated.

2 KEY OBJECTIVES – 2022/23 to 2024/25

Funding Strategy:

1. Undertake the triennial valuation (which will set employer contribution rates with effect from April 2023).
2. For individual employers implement the Fund's policies within the Funding Strategy Statement that will enable greater flexibility in managing employer risk and scheme exits. For smaller employers in particular this will ensure pension costs remain affordable for the employer and financially sustainable for the Fund
3. Ongoing covenant assessment for incorporating into the Funding Strategy and funding plans.
4. Explore further options for bespoke portfolios to manage the funding and liability position of specific employer risk groups.

Investment Strategy:

5. Review the investment strategy ensuring the investment objectives are consistent with the funding objectives and that all RI risks are being managed. This will include reviewing our climate targets and the Risk Management Strategies.
6. Monitor the performance of Brunel and their portfolios, ensuring Brunel are delivering the Fund's strategic objectives.
7. Actively participate in the 2022 Stocktake led by Brunel to ensure the Fund's RI objectives are met
8. Through FRMG monitor the Risk Management Framework as required as a mechanism for managing liability risk through the investment portfolio and mitigating investment risk.
9. Support initiatives and undertake activity to demonstrate the Fund's commitment to meeting its climate emergency targets such as annual reporting in line with the TCFD recommendations and as a signatory to IIGCC initiatives to influence government policy and regulatory change.
10. Continue to improve communications with our broad array of stakeholders about the investment strategy with a focus on how the strategy is mitigating the financial risk of climate change.

11. Maintain the Investment Strategy Statement reflecting strategy developments and changes due to Brunel operations.
12. Retender the Investment Consultancy contract.

Administration Strategy:

13. Develop a new digital service platform providing Customer services and digital records management
14. Review wider operating model and structure to include member and employer services and separate support and development function.
15. Continue the move towards digital delivery of Scheme communications to stakeholders reflected in a revised communications strategy.
16. Complete the rollout of I-Connect and the receipt of monthly member data returns.
17. Complete the final phase of the GMP data reconciliation exercise as required by HMRC to ensure the fund is not at risk of erroneous pension liability.
18. Monitor outcomes of McCloud judgement and implement actions to manage remedy.
19. Undertake necessary work to ensure the Fund meets regulatory compliance with DWP Pensions Dashboard requirements ahead of the expected compulsion date.
20. Develop revised Admin Strategy proposals to reflect the digital transformation and to take to Pensions Committee.

Governance:

21. Keep governance arrangements under review to ensure effective monitoring of Brunel.
22. Implementation of the Good Governance Review (SAB) recommendations.
23. To ensure the Committee and the Pensions Board is fully trained and briefed on current strategies and operations and in a position to scrutinise and make decisions effectively.
24. Retender advisory and service contracts to align contracts with Fund objectives, e.g. Procurement of a new AVC provider in 2022.
25. Implementation of action plan following review of TPR's Single Code of Practice, particularly in regard to cyber security.
26. Ongoing review of committee meeting reports and transition of monitoring reports to the Modern Gov library.
27. Review of risk management process with links to risks better demonstrated in committee reports.

A report on objectives, targets & progress towards objectives and those rebased and temporarily put on hold is given in Appendix 2.

3 RESOURCE IMPLICATIONS

To address the changing focus of work within the actuarial team, the team's capacity is being increased at a senior level to support the Funding and Valuation Manager in developing and implementing policies and dealing with employer specific events.

Despite assets transferring to Brunel, the investment team still requires significant resources to manage and develop the relationship with Brunel and the client side of the pool as well as delivering the investment strategy, including Responsible Investing and Risk Management. This internal specialist capability ensures the Fund's strategy evolves efficiently to meet the

Fund's objectives, there is proper control of implementation, that members are trained and supported, and there is adequate internal challenge of expert/external advice. Following the appointment of a Senior Investments Officer in early 2021, with a specific focus on ESG and RI capacity in the team is now sufficient for the current workload and strategic focus. Therefore the second vacant SIO post provided for in the 2021/22 budget is no longer required.

As discussed earlier, a junior post has been created to support the increasing workload of the Governance & Risk Advisor.

In respect of administration, an ongoing recruitment programme has been in place over the past twenty months to complete the establishment. At the same time the COVID pandemic has facilitated a channel shift in employer requirements with the opportunity for home working creating a more competitive market. A number of key administrative posts remain vacant at this time and will aim to be filled in the early part of the year. Further recruitment to better structure the management team and support transformational needs of the service will be the introduced as part of the 2022/23 budget and operationally the administration resources will be considered later in the year as part of the Administration Strategy review.

The 2022/23 budget allows for additional temporary resource to support the governments planned introduction of the Pensions Dashboard Programme, this is in addition to the previously agreed temporary resource introduced to manage the McCloud remedy, with the use of external specialist support as part of the ongoing solution to manage elements of other specific project work.

4 BUDGET

This Service Plan period includes the costs of managing investment assets through Brunel. The transition of assets has resulted in lower fee rates across the transitioned portfolios. The Fund is expected to realise net (of transition costs) cumulative savings by 2024-25, with the business case forecasting cumulative savings of £73m by 2036.

The Fund budget (excluding investment costs) proposed for 2022/23 is £5.9m.

In the areas of Governance and Compliance and Investment Management, where expenditure cannot be directly controlled, the budget reflects the expected volumes of work and fees.

The budget includes the costs of supporting the Fund's RI strategy to manage the impact of climate change on the asset portfolio. The total budget committed to RI including staff costs, affiliations, advice and communications is around £150,000 p.a.

Within the directly controlled budget for Administration there is a proposed increase in net expenditure over the 2021/22 budget of £220,602

The budget includes additional resource to strengthen the management team and £115k is provided for the continued additional temporary resources to meet expected increased workload resulting from the McCloud remedy. The provision of £20,000 made in the previous budgets to provide equipment to support flexible working during the pandemic will continue into 2022/23 as part of the office relocation. The budget also includes the costs to complete the GMP rectification exercise.

Investment Management fees:

The annual investment management fees of £21.7m are 18% higher than in last year's budget of £18.4m. This is due partially to the assets increasing in value over the last year by 14% (between the dates used to estimate the fees for the budget) and an increase in the amount of capital committed to private markets which incur higher fees. During the year further recurring fee reductions were achieved on assets that transitioned to Brunel portfolios with savings of c. £0.25m p.a. on the Brunel Multi Asset Credit portfolio, the only (and last) transition in 2021/22. To date the cumulative investment fee savings from transitions are c. £3.6m p.a. (when comparing to the fees paid prior to transition and ignoring later strategic allocation changes).

Offsetting the recurring fee savings are the strategic allocation switches from lower cost to higher cost portfolios especially from lower cost listed asset portfolios to higher cost private market assets which puts upward pressure on fees. In addition very low performance fees were accrued in 2021/22 whereas this is expected to increase in 2022/23; this reflects the rebound in property and infrastructure values from the fall due to the pandemic.

As at 31/12/21, Brunel manage £4.9 billion or 83% of the Fund's assets as follows:

Brunel portfolio	**Value at 31/12/21**
Passive Low Carbon Equities	£226m
Passive Paris Aligned Equities	£596m
Sustainable Equities	£649m
Global High Alpha Equities	£756m
UK Property	£198m
Diversified Return Funds	£536m
Multi Asset Credit	£324m
Private Market Assets	£561m
Risk Management Strategies	£1,046m

The estimated fees for 22/23 assume legacy mandates are retained and no strategic changes are made.

The actual fees paid in 2022/23 will depend on the change in asset values over the year and the performance of the assets subject to the performance fees (performance fees accrue within each year but are only payable when the underlying assets are realised).

Brunel management costs:

The shareholders have approved the 3-year budget and Business Plan for Brunel for 2022/23 to 2024/25. The budget ensures there are adequate resources to

(i) deliver a suite of portfolios to ensure clients can implement their investment strategy efficiently;
(ii) support the clients' RI objectives;
(iii) ensure resilience and capability in the private markets team as the assets under its management increase and

(iv) implement the revised reporting to clients as the business moves from the transition phase to business as usual.

The overall costs of Brunel of £11.7m for 2022/23 is c.5% increase year on year, reflecting inflationary pressure and higher costs to improve client reporting and deliver on the client's RI objectives. As the transition of assets is now complete, the costs of Brunel are allocated to each client split by 1/10th for non-portfolio related costs and on an AUM basis for the costs directly relating to the portfolios (the client is invested in). Currently Avon's share is c. 12% of the total cost at £1.45m p.a. (or 3bps).

Governance Costs:

Ongoing governance costs, primarily actuarial and investment advice are determined by the work programme of the Fund and Committee. The actuarial workload continues to increase as the team deals with more employer specific events and changes to the regulations (such as the new funding flexibilities) lead to more activity, all of which is pushing up costs. In addition, in 2022/23 the triennial valuation increases costs significantly (as happens every 3 years). Overall, there is a 37% increase in actuarial costs (over 2020/21 budget) to c. £1 million, a quarter of which is relates to the 3 yearly valuation exercise. It also includes technical and compliance support for the admin team. Aligned to the increasing employer related work, the budget for legal costs is also being increased now more legal advice is now required by officers when advising employers and / or the Service Director around employer specific events and in the drafting of policies.

There is a small decrease in the budget for Investment Advice, which was inflated last year by the cost of implementing the Dynamic Equity Protection Strategy. The proposed budget includes the strategic investment review, including further climate analysis, and the ongoing cost of the FRMG which monitors the Risk Management Strategies.

The Governance budget is increasing this year as we are anticipating the resumption of more in person training and attendance at conferences as well as the provision of online training modules for all committee members and senior officers. In addition, there are some projects related to our Good Governance action plan that will require advice from consultants.

Salaries:

There is slight upward pressure on the salaries in the Finance & Investments Team with a net increase of one junior post in the budget.

Pensions Board:

The Pension Fund is required to meet the costs of the Pensions Board that became operational in July 2015. The estimated full year costs of the Board for 2021/22 to 2022/23 have been added to the overall cost to the Fund for the three-year budget.

5 CASH FLOW

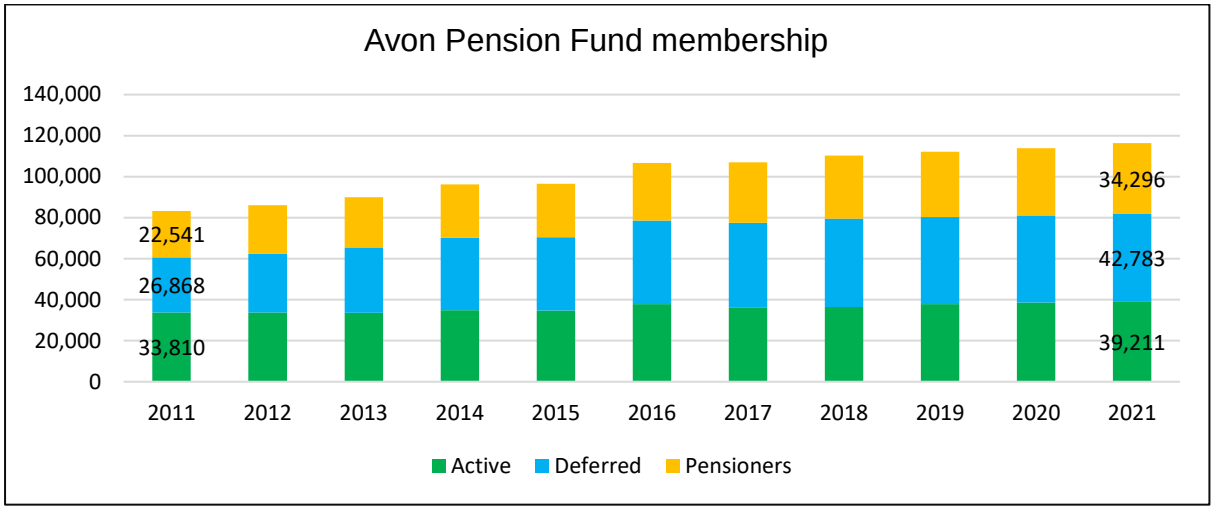
As the Fund's profile matures, monitoring future cash flow trends increases in importance. The Fund is transitioning from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. The cash flow is currently monitored monthly and reported quarterly to Committee. As a result of the advance future service rate payments, due to be made by the major employers in April 2022, the Fund will have larger cash in-flows at the start of the

financial year. The consequent absence of these in the following months will result in greater negative monthly cash flows. The negative cash flows are managed by using income from the investment portfolio and divestments as required. Divestments are delegated to Officers as part of their operational duties. Consideration is given to the actual allocation against the strategic allocation as well as the view of investment markets.

Full details of the budget between 2022-23 and 2024-25 together with a cash flow forecast for the payment of benefits and the receipt of contributions are given in **Appendix 5.**

Scope of Avon Pension Fund

Appendix 1



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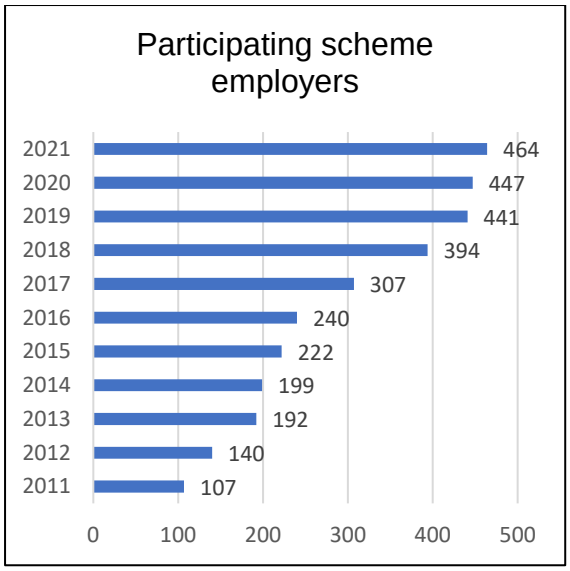

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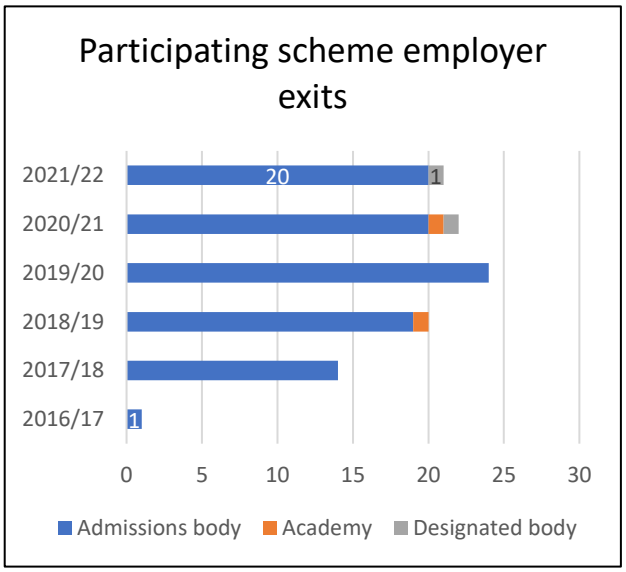

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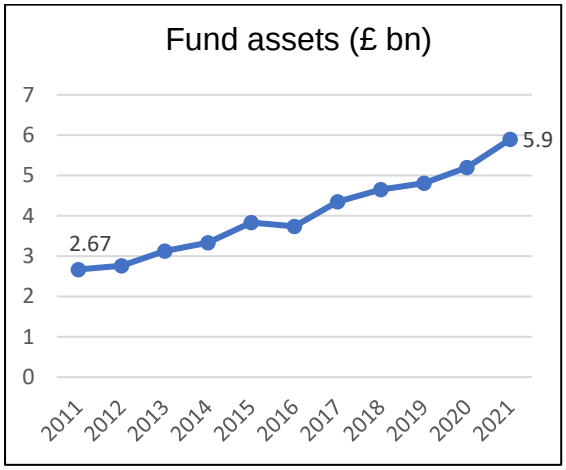

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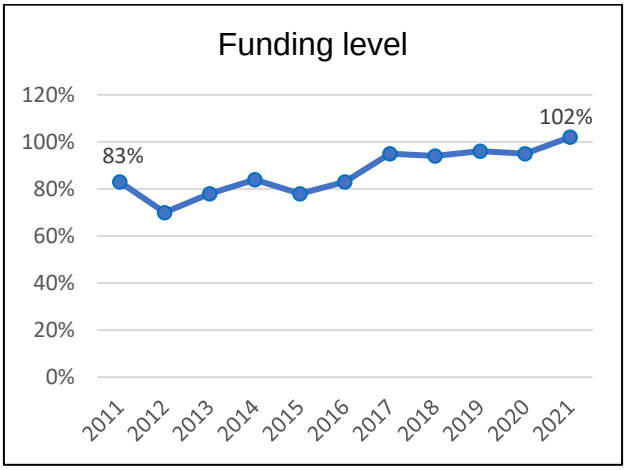

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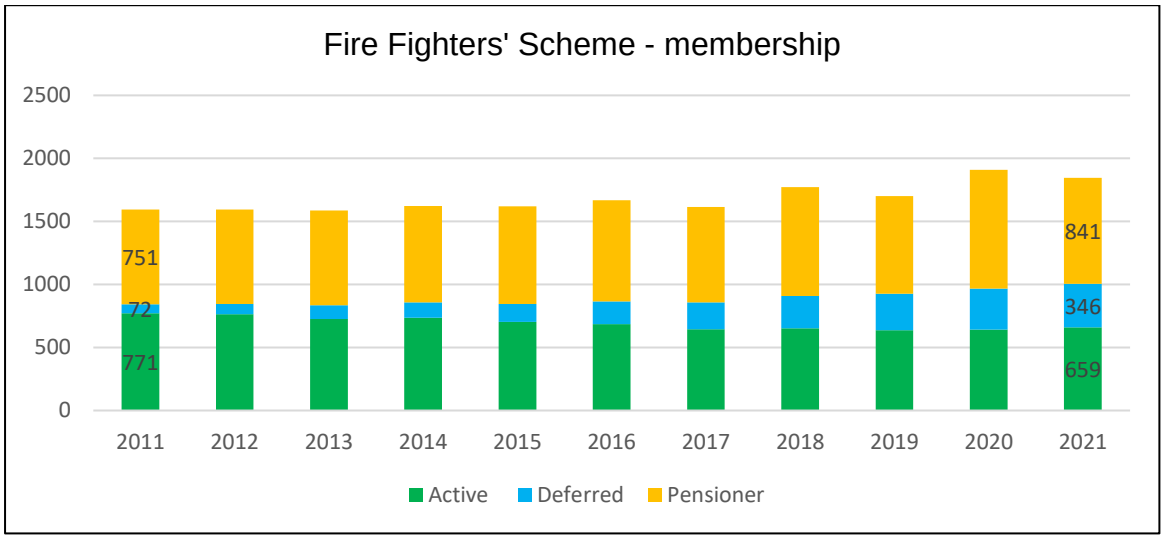

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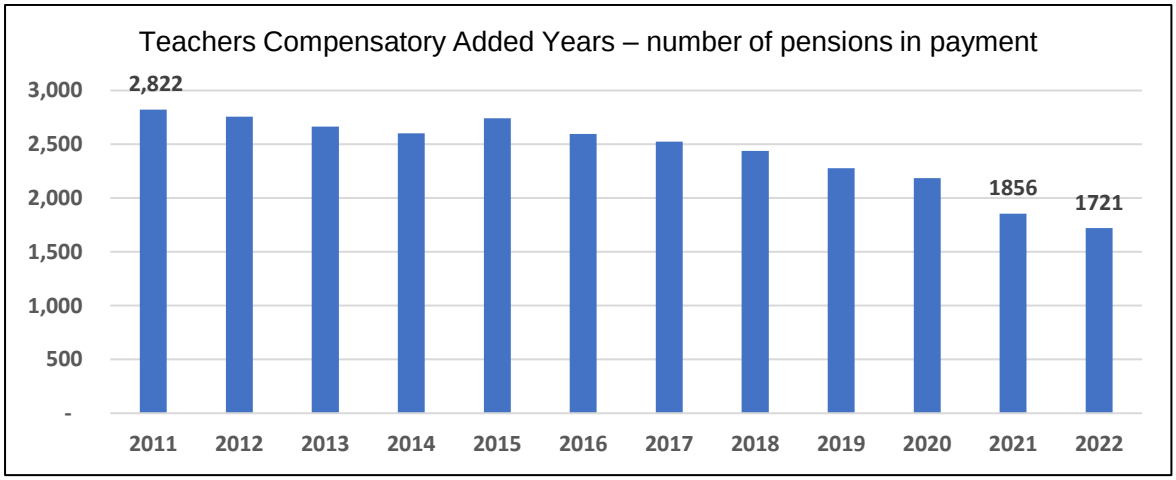

(Data: 7 March 2022)

Appendix 2a - Service Plan Monitoring		

Administration Strategy

Key Objectives	Tasks	Completion Date	Status
Communication			
Member digital engagement	Activate online ABS availability - Actives	Aug-22	**In progress**
Member Website	Develop website inline with digital services objectives	Mar-23	**In planning**
Employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Mar-23	**In planning**
IT Development			
Progress full employer electronic data delivery	Completion of i-connect project	Mar-23	**In progress**
Progress software developments with Heywood	Review processes to use portal and roll out to ER's inc training	Mar-23	**In progress**
	Hand back loading of files to ER's with tolerance limits	Jul-22	**In progress**
Heywood Insights - Perf Reporting & Dashboard	Implementation & roll out	Sep-22	**In progress**
Other Projects			
Revise Fire Service model	SLA to be approved by AFA & APF	Mar-22	**In progress behind schedule**
McCloud	Data collection exercise LGPS	Jun-22	**In progress**
	Implementation of remedy - LGPS	Mar-23	**In progress**
1* McCloud Sargeant (Fire Schemes)	Implementation of remedy - Fire	Oct-23	**In progress**
2* McCloud Sargeant (Fire Schemes)	Implementation of MOU & ID Framework Agreement	Mar-22	**On hold**
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-23	**In progress**
DWP Pensions Dashboard	To enable Pension Dashboard Compliance	Apr-24	**In planning**
Implement new operating model	Agree structure and review job descriptions	Sep-22	**In progress**
	Consultation, recruitment & implementation	Apr-23	**In planning**
	Set up temporary Digital Services Team & redefine workflows	Sep-22	**In planning**
	Revise Communications Strategy	Jun-22	**In progress**
	Implement Digital Office	Mar-23	**In planning**
	IT Systems Development	Mar-24	**In planning**
	New office accommodation	Dec-22	**In progress**
	Channel shift to enable support & consultancy to members & employers	Mar-24	**In planning**
New Administration Strategy	Develop new strategy document & committee approval	Mar-23	**In planning**
	Consultation & implementation	Jun-23	**In planning**
Funding Strategy			

Covenant assessment of employers during valuation period	Explore options with employers to mitigate covenant risks	ongoing	**In progress**
	Ongoing monitoring via quarterly reports and annual report to PC	ongoing	**In progress**
Valuation and FSS	2022 Valuation as at 31/03/22 - agree funding assumptions, set contribution rates and disseminate	Mar-23	**In progress**
	draft FSS , consult with employers and PB and publish	Mar-23	**In progress**
	Update policies for changes in regulations	Mar-21	**In progress**
Managing employer exits/increase in security	Manage exits in line with Fund policy to protect Fund; liaise closely with employer and ensure have obtained actuarial and legal advice	ongoing	**In progress**
Funding Communications Strategy	o Website	ongoing	**In progress behind schedule**
	o Forums/ meetings	ongoing	**In progress**
Recruitment	Review resource requirements of Team	Mar-22	**In progress behind schedule**
Investment Strategy			
Monitoring of Brunel portfolios	Input as member of Brunel Client Group	Ongoing	**In progress**
	Quarterly monitoring by Inv Team	Ongoing	**In progress**
Strategic Review 22/23	In line with valuation review required risk/return profile, asset alloaction and other investment objectives.	Mar-23	**In planning**
	Revise ISS following review	Sep-23	**In planning**
Brunel 2022 Stocktake	To review impact of Brunel's Clomate Policy. Fund officers and PC members will be involved /consulted. Outcome/new policy due 1Q23.	Mar-23	**In progress**
Collateral Plan	Develop plan in event need to access assets outside QIF to supoort hedging strategies	Jun-22	**In progress**
Monitor risk management strategies ensuring collateral managed efficiently and decisions taken in	Liaise with Mercer and Blackrock as to exposures, trigger points and monitoring framework	Ongoing	**In progress**

timely manner	Annual review of trigger points and strategy	Annually 3Q	**In progress**
	Arrange Panel & committee training as needed	ongoing	**In progress**
Climate Change disclosures & monitoring	TCFD: Report in line withh TCFD recommendations for 2020/21 year end reports	Annually 3Q	**In progress**
	ACT analysis	Jun-22	**In progress**
	IIGCC: annually report in line with asset owner commitment	Dec-21	**In progress**
Review of Responsible Investing Policy	Review policy as to effectiveness and incorporate new initiatives/objectives post t2022 Stocktake	2023	**In planning**
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	annually in December	**In planning**
FRC Stewardship Code	annual FRC compliance statement	31/10/22	**In planning**
Team Resources	Consider team structure post asset transition	2023	**In planning**
Investment Communications Strategy	Agree strategy across all stakeholders		**In progress**
	o Website		**In progress behind schedule**
	o Newsletters		**In progress**
	o Forums/ meetings		**In progress behind schedule**
Governance			
Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Jun-22	**In planning**
	Review Governance Compliance statement	Jun-22	**In planning**
	Review register of interest forms	Jun-22	**In planning**
	Review scheme of delegation	Jun-22	**In planning**
Action Plan from Good Governance Review	Conflicts of Interest Policy	Mar-23	**In planning**
	Training Strategy Policy	Mar-23	**In planning**
	Policy on Committee Representation - add to GCS	Mar-23	**In planning**
	Decision Making Matrix	Mar-23	**In progress**
	Add requirements of LGPS senior officer to TOR		**In planning**

TPR SCOP requirements	Gap analysis & action plan for new requirements	Dec-22	**In planning**
	Cyber security policy	Dec-22	**In progress**
	Review disaster recovery / business continuity plan	Mar-22	**In progress**
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	**In progress**
Annual governance review for Pension Board	Review all items on governance checklist	Jun-22	**In planning**
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in June	**In progress**
Review of Committee Reports	Continue to review report content & Modern Gov Library	Mar-23	**In progress**
Review of risk register	Review format, content & process	Sep-22	**In progress**
GDPR	Ensure ongoing compliance with regulations	ongoing	**In progress**
	Training for staff		**In progress**
Contract Retenders	AVC contract review	Dec-22	**In progress**
	Software Contract	Mar-23	**In progress**
Finance			
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	ongoing	**In progress**
iConnect Project to improve process for reconciliationn of contributions	Develop process	Dec-22	**In progress**
Salary budgeting	Develop process for better monitoring of salary budget/vacancies	Nov-22	**In planning**

Appendix 2b - Service Plan Projects completed in 2021

Key Objectives	Tasks	Completion Date
Administration Strategy		
Member digital engagement	Activate online ABS availability - deferreds	Jul-21
Progress software developments with Heywood	Development of online leaver form	Mar-22
	Iconnect reporting - Dashboard in place and development of pre load data validation in progress	Mar-22
Recruitment	Project to fill app 10 posts across Member & Employer Services	Jun-21
Training & development plan	Introduce staff training programme covering operational & digital transformation requirements	Mar-22
Revise Fire Service model	Develop revised service offer and SLA	Mar-22
Data improvement	Address Rectification	Mar-22
	Care Roll up	Mar-23
2* McCloud Sageant (Fire Schemes)	Implementation of Immediate Detriment - Fire	Jul-21
NEW ADMIN STRATEGY	Service plan & budget to committee	Mar-21
Governance		
Committee & Pension Board	Review papers and content that go to committee and set up library on Modern Gov	Mar-22
Recruitment for Pension Board	new member & employer rep required	Sep-21
Independent Members on Committee	Appoint Independent Member. Terms end 2Q22 (end of 2nd term for one member)	Apr-22
Investments		
Transition of assets	Input as member of Brunel Client Group	Jun-21
	Monitor Avon plan for transitioning assets based on Brunel plan	Jun-21
Review of equity allocations	Assess potential to invest all equity assets in sustainable and paris aligned strategies	Dec-21
Review investment Strategy and appropriate risk level	Post interim valuation review risk appetite required to meet funding objective	Mar-22

Climate Change disclosures	TCFD: Report in line withh TCFD recommendations for 2020/21 year end reports	Dec-21

FRC Stewardship Code	Prepare compliance statement	01/12/21

Funding

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

Valuation and FSS	Interim review, identify issues to be considered in 2022 valuation	Oct-21

Actuarial advisory contract retender	Procure using National Framework	Nov-21

Appendix 2c - Service Plan projects on hold 2021

Key Objectives	Tasks	Original Target Date	Completion Date	Status
Administration Strategy				
Development of management information hub (ERM)	Management Information & Reconciliation of contributions & i-connect extract. Await further development from Heywood	Mar-20	Mar-24	**On hold**
Iconnect	Enhanced secure 2 way portal functionality	Dec-21	Mar-23	**On hold**
Review & Implement employer training programme	Employer responsibilities, data & TPR requirements, HR, Iconnect & Discretionary tool	Sep-20	Mar-24	**On hold**
Chargeable Services Offer	Set up framework to manage chargeable services	end 2021	Mar-25	**On hold**
Implement new SLA's with employers	Roll out of new SLA to all employers	Aug-20	Mar-24	**On hold**
MHCLG Further Reforms to Exit Payments	Implementation Project	Feb-21	await regs	**On hold**
GMP Equalisation	GMP equalisation project		await details	**On hold**
LGPS Cost Cap Mechanism	Preparation required in case of backdated implementation	Mar-21	TBA	**On hold**

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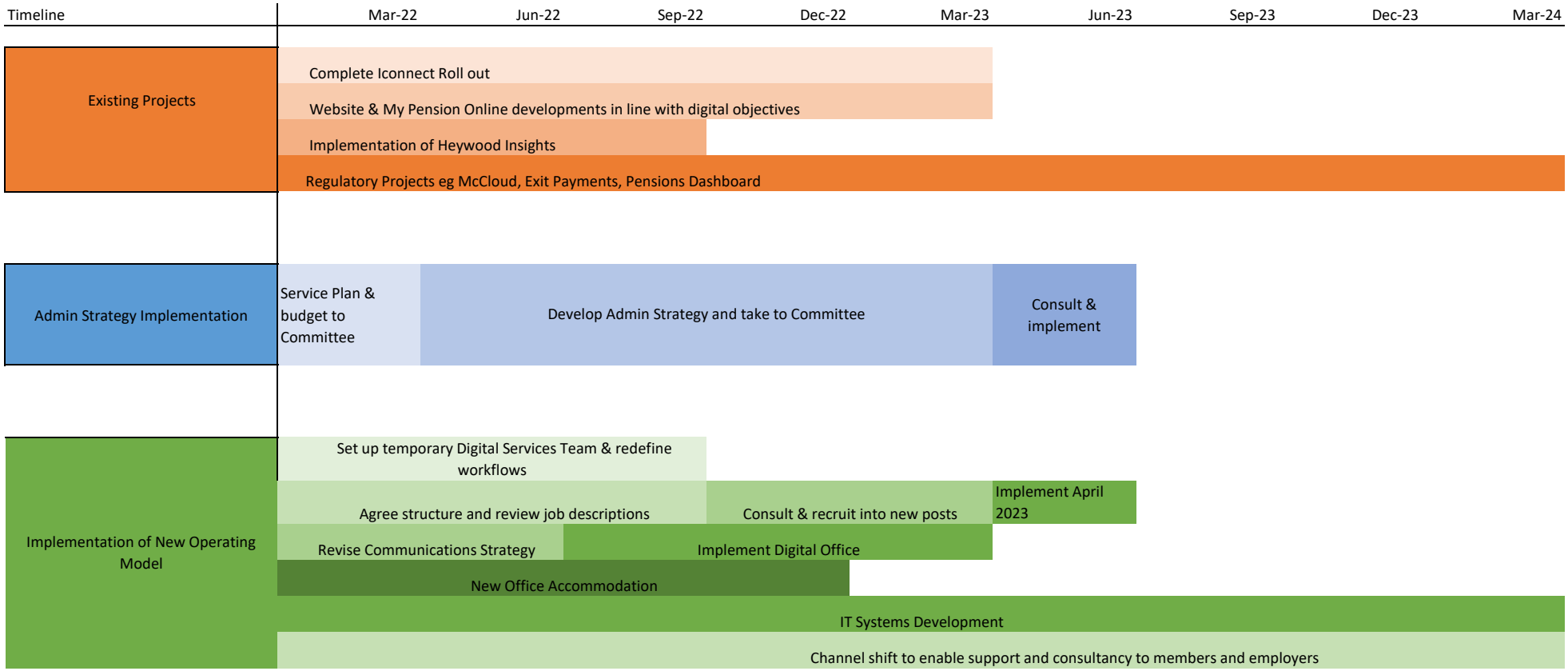
Appendix 3

Roadmap for Admin Strategy 2022 - 2025



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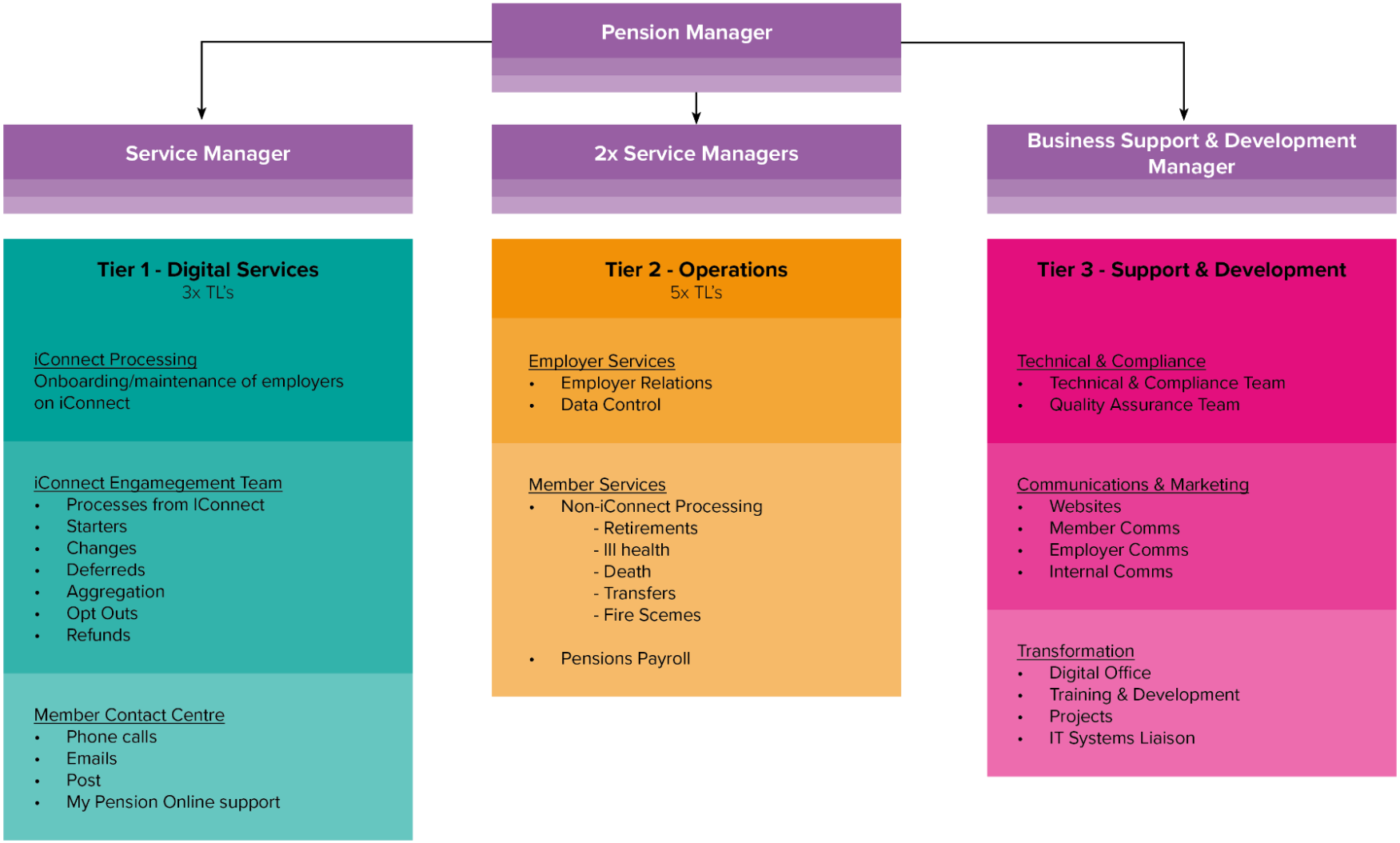
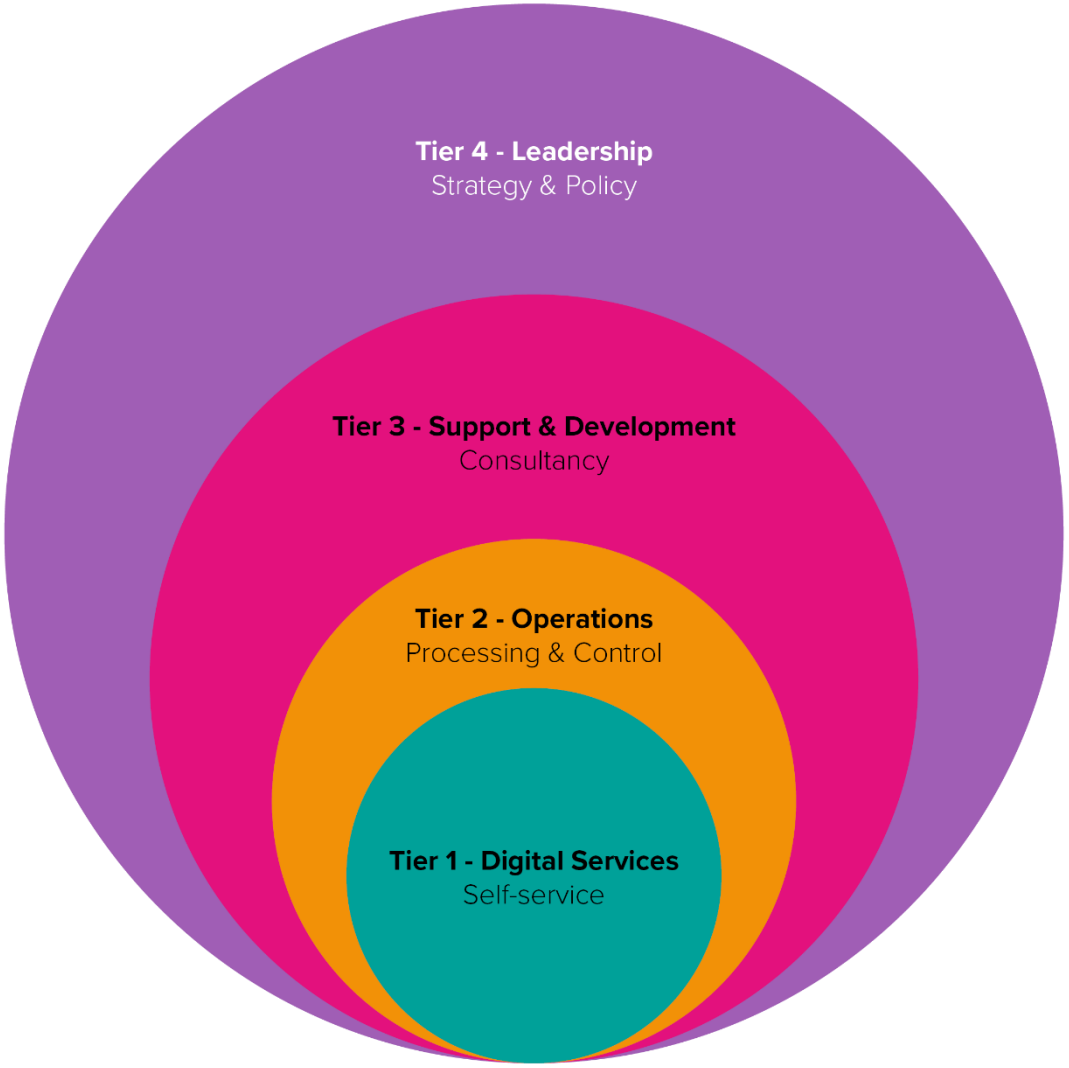
Appendix 4 - Proposed High Level Structure Chart & Operating Model Concept

Proposed High Level Structure Chart



Appendix 4 - Proposed High Level Structure Chart & Operating Model Concept

Operating Model Concept



Budget and Cash Flow Forecast APPENDIX 5

Three Year Budget	Budget for 2021/22 £	Forecast 2021/22 £	Budget 2022/23 £	Budget 2023/24 £	Budget 2024/25 £
Administration Costs	136,795	130,054	199,013	149,443	152,432
Communication Costs	162,655	90,799	171,200	147,664	135,177
Payroll Communication Costs	152,718	108,737	158,752	136,427	139,156
Information Systems	292,761	359,962	482,513	368,108	336,827
Salaries	2,178,537	1,846,827	2,294,273	2,340,158	2,386,962
Central Allocated Costs - Administratic	482,945	482,945	511,878	522,115	532,558
Miscellaneous Recoveries/Income	(220,821)	(220,821)	(402,067)	(410,108)	(418,310)
Total Administration	**3,185,591**	**2,798,503**	**3,415,562**	**3,253,808**	**3,264,801**
Investment Governance Costs	568,600	575,600	490,950	495,924	505,842
Committee Governance & Projects	117,335	107,335	152,300	103,632	105,705
Actuarial & Compliance costs	823,742	840,917	1,125,917	938,335	906,102
Salaries	774,467	747,399	875,376	882,753	890,075
Brunel Expenses	25,000	5,000	20,000	20,400	20,808
Compliance Costs recharged	(192,000)	(192,000)	(246,100)	(251,022)	(256,042)
Governance & Compliance	**2,117,144**	**2,084,251**	**2,418,443**	**2,190,022**	**2,172,489**
Pensions Board	**45,000**	**45,000**	**20,000**	**20,400**	**20,808**
Global Custodian Fees	44,000	44,000	44,000	44,880	45,778
Brunel Management Fees	1,280,000	1,280,000	1,450,000	1,479,000	1,508,580
Investment Manager Fees					
Annual Management Fees	18,057,997	19,523,534	21,714,800	22,381,688	23,724,589
Performance Related Fees	1,000,000	129,202	4,960,000	5,151,600	5,460,696
Investment Fees	**20,381,997**	**20,976,736**	**28,168,800**	**29,057,168**	**30,739,643**
TOTAL COST TO FUND	**25,729,731**	**25,904,490**	**34,022,805**	**34,521,398**	**36,197,742**

Cash Flow Forecast (Excluding Administration and Investment costs)		2022/23 £'000	2023/24 £'000	2024/25 £'000
Benefits Outflows				
Benefits	Pensions	(167,388)	(174,084)	(178,610)
	Lump sums	(23,919)	(24,876)	(25,523)
Total Benefits Outflows		**(191,307)**	**(198,960)**	**(204,133)**
Inflows				
Deficit recovery		5,000	4,288	5,398
Deficit recovery - paid in advance		7,542	44,891	8,142
Future service Contributions		103,597	106,083	108,629
Future service Contributions - paid in advance		62,765	64,271	65,814
Total Contributions		**178,904**	**219,533**	**187,983**
Net Cash Flow (excluding Administration & Investment costs)		**(12,403)**	**20,573**	**(16,150)**
Divestments & Investment income received as cash		21,500	(11,000)	26,000
Net Pension Transfers In / Out		0	0	0
Cash outflow due to administration of the Fund		(8,767)	(9,118)	(9,355)
Net Cash Flow (Out-Flow)		**330**	**455**	**495**

Notes

- Net cash requirements will be met from divestments and cash balances
- Transfers in and out are assumed to net to zero
- The cash outflow due to administration includes Investment Management Fees that are invoiced to the Fund.

- The forecast for 2023/24 includes the assumption that employers will make up-front three year deficit payments in advance.

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**25 MARCH 2022**		
TITLE:	**TREASURY MANAGEMENT POLICY**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			
List of attachments to this report: **Appendix 1** The proposed Treasury Management Policy **Appendix 2** Counter parties acceptable under the policy and their Credit ratings			

1. THE ISSUE

1.1. The Committee is asked to approve the Fund's Treasury Management policy each year. It was last approved in March 2021. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.

1.2. The policy proposed for 2022/23 set out in Appendix 1 is the same as the policy approved in March 2021. Counterparties acceptable under the policy and their Credit ratings are shown in Appendix 2.

2. RECOMMENDATION

2.1. That the Committee approves the Treasury Management Policy set out in Appendix 1.

3. FINANCIAL IMPLICATIONS

3.1. The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short-term investment of up to £52m earns interest and incurs transfer costs. However, the significance of an efficient means of short-term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

4. THE REPORT

4.1. The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Treasury Management Strategy. The Fund's Treasury Management is delegated to the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it reflects the different cash flow requirements and the amounts of cash that need to be invested.

4.2. The Fund makes extensive use of Money Market Funds (MMF) and its own call account with Nat West. The MMFs include Goldman Sachs, Aberdeen Asset management and Federated Investors. The rules of access to these accounts particularly suit the Fund's cash flow requirements. A new MMF deposit facility (Handelsbanken) has now been added. This will increase the cash limit to £52m and should ensure that drawdowns of cash, from the Custodian, are less frequent in the 2022/23 financial year.

4.3. The Council's Treasury Management investment policy incorporates ESG criteria where it lends to banks via bank deposits on longer maturity terms. In contrast the Fund requires more liquid cash management which means it utilises money market funds rather than bank deposits meaning that the Council's use of ESG criteria is less applicable to the Fund.

4.4. The Treasury Management Policy is in line with the advice of the Council's Treasury management advisers Arlingclose. All potential counterparties are continuously monitored using the advice of external consultants. Arlingclose have confirmed that there is no direct exposure to Russian or Belarusian assets within the MMFs.

4.5. The Fund aims to retain a minimum working balance of £20m. This ensures that we can pay all pensions and invoices without having to be forced to sell assets and, given the contributions received monthly, will cover approximately 3 months of net outgoings.

4.6. The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria as a result of the policy.

5. RISK MANAGEMENT

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

the governance of investment matters and contributes to reduced risk in these areas.

6. CLIMATE CHANGE

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

7. EQUALITIES

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

8. OTHER OPTIONS CONSIDERED

8.1. None.

9. CONSULTATION

9.1. The Council's 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 and Statistical Records

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Appendix 1

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2022

1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back into the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	**Time limit**
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (A-) or equivalent.	£10m each	2 months
CCLA LA Deposit Fund	£7m	2 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10 m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£10m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

1, Banks within the same group ownership are treated as one bank for limit purposes.
2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2019
3, as defined in the Local Government Act 2003

8 The cash retained as the required working balance will target £20 million.

9 The Treasury Manager will inform the Pension Fund of any changes to the counterparty credit ratings.

10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

Fitch	Moody's	S&P
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality - denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
B	Highly speculative - indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired.
RD	Restricted default - indicate an issuer that in Fitch's opinion has experienced: a. an uncured payment default or distressed debt exchange on a bond, loan or other material financial obligation, but b. has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and c. has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given in Appendix 2.

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APPENDIX 2

Proposed Counterparty List - Unsecured Bank Investements

2022/23

CRITERIA									
			FITCH RATINGS			Moody's Ratings		S&P Ratings	
	Duration	Fund Limit	S/Term	L/Term	Outlook	S/Term	L/Term	S/Term	L/Term
UK Banks	**Sovereign Rating**			**AA-**			**Aa3**		**AA**
Barclays Bank plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
HSBC Bank plc	2 months	10	F1+	AA-	NEG	P-1	A1	A-1	A+
Lloyds Banking Group									
LLOYDS BANK PLC	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
BANK OF SCOTLAND PLC	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
Royal Bank of Scotland Group									
National Westminster Bank plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Royal Bank of Scotland plc	2 months	10	F1	A+	STABLE	(P)P-1	A1	A-1	A
Nat West Markets Plc	2 months	10	F1	A+	STABLE	P-1	A2	A-2	A-
Santander UK plc **(domiciled in UK)**	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Standard Chartered Bank	2 months	10	F1	A+	NEG	P-1	A1	A-1	A+
Handelsbanken	2 months	10	F1+	AA	STABLE			A-1+	AA-
UK Building Societies									
Nationwide	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
UK: OTHER INSTITUTIONS									
Local Authorities	2 months	10	F1+	AA-	STABLE		AA3	AA-1+u	AAu
LCR FINANCE PLC	2 months	10		AA-	STABLE		Aa3		AA
NETWORK RAIL INFRASTRUCTURE	2 months	10		AA-	STABLE	P-1	Aa3		
UK Government	2 months	unlimited	F1+	AA-	STABLE		Aa3	A-1+u	AAu
WELLCOME TRUST FINANCE PLC	2 months	10					Aaa		AAA
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAAu**
Australia & New Zealand Banking Group	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
Commonwealth Bank Of Australia	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
National Australia Bank Ltd	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
WESTPAC Banking Corp	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
Canada	**Sovereign Rating**			**AA+**			**Aaa**		**AAA**
Bank Of Montreal	2 months	10	F1+	AA	NEG	P-1	Aa2	A-1	A+
Bank Of Nova Scotia	2 months	10	F1+	AA	NEG	P-1	Aa2	A-1	A+
Canadian Imperial Bank Of Commerce	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
National Bank Of Canada	2 months	10	F1+	AA-	STABLE	P-1	Aa3	A-1	A
Royal Bank Of Canada	2 months	10	F1+	AA	STABLE	P-1	Aa2 *+	A-1+	AA-
Toronto-Dominion Bank	2 months	10	F1+	AA	STABLE	P-1	Aa1	A-1+	AA-
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAAu**
DBS Bank Ltd	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-

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Bath & North East Somerset Council		
MEETING	**AVON PENSION FUND COMMITTEE**	
MEETING	**25 March 2022**	Agenda Item Number
TITLE:	**Update on Legislation**	
WARD:	**All**	
AN OPEN PUBLIC ITEM		

1 THE ISSUES

1.1 The purpose of this report is to update the Pension Fund 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 of regulatory updates is available to view in the Modern Gov Library.

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 accessed via the Modern Gov Library. Alongside the matters listed in the table below, including an update on the following matters: Cost Management, Minimum Pension Age. Additional items have also been included relating to Academy Consolidation, State Pension Age, Levelling Up and Pension Taxation given further developments expected in the coming months.

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
McCloud Judgment / Cost Management	The Public Sector Pensions and Judicial Offices Bill has completed its passage through the House of Lords and the House of Commons. As part of this, several amendments to the Bill relating to the LGPS, in particular with regard to eligibility criteria, have been published. (A further amendment relating to investments in light of foreign and defence policies was also put forward). The amendments put forward in the House of Commons have now been considered and agreed in the House of Lords and the Bill now awaits Royal Assent. Outside of the LGPS, a Judicial Review brought by the Police Superintendents Association in relation to the McCloud Consultation process has been dismissed. A joint judicial review brought by 6 trade unions in relation to the inclusion of McCloud in the Cost Management process has also been submitted.	https://bills.parliament.uk/bills/3032 public_rm_pbc_0121.fm (parliament.uk)	Fund to continue work on collating/analysing data from employers in relation to implementing the remedy. The Fund was already collecting data across all members in service on/before 31 March 2012 (not just on 31 March 2012) in readiness for the amendment to the bill that has now emerged and been passed.
Transfer Values	In November 2021, following on from the Pension Schemes Act 2021, the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 were laid and came into effect from 30 November 2021. The regulations introduce further legal restrictions on a member's statutory right	The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 (legislation.gov.uk)	Since coming into Force, the administration team have been updating processes / templates based on the guidance available from TPR and LGA. Alongside this, the administration team is ensuring that processes for dealing with overseas and AVC transfers are also updated in light of latest LGA guidance, and to also begin preparing for changes

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	to transfer and further guidance and draft documentation has since been produced by TPR and the LGA to assist administering authorities with fulfilling their duties to ensure the requirements set out on the regulations are met.		expected to emerge from the “Stronger Nudge to Pensions Guidance” consultation. The extra requirements have increased the time taken to process transfer value cases for the administration team and hence there may be implications on KPIs and resource needed for other projects, which will need to be monitored going forwards.
The Pension Dashboard	DWP launched a consultation on the draft Pensions Dashboards Regulations. The consultation closed on 13 March 2022. A number of concerns have been raised (e.g. via the LGAs response to the consultation and also direct with DWP and also in the response the Fund has submitted) with regard to Funds having sufficient resource available to ensure Pensions Dashboard requirements are met, at the same time as having to implement the McCloud remedy. A number of other publications and announcements from the PDP have also been released since the latest update, alongside an A-Z guide from the PLSA setting out 26 key issues that need to be resolved to ensure pension dashboards are a success.	Pensions dashboards: consultation on the draft Pensions Dashboards Regulations 2022 - GOV.UK (www.gov.uk) UK Pensions Dashboards Programme | Homepage PLSA publishes 'Pensions Dashboards A-Z' to guide industry to decisions required for initial dashboards | Pensions and Lifetime Savings Association	The Fund has recently appointed a dedicated Pensions Dashboard officer to work will continue to 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. The current proposed staging date for the LGPS is 30 April 2024.
Ukraine	In light of events in Ukraine and the sanctions being imposed on Russia by the UK government, LGPS Funds were advised by SAB to consider the implications for their investment portfolios. A follow-up note was	Investments_in_Russia_4_March_2022.pdf (lgpsboard.org)	In relation to administration, the Fund has undertaken a series of overseas indicator reports to ascertain that there aren’t any pensioner or dependant members with accounts in Russia.

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(Responsible Investment and administration)	issued by the SAB on 4 March 2022 providing further details to Funds and a letter from the Secretary of State Rt Hon Michael Gove MP has subsequently been issued on 9 March 2022. The conflict has also required the administration team to consider payment of benefits to overseas members. The funding position is also being monitored as the 31 March 2022 actuarial valuation approaches.	https://lgpsboard.org/images/PDF/BDS/SoS_DLUHC_to_Committee_Chairs9Mar22.pdf	All managers had already been instructed to sell Russian assets and prohibited from new investments. Any further implications of the conflict (impacting investment, funding, covenant and administration) will be considered as and when they arise by the relevant teams.

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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	

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 March 2022**
TITLE:	**PENSION FUND ADMINISTRATION** **(i) Overview & Summary Performance Report** **(ii) Risk Register** **(iii)Budget Monitoring**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Performance against SLA & Workload Appendix 2 – TPR Data Improvement Plan Appendix 3 – Progress on Key Projects Appendix 4 – Risk Register	

1 THE ISSUE

1.1 The purpose of this report is to present the Fund's performance for the three months to 31st December 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 and provides an update forecast on the Funds cash flow and budget.

2 RECOMMENDATION

The Committee is asked to Note:

2.1 Fund performance for the three months to 31st December 2021.

2.2 The current Risk Register.

2.3 The updated cashflow forecast

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 government begins to remove COVID restrictions, APF officers are undertaking a more blended working approach in line with arrangements being introduced by the

employing authority. Temporary working arrangements are now in place to occupy 15 workstations in the Guildhall.

3.3 Arrangements for future long term office accommodation are currently taking place at high level with discussions between the Head of Business Finance & Pensions and B&NES.

3.4 In light of changes made to operational service delivery brought about by the pandemic, the management team are in the process of reviewing current Business Continuity Plans and a report will be presented to the Pensions Committee and Pension Board at a future date.

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 overall improvement in critical processes for retirements and death cases from the previous quarter. Generally, however, KPI benchmarking performance has declined over the past year (Annex 3).

4.2 Contributory factors to underperformance can be associated with the inclusion of the current backlog project and the processing of historic workload cases impacting KPI's. in addition, there has been additional workload pressure created by an increase of 3,200 scheme leavers over the past year.

4.3 As outlined in the previous report, a short-term project is in progress to complete the build-up of processing work identified at the end of September 2021. The project is set to run from October to March with the aim being to clear down all 'backlog' cases over a six-month period whilst continuing to maintain all new business as usual tasks on time.

4.4 Detail on progress made to clear the backlog are shown below. Just over 35% of cases remain outstanding and currently there is a projected six week overrun on the original completion date due to an increase in staff officer resource transitioning from the project to support business as usual and the complexity of a number of backlog cases remaining.

Member Services Backlog Dashboard as at 14/02/2022 06:50:03

Project Start	11/10/2021	Starting Backlog	4,230	Days Allocated	171	Comp Rate (orig)	24.74	Projected End	08/05/2022
Today's Date	14/02/2022	Completed	2,547	Days Elapsed	126	Comp Rate (act)	20.21	Running Late	
Project End	31/03/2022	Outstanding	1,683	Days Remaining	45	Comp Rate (req)	37.40	% of Work Remaining	35.36%

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 recent past the administration team is currently carrying 8 vacancies across both employer and member services teams in addition the Technical & Compliance post remains unfilled. The administration is also carrying three maternity absences across the service at this time. Of the above, Employer Services currently have 5 FTE outstanding vacancies, after 2 rounds of recruitment the posts remain vacant.

5.2 As such the previously 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 operational workload some project work has already been outsourced. In particular; GMP reconciliation project and the address tracing project. Officers are now in discussion with external bodies to procure additional support for the leaver data backlog (appx 2,000 cases). Mercer consultants continue to provide Technical & Compliance advice and guidance.

6 FIRE PENSION SCHEME – MOU & FRAMEWORK AGREEMENT

6.1 The Fund continues to support the Avon Fire Authority in providing affected members with retirement options as identified under the immediate detriment and framework (IDF) agreement in lieu of the McCloud remedy.

6.2 It is for each Fire & Rescue Authority as the relevant scheme manager to adopt the IDF. Avon Fire Authority previously agreed not to adopt the full MOU and ID Framework at its meeting in December 2021. It will review its decision at the next meeting on 30th March 2022.

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 Full adoption of the IDF by Avon Fire Authority will impact business operations as resource is re focussed and work will need to be reprioritised in the short term. Further information will be presented to the Pensions Committee and Pension Board as the situation evolves.

7 SUMMARY OF FUND MEMBERSHIP DATA QUALITY

7.1 As we head toward the financial year end officers are now making preparations for the triannual valuation, and the following actions are being taken:-

- Using the Mercer data tool we are reviewing all consistency errors, clearing approximately 1,000 errors
- Reviewing employer data by employer size and data liability as indicated by the Mercer tool. We are working through the data errors and will be contacting employers to resolve queries where data is missing.
- CARE roll up reports used to identify missing data and casual workers that have not been paid for some time and requesting employers to make them leavers.
- Back log of leavers to be reviewed, we are looking to identify leavers from smaller employers to help reduce their liability.
- Employer Relations team are running training workshops for employers that have received penalty charges for 2020/21 year end.
- TPR data queries are being analysed and split between current and historic cases and will be project managed by a senior member of the Employer Services team to complete.

The data tool from Mercer has been a fundamental source of information as it ranks employers by liability and size to ensure we can focus resource.

7.2 Following a review of the 2020/21 year end employer submissions, 6 penalty charges have been issued in accordance with the Pensions Admin Strategy:-

- 1 x excessive data queries

- 2 x late returns
- 3 x Disproportionate work

In addition to the above, 12 Data Improvement Plans have been issued to other employers who have data issues but did not receive a penalty charge. 5 of the fined employers have attended pension data workshops.

7.3 Officers are developing the TPR DIP report to provide an annual trending view of the outstanding cases for the last 12 months. A draft of the current report is attached at **Appendix 2**

7.4 **Valuation Timeline**

7.5 All employers have been contacted with regard to year end data requirements and have been instructed to provide the Fund with complete membership data returns by 30th April. This will allow the Fund two months to identify any data cleansing and processing of pre - 31st March case work.

7.6 The full data extract will be supplied to the scheme actuary at the end of June for analysis.

7.7 For committee and Pension Board the 2022 valuation exercise will start with a joint workshop in June. The workshop will discuss the indicative results (which reflect changes in financial markets only) and the assumptions to be used in the valuation. It will also cover the Funding Strategy Statement (FSS) as the revised draft statement will be considered by the Committee at its June meeting before it is issued to employers for consultation. The Pension Board will also be part of the FSS consultation. At the September meeting the FSS will be approved by committee having considered the consultation responses and employer specific contribution results will be disseminated from late October. The outcome of the 2022 valuation will be taken to the March 2023 committee meeting

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 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 presents the 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.

9.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in March 2022.

9.5 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 are attached at **Appendix 4.**

9.6 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.

9.7 The quarterly review took place in March 22 and the management team agreed the following changes and updates:

In response to the developing Russia / Ukraine crisis we have increased the following risks:

(1) R42 – Political pressure to reform the scheme and direct investment

Likelihood has been increased to almost certain. Brunel PP have issued a statement to say that amongst a number of other measures they will divest (where able given sanctions) from all Russian controlled and owned assets, bonds and equities as well as prohibiting any new investments to Russian assets.

As part of the Levelling Up agenda, further regulations are expected to direct investments of LGPS Funds. In addition, under the Public Services and Judicial Offices Bill currently passing through parliament the Secretary of State would be able to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy.

(2) R26 – Failure to earn investment returns

Likelihood has been increased to almost certain. Ensuing sanctions, the disruption to the oil/gas sector and supply chains which will increase inflationary pressure and investor responses are expected to have a negative impact on broad asset markets and there is a risk of stranded assets (limited direct exposure to Russian assets; main risk in global companies that have Russian assets).

Updates to other risks which did not result in a change of score are:

(3) R60 – Climate emergency

Additional measures now to be undertaken on an annual basis to assess portfolios alignment with net zero and interim decarbonisation targets (Mercer ACT) from a bottom-up perspective.

(4) R01 – Disaster recovery & business continuity

Business continuity plan currently being reviewed by Audit, draft plan now received for review. 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 May 2022 & Committee in June 2022.

(5) R40 – Cashflow profile is maturing

Unitary authorities and now Universities are paying their future service rate in advance for 22/23. With deficits also paid in advance this will means approximately 40% of contributions for the year will be received in April. Our cash limit was due to be increased by £10m, so this will mean we can hold more cash to offset need for regular drawdowns. Cashflow is monitored daily and the Investments team are warned in advance of future expected divestments.

10 BUDGET MONITORING

10.1 The budget for the year (y/e forecast) is predicted to be broadly on budget as shown below. The detailed budget and cashflow monitoring tables can be found on the Mod Gov Library.

	Status	Comment if significant under/over
Administration		Reduced salaries expenditure due to delays in filling vacant posts against budget in Benefits team
Governance & Compliance		
Investment Fees		
Pensions Board		
Total		

Key:

	Significant underspend (>5%) against budget for the year
	On budget for the year (not significantly under or over)
	Significant overspend (>5%) against budget for the year

11 RISK MANAGEMENT

11.1 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.

12 EQUALITIES STATEMENT

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

13 CLIMATE CHANGE

13.1 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.

14 OTHER OPTIONS CONSIDERED

14.1 There are no issues to consider not mentioned in this report.

15 CONSULTATION

15.1 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	

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Fund Performance against SLA – KPI's As at 31 December 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	367	296	80.65%	45	92.92%
	Payment - 15 days	317	286	90.22%	18	95.58%
Retirement (from Deferred)	Quote - 30 days	128	48	37.50%	19	52.34%
	Payment - 15 days	329	270	82.07%	33	92.10%
Deaths	Notification - 5 days	97	81	83.51%	15	98.97%
	Payment - 10 days	72	65	90.28%	4	95.83%
Refund of contributions	Quote - 10 days	386	103	26.68%	76	46.37%
	Payment - 10 days	85	66	77.65%	9	88.24%
Deferreds (early leavers)	30 days	741	706	95.28%	35	100.00%
Transfers In	Quote - 10 days	73	16	21.92%	9	34.25%
	Payment - 10 days	25	0	0.00%	1	4.00%
Transfers Out	Quote - 10 days	433	167	38.57%	42	48.27%
	Payment - 10 days	18	10	55.56%	5	83.33%
Estimates	Member - 15 days	171	140	81.87%	19	92.98%
	Employer - 15 days	38	28	73.68%	3	81.58%
Divorce	Quote - 45 days	54	50	92.59%	0	92.59%
	Actual - 15 days	2	1	50.00%	1	100.00%
Starters	40 days	2147	2147	100.00%	0	100.00%
		5483	4479	81.709%	334	87.78%

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	88	124	84	45	20	5	1
	Payment - 15 days	8	148	83	54	18	8	4	2
Retirement (from Deferred)	Quote - 30 days	10	67	9	8	5	5	8	26
	Payment - 15 days	9	179	54	37	33	14	8	4
Deaths	Notification - 5 days	11	81	15	0	1	0	0	0
	Payment - 10 days	5	55	10	4	1	2	0	0
Refund of contributions	Quote - 10 days	32	42	61	76	47	28	11	121
	Payment - 10 days	15	43	23	9	4	3	2	1
Deferreds (early leavers)	30 days	13	308	146	123	69	36	24	35
Transfers In	Quote - 10 days	25	8	8	9	8	6	2	32
	Payment - 10 days	36	0	0	1	4	1	6	13
Transfers Out	Quote - 10 days	39	45	122	42	38	40	87	59
	Payment - 10 days	20	8	2	5	0	3	0	0
Estimates	Member - 15 days	12	59	42	39	19	7	4	1
	Employer - 15 days	7	14	8	6	3	3	3	1
Divorce	Quote - 45 days	23	14	12	3	5	7	7	6
	Actual - 15 days	0	0	1	0	1	0	0	0
Starters	40 days	24	1796	164	2	2	0	0	183

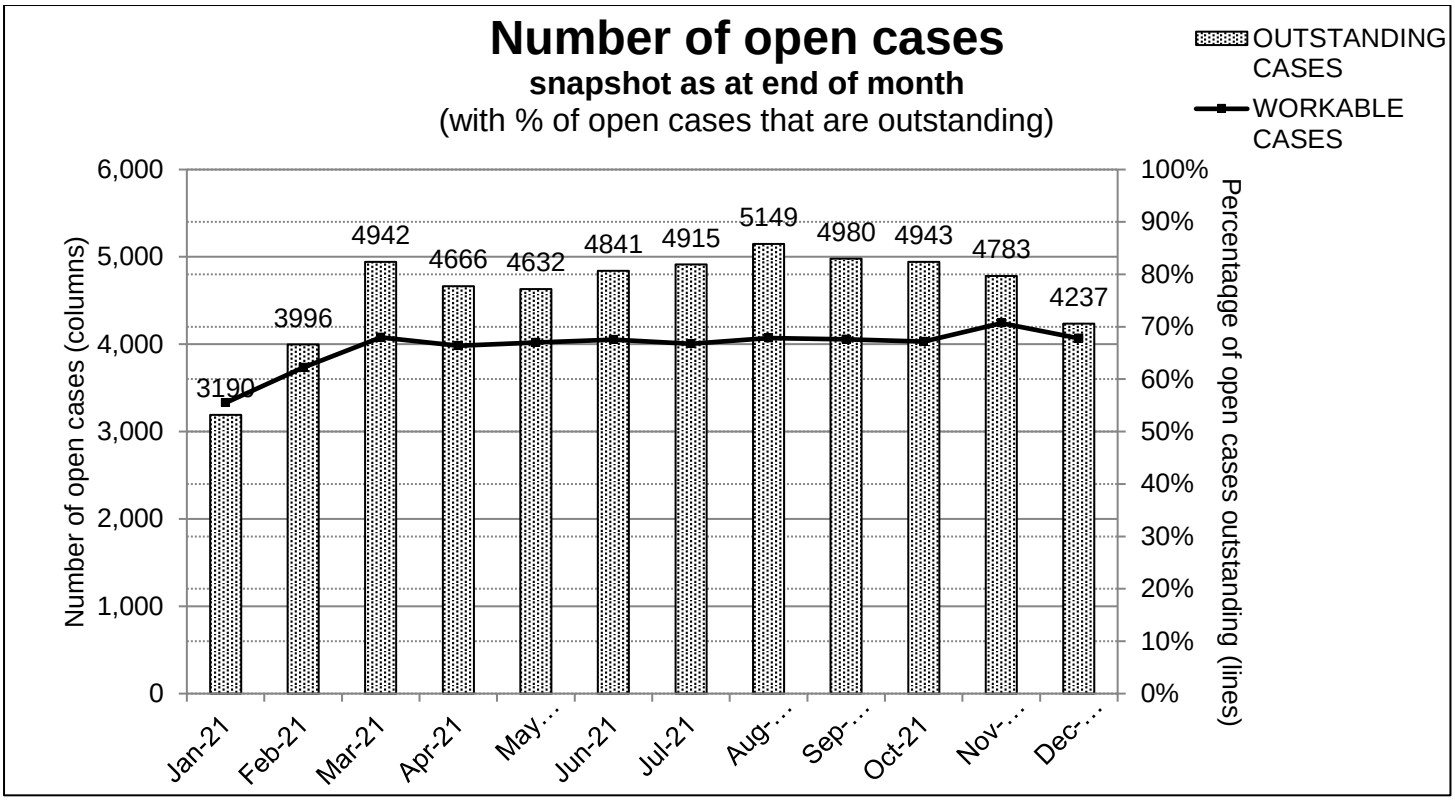
RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

Annex 3 Trend in Overall Performance

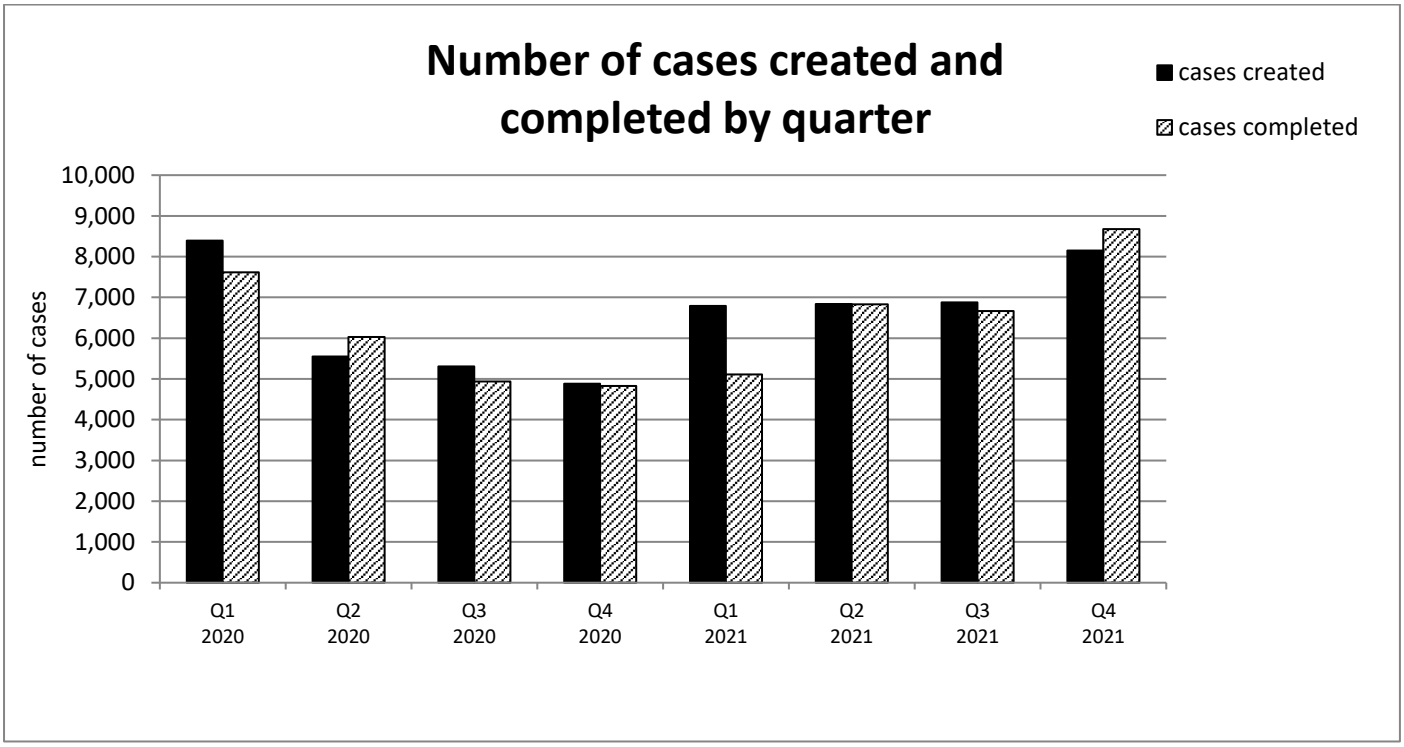
SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA (Old/New)	Q1 Jan 21 - Mar 21	Q2 Apr 21 - Jun 21	Q3 Jul 21 - Sept 21	Q4 Oct 21 - Dec 21	Trend
Retirement (from Active)	Quote - 5 / 15 days	71.26%	55.26%	45.05%	80.65%	
	Payment - 5 / 15 days	75.54%	76.39%	87.39%	90.22%	
Retirement (from Deferred)	Quote - 30 days	45.78%	50.00%	31.52%	37.50%	
	Payment - 5 / 15 days	80.34%	74.03%	82.93%	82.07%	
Deaths	Notification - 5 days	93.13%	87.91%	93.68%	83.51%	
	Payment - 5 / 10 days	84.38%	80.00%	97.73%	90.28%	
Refund of contributions	Quote - 10 days	14.69%	28.57%	9.50%	26.68%	
	Payment - 10 days	32.86%	24.37%	65.22%	77.65%	
Deferreds (early leavers)	Notification - 20 / 30 days	73.40%	65.56%	65.78%	95.28%	
Transfers In	Quote - 10 days	36.14%	41.91%	1.36%	21.92%	
	Payment - 10 days	12.24%	28.57%	1.61%	0.00%	
Transfers Out	Quote - 10 days	4.80%	10.00%	10.13%	38.57%	
	Payment - 10 days	62.50%	47.06%	63.64%	55.56%	
Estimates	Member - 10/15 days	69.41%	45.99%	87.86%	81.87%	
	Employer - 15 days	78.57%	68.97%	76.47%	73.68%	
Divorce	Quote - 45 days	91.03%	90.48%	93.94%	92.59%	
	Actual - 15 days	100.00%	100.00%	100.00%	50.00%	
Starters	40 days	82.49%	72.53%	97.91%	100.00%	
	Total Cases Processed	5167	4425	4224	5483	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 4



Annex 5



Appendix 2

TPR Improvement Plan Data As at 31st December 2021

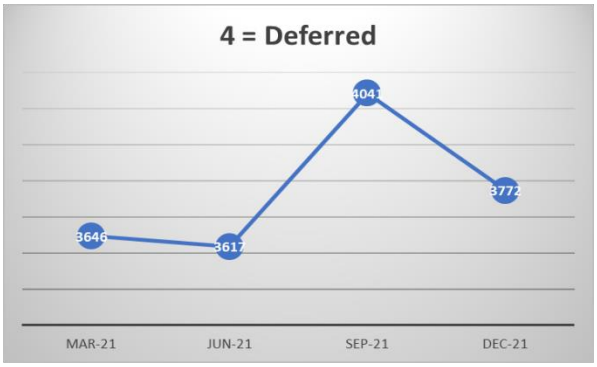
Annex 1 – TPR Errors by Member Numbers

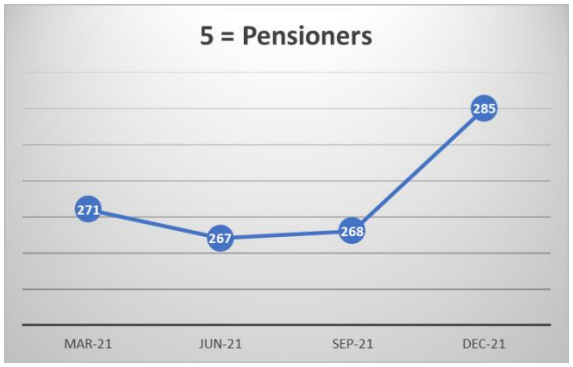
	Sep-21				Dec-21				*Trend
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	
ACTIVE	37980	364	0.96%	99.04	39216	336	0.86%	99.14	- 28
UNDECIDED	5823	382	6.56%	93.44	5681	457	8.04%	91.96	+ 75
DEFERRED	42740	4041	9.45%	90.55	42784	3772	8.82%	91.18	- 269
PENSIONERS	33838	268	0.79%	99.21	34300	285	0.83%	99.17	+ 17
DEPENDANTS	5126	138	2.69%	97.31	5201	147	2.83%	97.17	+ 9
FROZEN	4345	1533	35.28%	64.72	4396	1474	33.53%	66.47	- 59
TOTALS	**129852**	**6726**	**5.18%**	**94.82**	**131578**	**6471**	**4.92%**	**95.08**	- 255

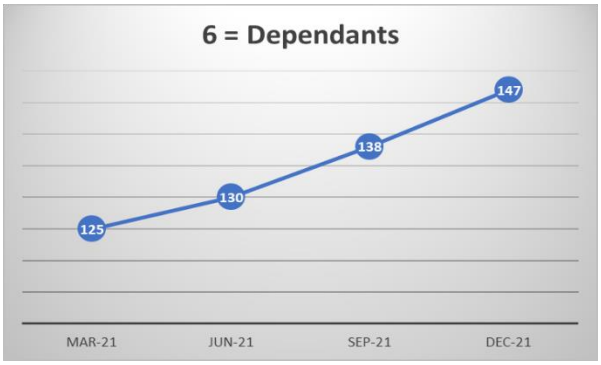
Annex 2 – Outstanding Queries by Type (there may be multiple queries per member)

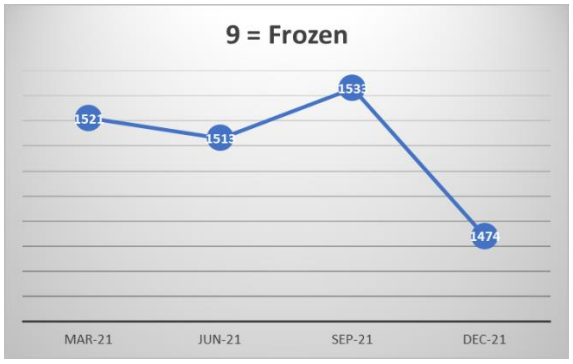
	Sep-21		Dec-21		*Trend
	TPR Errors	%	TPR Errors	%	
Age 75 Exceeded Lgps Eligibility Issue	69	1.01%	71	1.08%	+ 2
Care Pay For 2014-2015 Required	7	0.10%	7	0.11%	0
Care Pay For 2015-2016 Required	8	0.12%	6	0.09%	- 2
Care Pay For 2016-2017 Required	15	0.22%	8	0.12%	- 7
Care Pay For 2017-2018 Required	36	0.53%	28	0.43%	- 8
Care Pay For 2018-2019 Required	28	0.41%	14	0.21%	- 14
Care Pay For 2019-2020 Required	14	0.21%	10	0.15%	- 4
Care Pay For 2020-2021 Required	23	0.34%	25	0.38%	+ 2
Missing data on leaver form - Escalation	0	0.00%	0	0.00%	0
Casual Hours Data Required	2	0.03%	0	0.00%	- 2
Correct Address Required	5599	82.35%	5353	81.70%	- 246
Correct Forenames Required	9	0.13%	9	0.14%	0
Correct Gender Required	7	0.10%	0	0.00%	- 7
Correct Hours Format Required	2	0.03%	1	0.02%	- 1
Correct Nino Required	206	3.03%	213	3.25%	+ 7
Correct Title Required Ie Miss Or Mr	5	0.07%	4	0.06%	- 1
Data Required From A Previous Employer	23	0.34%	24	0.37%	+ 1
Date Joined Fund Required	1	0.01%	1	0.02%	0
Historic Refund Case	521	7.66%	496	7.57%	- 25
Leaver Form Required	223	3.28%	280	4.27%	+ 57
Pay Ref Required	1	0.01%	2	0.03%	+ 1
Grand total	**6799**	**100%**	**6552**	**100%**	

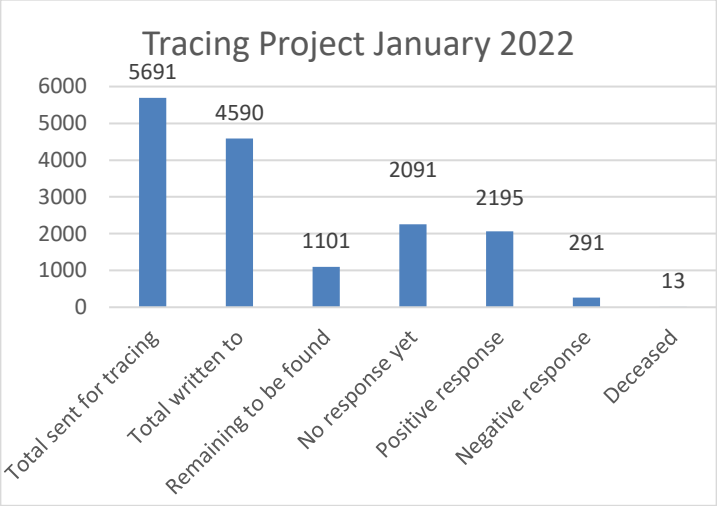
TPR Error Numbers By Status

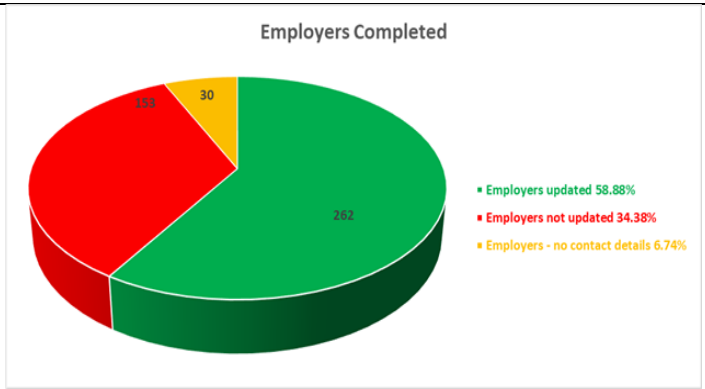
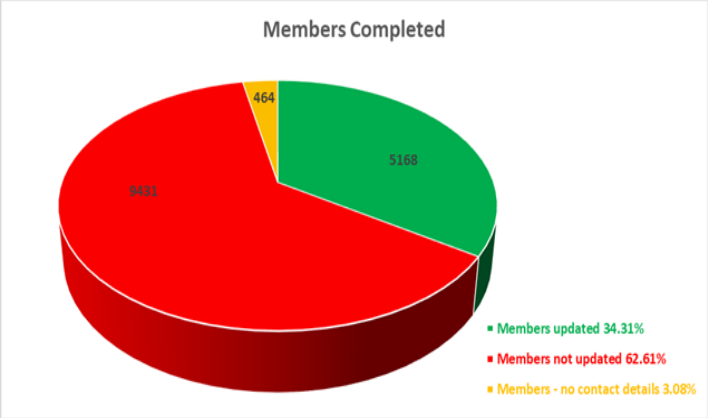








Item	Details	Action by Fund / Next Steps
Address Tracing		• As at 31st January 2022 a total of 4,590 members have been written to, to confirm their current addresses. We have received 2,195 positive responses equating to 47%, 291 negative responses equating to 6.3%. • 2,791 follow up chase letters that were sent out in October 2021 have received 519 positive address responses equating to 18.5% and 89 negative responses 0.03%. • From the original tracing requests, we still have 1,101 cases yet to be traced. These were sent to Mercers in December 2021 for next stage tracing along with the negative responses noted above. We are currently awaiting tracing results from Mercer due February 2022. Next steps • Write to members identified in last batch of tracing once Mercer response is received. • Wrap up project of Historic tracing and 'gone aways' • Review processes to trace members as they reach NPA • Ongoing processes to trace members as new 'gone away' notifications are received. • Review address data in line with Pensions Dashboard Programme requirements

McCloud	 	A further 43 employers covering 920 members have been completed. We are still working with 2 of our largest employers to gain the service data we require, one has begun sending data the other has been rejected due to poor data submission. Next steps: Work with remaining employers yet to make data submissions and escalate to Finance Officers for compliance. 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	**Current IC Totals** Employers on IC – 270 (60% of Employers) Employers targeted for IC – 179 (40% of Employers) Active Members covered by IC – 30,996 78% of active membership covered by IC (figures as at 8/2/2022)	Progress has been made with Online Return employers, 17 smaller employers have been trained and are now submitting monthly data. 11 remaining to go live.

		We are currently in the testing stage with 5 MAT/payrolls covering 46 employers. These will go live after Year End. The project will be paused over the Year End/Valuation period and will restart again in July 2022. Project completion date has been pushed back to 31 March 2023. Employers will be communicated with regarding deadlines and penalty fines will be issued for non-compliant employers as per PAS.

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Risk Register - Appendix 4

Risk	Risk Number	Impact	RAG	Trend	Mitigating Action
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.
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. Have good local governance but national decisions could impact e.g. ability of SoS to direct investments, levelling up agenda. Ensure advisors engage on national LGPS issues. Brunel PP have issued a statement to say that amongst a number of other measures they will begin to divest from all Russian controlled and owned assets, bonds and equities as well as prohibiting any new investments to Russian assets.
Failure to earn investment returns	R26	scheme cannot meet liabilities, employer conts could rise		▲	In response to the developing Russia / Ukraine crisis Brunel have stated that ensuing sanctions and investor responses are expected to have a negative impact on broad asset markets and there is a risk of stranded assets. • 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.
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.
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.
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. Additional measures to now be undertaken on an annual basis to assess portfolios alignment with net zero and interim decarbonisation targets (Mercer ACT) from bottom up perspective.
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		◀▶	Undertaken gap analysis with Hymans re good governance review. Action plan to be taken to Committee & PB. New Hymans LOLA will provide more structure to ensuring Committee, PB, officer knowledge and understanding. Training strategy policy & representation policy also required as part of good governance review.
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 May 2022 & Committee in June 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.
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

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, draft plan now received for review. 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 May 2022 & Committee in June 2022.
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.
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.
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.

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 March 2022**
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**	

1 THE ISSUE

1.1 Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

1.2 The provisional training programme for 2021/22 is included as Appendix 3.

2 RECOMMENDATION

2.1 That the committee:

a) 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 Workplans

a) 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.

4.2 Modern Gov Library

a) From March 2022 the following monitoring reports will be available on the Modern Gov library only:

i. Regulatory Update

ii. Investment Performance Monitoring (appendices and supporting detail)

iii. Budget Monitoring

4.3 Training Programme

a) The provisional training programme for 2022 is also included so that Members are aware of intended training sessions and workshops. The plan will be updated quarterly.

4.4 Hymans LGPS Online Learning Academy (LOLA)

a) In order to meet the additional knowledge and skills requirements of SAB's Good Governance Review the Fund has introduced Hymans LGPS Online Learning Academy (LOLA). The training is split into a number of modules covering the revamped CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14. The schedule for completion of the modules is contained within the training programme (Appendix 3).

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2022	2023
25 March	24 March
24 June	23 June
23 September	22 September
16 December	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	

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Appendix 1

Committee Workplan	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Quarterly Items						
PB minutes						
Brunel Update						
Review of Investment Performance (including Brunel Portfolios)						
Brunel Update						
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						
Agree draft FSS						
Approve FSS (after consultation)						
2022 valuation outcome						
Audit Plan & Reports						
Approve Investment Strategy Statement						
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						

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Appendix 2

Investment Panel Workplan	Feb-22	May-22	Sep-22	Nov-22	Feb-23	May-23	Sep-23	Nov-23
Quarterly monitoring Items								
Review performance & RM Framework								
Annual Items								
Annual Risk Management review								
Strategic items								
Collateral plan								
Mercer ACT Climate Analysis								
Blackrock Equity Fund in QIF								
Cashflow/Liquidity Review								
TCFD Statement								
Update on 2022 Stocktake project								
Update on Brunel's revised Climate Policy								
Decision of Private Market allocations for Cycle 3								
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	Content	
Workshop	Apr-22	Good Governance Review	
Workshop	Jun-22	Funding Strategy Review & Valuation	
Workshop	Sep-22	Cyber Security Review	
Workshop	Feb-23	Investment Strategy Review	

Hymans Learning Academy	To be completed by	Title of Module	Content
Module 1	Mar-22	Intro to the LGPS	Intro to LGPS (12 mins) Role of a Councillor (20 mins)
Module 2	Jun-22	Governance & Oversight	LGPS governance (20 mins) LGPS Oversight Bodies - TPR (15 mins) LGPS Oversight Bodies - DLUHC & GAD (10 mins) Business Planning (10 mins)
Module 3	Dec-22	Administration & Fund Management	Intro to Administration (22 mins) Accounting & Audit (11 mins) Additional Voluntary Contributions (12 mins) Policies & Procedures (21 mins) Public Procurement (11 mins)
Module 4	Jun-22	Funding & Actuarial	Introduction to Funding Strategy (10 mins) LGPS Actuarial Valuation - Process & considerations (17 mins) LGPS Actuarial Valuation - Technical aspects (15 mins) LGPS employers (19 mins)
Module 5	Sep-22	Investments	Intro to Investment Strategy (10 mins) Investments - Mifid II (18 mins) LGPS Investment Pooling (12 mins) Performance Monitoring (18 mins) Responsible Investing (12 mins)
Module 6	ongoing	Current Issues	Understanding McCloud (8 mins) Understanding Goodwin (4 mins) Cost Sharing (10 mins)

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**25 March 2022**	**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 2 – 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 are 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) Since the last committee meeting, Brunel Oversight Board (BOB) met in January and March. The December and draft January meeting minutes are in Exempt Appendix 2. The next BOB meeting is on 17 March as is the AGM. A verbal update will be given at the meeting.

b) The Business Plan 2022/23 and budget have been approved by the Shareholders. The revised Pricing & Cost Allocation Policy has also been approved. This was revised to change the way the budgeted costs are allocated now that the transition is complete. Around 45% of the costs will be allocated on a fixed 1/10th basis and the rest on assets per portfolio.

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) Brunel now manages £4.9bn (at 31/12/21) of the Fund's assets (83%). This includes £561m in private market portfolios (invested capital).

b) 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.

c) The focus of work over the next 6-12 months is the 2022 Stocktake. This will review Brunel's climate policy and the approach the pool has taken given the evidence of progress/achievements over the last 2 years. The outcome (and Brunel's revised Climate Policy will feed into our strategic investment review later in 2022.

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 with a new provider appointed. We expect revised reporting by late 2022 at the earliest.

5 BRUNEL WORKING GROUP

5.1 The Brunel Working Group (BWG) met ahead of the January BOB meeting to discuss the 2022/23 Budget and agree whether to approve it. The next BWG call will be ahead of the BOB meeting on 17 March. 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-772307

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 25th March 2022

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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of the Local Government Act 1972.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 MARCH 2022**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 December 2021)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Quarterly Investment Monitoring Dashboard Appendix 2 – Mercer Quarterly Investment Performance Report Appendix 3 - Mercer Paper: Ukraine and Russia – An Action Checklist Appendix 4 – Responsible Investment Member Survey Results	

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 The Mercer Investment Performance Report at Appendix 2 contains performance statistics for periods ending 31 December 2021.

1.3 Appendices to this report including the Fund Valuation, Minutes of the Investment Panel and the LAPFF Quarterly Engagement Report are now available in the Modern Gov library.

1.4 Mercer have provided a paper (Appendix 3) on key considerations from an investor perspective on the unfolding situation in Ukraine and will provide a further verbal update at the meeting.

1.5 Appendix 4 contains the results and key outcomes of the Responsible Investment Member Survey undertaken in 2021.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to note:

2.1 **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 102%. The surplus was estimated to have increased slightly over the quarter from £66m to £107m.

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 £185m (3.6%) over the quarter ending 31 December 2021 giving a value for the Fund of £5,895m. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to the benchmark is summarised below.

Table 1: Fund Investment Returns (Periods to 31 December 2021)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	3.6%	14.2%	8.2%
Avon Pension Fund (excl. currency hedging)	3.3%	14.0%	7.8%
Strategic benchmark (no currency hedging)	3.8%	16.0%	10.3%
Currency hedge impact	0.3%	0.2%	0.4%

B – Portfolio Performance

5.2 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are available in the Modern Gov library.

5.3 The Global Sustainable Equity portfolio posted strong performance, achieving a 6.8% absolute return over the quarter, which was 0.5% ahead of its benchmark due to positive sector allocation. The High Alpha Equity portfolio returned 6.3% in absolute terms, underperforming the index by 1.1%. Underperformance in this portfolio was driven by stock selection, which was weakest in IT, and an overweight to China as some Covid winners started to give up their gains. The new Paris Aligned Portfolio posted an absolute return of 3.8% in the two months since its inception on 1st November 2021, in line with its benchmark. The legacy passive Low Carbon portfolio, which the Fund no longer has an allocation to, posted an absolute return of 7.4% for the quarter. The Multi Asset

Credit portfolio achieved a 0.4% return vs. the 1% cash benchmark return, having been negatively affected by rising inflation. Core Infrastructure, Renewable Infrastructure, Secured Income and UK Property portfolios all generated positive absolute returns despite the uncertainties brought on by the Omicron variant and rising inflation. Of those mandates with a 1-year track record, the majority had positive absolute returns with notable outperformance of the UK Property and Global Sustainable Equity portfolios.

C - Overview of Strategic Performance:

5.4 The Mercer report in Appendix 2 provides strategic level information including total fund level performance, current funding level and an analysis of how the Fund's mandates are performing against expected strategic returns.

5.5 **Asset Class Returns:** Returns since the last valuation date (March 2019) for all equity mandates and core and renewable infrastructure are ahead of the assumed strategic returns used during the 2019/20 investment review. International property is below expectations as the mandate has been impacted by the pandemic. Due to the way this portfolio invests (capital drawn down over time) the focus should be on longer-term performance. Brunel Diversified Return Fund is also marginally behind expectations due to a dampening of performance in the second half of 2021. Other mandates are either still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

5.6 **Risk Management Framework (RMF):** The Fund's risk management framework seeks to provide greater certainty that the funding plan will be achieved and therefore contribution levels will be stable and minimised. The Committee review the strategic rationale for the RMF on an annual basis.

5.7 Over the quarter the mandate has performed as expected and the manager is in compliance with investment guidelines. No interest rate or inflation triggers were breached over the quarter and the equity protection strategy detracted c.-1.1% from the underlying equity return of 11.2%. The currency hedge added 0.3% over the quarter as Sterling strengthened. Collateral remained sufficient to withstand the early warning and collateral top-up tests governing the framework.

6 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

6.1 The quarter saw a number of portfolio changes in line with recommendations from the Equity Review. October saw a £575m sale from Brunel's Low Carbon Passive portfolio into their new Paris Aligned Benchmark (PAB) Fund, while in December the Emerging Markets portfolio was sold (c£275m) with proceeds being fully re-invested in Global High Alpha. The wind down of the JPM hedge fund mandate continues with the first redemption completed in November and the second in February.

Private Markets Commitments to Brunel Portfolios

6.2 The Fund has made commitments to several Brunel private markets portfolios, where those commitments are drawn down over time. The summary in Exempt Appendix 1 shows the pace of capital deployment remains on track. Further details relating to these portfolios can be found in the Brunel Quarterly Private Markets Report available in the Modern Gov library.

Cash Management

6.3 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.

6.4 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 25 February 2022 in virtual format. There are no decisions to note or recommendations to approve by Committee this quarter. The Panel noted the additional capital being committed to Brunel Cycle 3 private market portfolios in order for to achieve and maintain the strategic allocations already agreed by Committee (in April 2021). The Panel received assurance from Mercer that the Brunel Cycle 3 private markets specifications continued to meet the Fund's investment objectives. The draft minutes of this meeting provide a record of the Panel's discussion and are available in the Modern Gov library.

8 RESPONSIBLE INVESTMENT ACTIVITY

8.1 **Voting and Engagement Summary**: Federated Hermes EOS provide voting and engagement services on behalf of the Fund. Summary reports available in the Modern Gov library disclose the number of companies and topics engaged on over the quarter.

8.2 **FRC Stewardship Code Result**: Post period-end the Fund was notified of its successful Stewardship Code application, which means it successfully demonstrates application of the Code's 12 principles which focus on 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. The Fund will continue to voluntarily submit a report to the FRC on an annual basis.

8.3 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 which is also available in the Modern Gov library.

9 RESPONSIBLE INVESTMENT MEMBER SURVEY RESULTS

9.1 The Fund undertook an ESG member survey in 2021. An explanation of the process followed, and the results of the survey can be found in Appendix 4. The views of the scheme membership provides useful information to help

Committee members consider the full picture, alongside professional advice, when deliberating changes to the investment strategy. It also provides an opportunity to raise awareness with the members and promote the considerable work that the Committee has, and continues to do, around responsible investment.

9.2 Increasingly best practice involves being able to evidence how members views have been gathered and taken account of, specifically in relation to their views on ESG. For instance, the FRC Stewardship Code stipulates: *"Signatories should take account of beneficiary needs and communicate the activities and outcomes of their stewardship and investments to them".*

Avon's Membership Survey – Results and Key Conclusions

9.3 The total number of members contacted was 41,358 with a completion rate of 9.1% (3,765 respondents).

9.4 The responses received were largely supportive of the Fund's ESG approach which states that; (i) ESG should be integrated in investment decision-making, (ii) climate change presents a long-term financial risk, and (iii) engagement is an effective tool to bring about change. A significant number of free format text responses called on the Fund to go further in respect of its strategy on climate. Key conclusions from the responses received are listed in Appendix 4 and summarised below:

- The majority of respondents agree it is important to take account of RI issues when making investment decisions
- Over half of respondents agree environmental, social and governance factors are of equal importance
- The majority agree climate change presents either a high risk or very high risk to investment returns
- Vast majority agree it is important to use our influence as an investor to bring about better environmental and social outcomes

9.5 The Fund will use the results of this survey to feed into the 2022 Brunel climate stocktake, which will consider, among other things, divestment from companies that have been unresponsive to engagement efforts and where significant climate-related financial risk exists.

9.6 The results will also be used to build on the Fund's existing communications strategy by utilising traditional and digital channels e.g., website and social media as key tools to promote recent member-focussed communications.

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	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-772376

Meeting / Decision: Avon Pension Fund Committee
Date: 25th March 2022

Author: Nathan Rollinson
Report Title: INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 December 2021) **Appendix Title:** **Exempt Appendix 1** – Quarterly Investment Monitoring Dashboard Appendix 2 – Mercer Quarterly Investment Performance Report Appendix 3 - Mercer Paper: Ukraine and Russia – An Action Checklist Appendix 4 – Responsible Investment Member Survey Results

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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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Mercer

Avon Pension Fund

Committee Investment Report
Quarter to 31 December 2021

March 2022

Steve Turner
Joshua Caughey

Contents

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5) Asset allocation 15

Appendix 18

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Executive summary

1

Executive summary

Market background

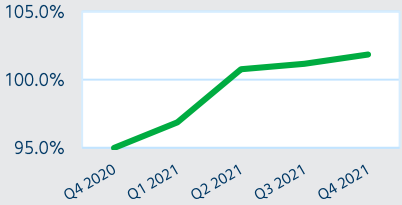
- The fourth quarter of 2021 came with a number of challenges. Global supply chains remained stretched and the new Covid-19 variant was discovered mid-quarter. Soaring inflation also forced some major central banks to accelerate their exit strategies from ultra-loose monetary policies.
- In spite of these headwinds, risk assets fared reasonably well with a few exceptions. The variant scare eased after it proved to be less vaccine resistant and severe than initially feared.
- Inflation expectations increased, and gilt yields generally declined slightly over the quarter.

Mercer market views

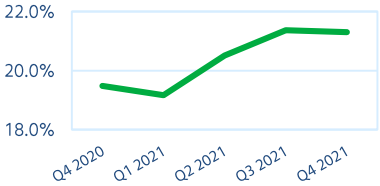
- Our medium term macroeconomic outlook for 2022 remains solid despite some turbulence in January.
- Low unemployment should bolster an consumption driven recovery, and inflation is likely to peak in the coming months and fall back towards central bank targets.
- Our outlook for returns over a 1-3 year time horizon for the major asset classes are summarised below:

Funding level and risk

- The funding level is estimated to have improved over Q4 to c.102%, as asset growth outweighed the rise in the value of the liabilities.
- It is estimated to have increased by 7% over the year to 31 December 2021 (as illustrated to the right).



- The Value-at-Risk rose over the quarter to £1,233m, mainly due to the increased allocation to equities under the new strategic asset allocation.
- It was however broadly unchanged as a percentage of liabilities at 21.3%.
- Risk as a proportion of liabilities is lower compared to last year thanks to the decision to move to the dynamic equity option strategy.



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Executive summary

Performance

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

- Underperformance relative to the strategic benchmark over the one and three year period to 31 December 2021 is mainly due to the impact of the equity protection strategy.
- Relative performance was mixed at the mandate level, though the Hedge Fund and Core Infrastructure mandates have continued to stand out in outperforming their benchmarks. The Secured Income mandate has also done well over the year.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	3.6	14.2	8.2
Strategic Benchmark **(2)** (ex currency hedge)	3.8	16.0	10.3
Relative **(1 - 2)**	**-0.2**	**-1.8**	**-2.1**

- Absolute returns for all global equity mandates have been comfortably above the strategic returns modelled at the last investment strategy review in March 2019, given the strength of equity markets. Emerging market equities fell below strategic expectations prior to termination in Q4, due to contractions in 2021.
- Infrastructure returns have been above expectations, and the Brunel UK Property mandate has had a good first year. Returns from the Partners Overseas Property mandate are below strategic expectations since 2019, though it has fared better over longer time horizons.

Asset allocation and strategy

- During the quarter, the Fund transferred most holdings in the Low Carbon Equity fund to the Brunel passive Paris-Aligned Equity fund.
- It also terminated its holdings in Emerging Markets Equity, for which the strategic allocation was distributed between the High Alpha and Sustainable Equity mandates (which still contain emerging markets exposure).
- In practice the High Alpha holdings were topped up during the period, with the Sustainable Equity top-up to take place in 2022 using the remaining Low Carbon equity holdings.
- From a strategic perspective, the allocation to Diversified Returns was also reduced, and the global equity mandates correspondingly increased in order to maintain the overall expected return of the portfolio in light of the reduction in emerging markets equities.
- 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.

Liability hedging mandate

- BlackRock were in compliance with their investment guidelines over the quarter.
- No triggers were breached over the quarter.
- The recent recalibration of the Fund's Liability Benchmark Portfolio showed that the interest rate and inflation hedge ratios were broadly in line with the respective 10% and 40% targets.

Equity option mandate

- Market value of options at end of the quarter was negative (£25m) as equity markets have risen since inception of the dynamic strategy in May, and overall markets rose further over Q4, despite the mandate protecting against falls in emerging markets.

Collateral position

- Collateral within agreed constraints.
- The BlackRock QIF could sustain a 3.4% p.a. rise in interest rates, a 12% fall in the value of the options, or a 0.5% fall in inflation before the early warning trigger is breached.

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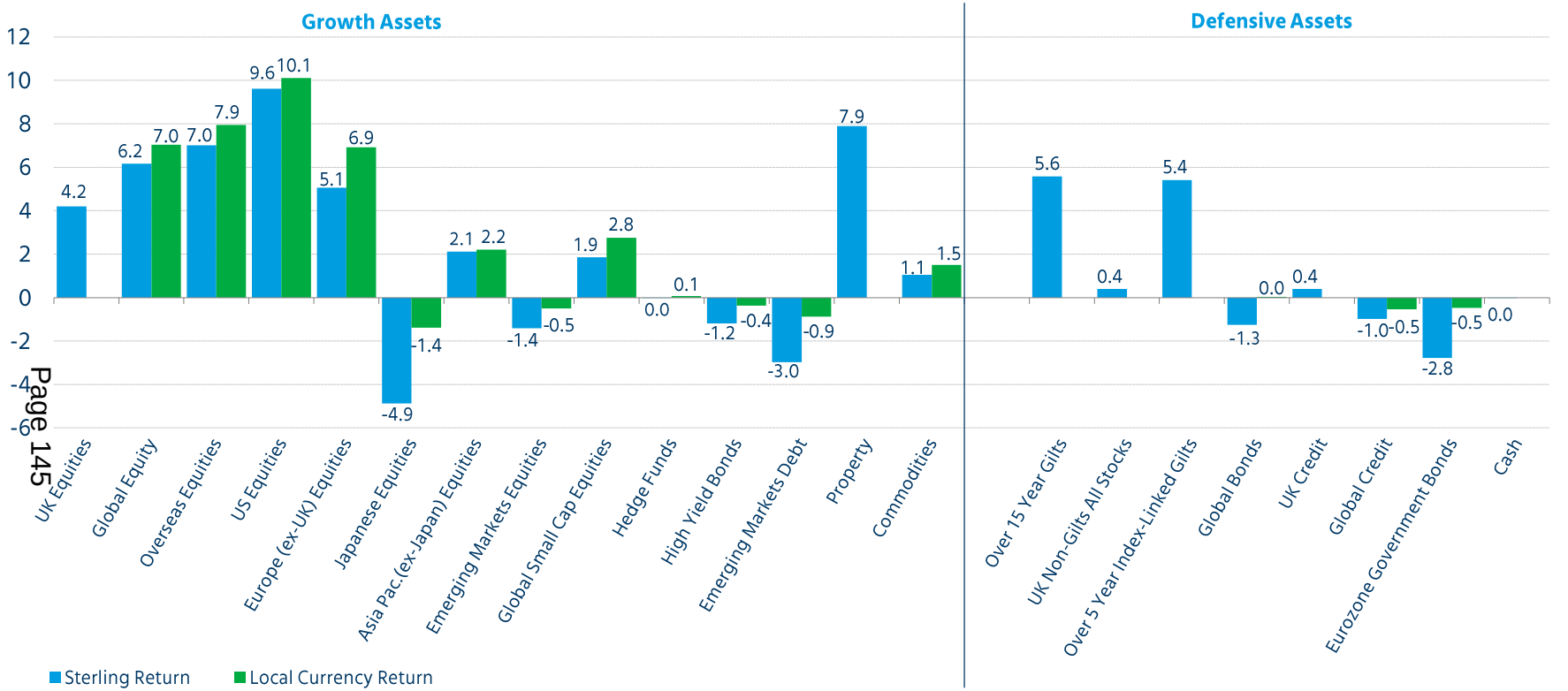
Market background

2

Market background

Return over 3 months to 31 December 2021 (%)



The fourth quarter of 2021 came with a number of challenges. Global supply chains remained stretched and some countries in continental Europe re-introduced Covid-19 related restrictions. This intensified with the discovery of a new variant, Omicron, mid-quarter. To make it worse, soaring inflation forced some major central banks in developed and emerging economies to accelerate their exit strategies from ultra-loose monetary policies. In spite of these headwinds, risk assets fared reasonably well with a few exceptions.

The variant scare eased after it proved to be less vaccine resistant and severe than initially feared. Whilst less accommodative monetary conditions would normally be bad news, markets had been pricing in tighter monetary policy for a while.

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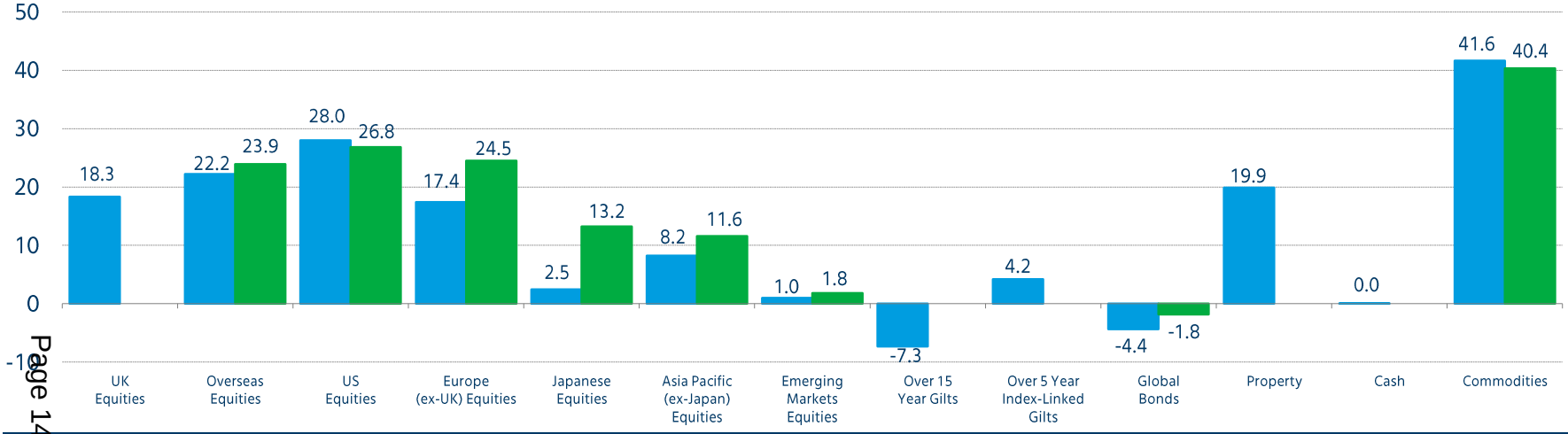
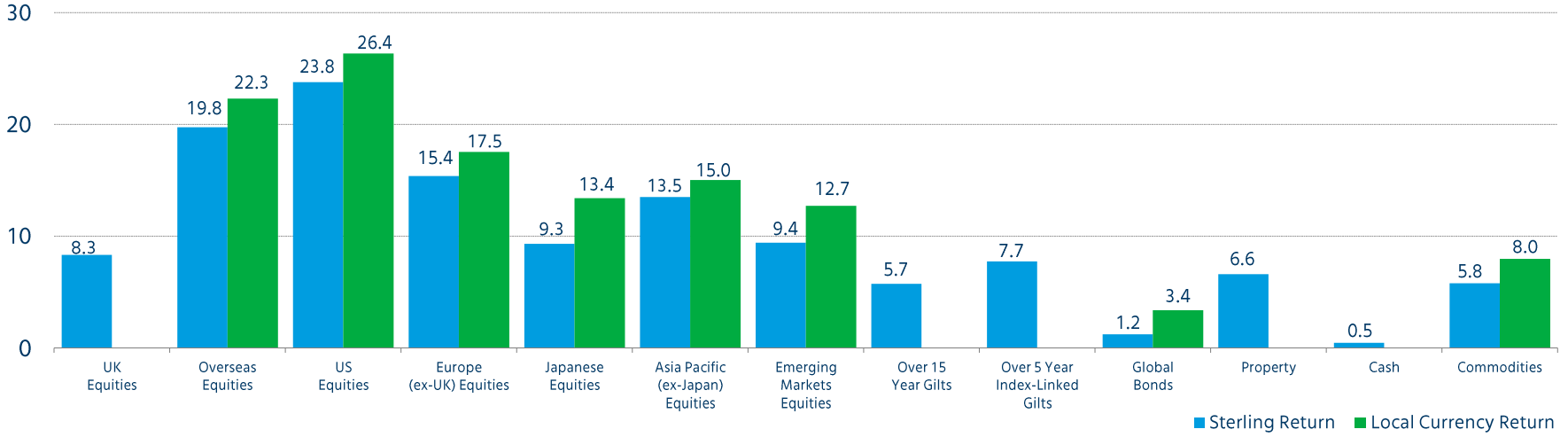
Source: Refinitiv

Market background – longer term

Return over 12 months to 31 December 2021 (%)



Return over 3 years to 31 December 2021 (% p.a.)



Mercer

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Source: Refinitiv

Funding level and risk

3

Change in deficit

Based on financial markets, investment returns and net cashflows into the Fund, the surplus was estimated to have increased further over Q4 to £107m.

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.

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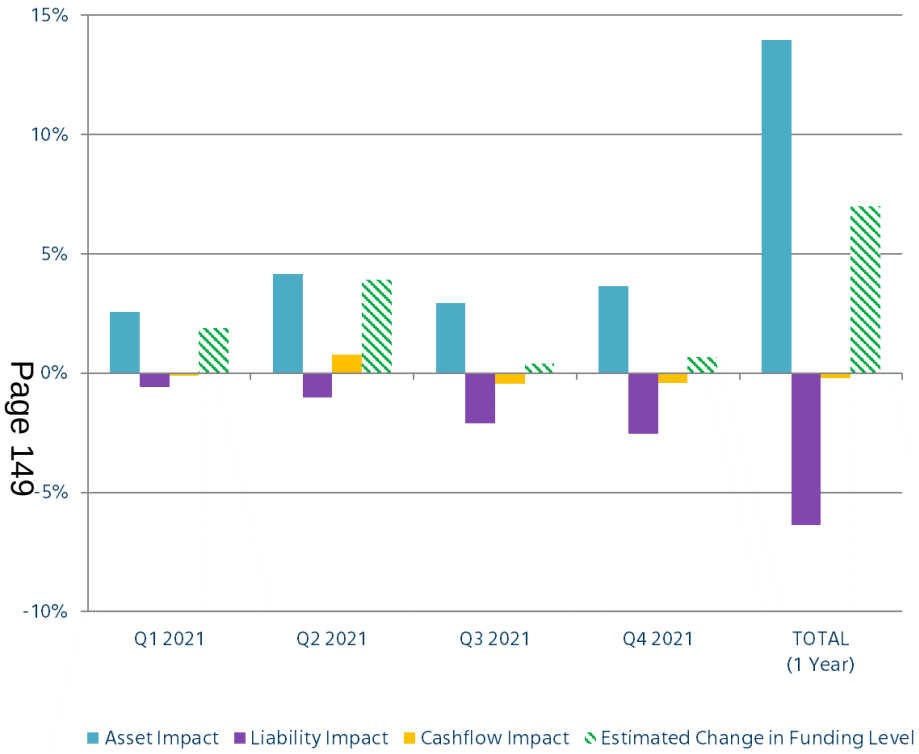
Funding level attribution



The Fund's assets returned 3.6% over the quarter, whilst the liabilities are expected to have increased by c. 2.6% 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 102%.

The funding level is estimated to have increased by c. 7% over the year to 31 December 2021.

Impact figures are estimated by Mercer.

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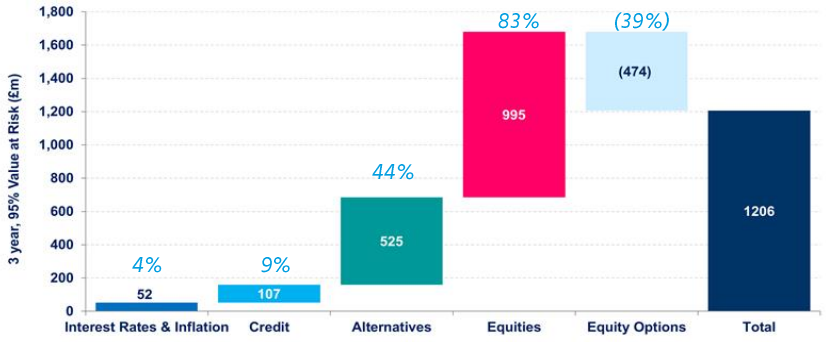
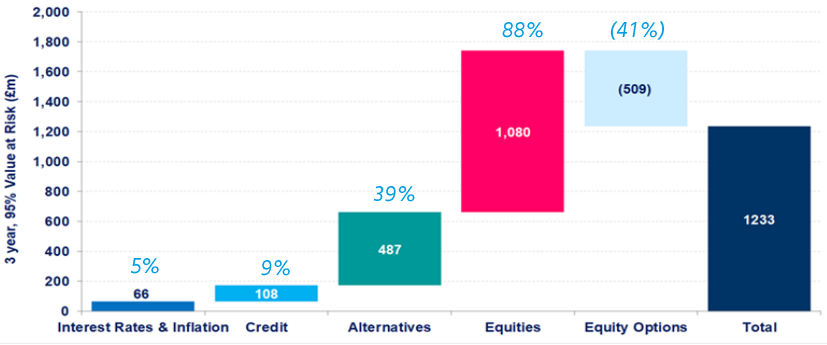
Risk decomposition – 3 year Value at Risk

- 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 September 2021



31 December 2021



- As at 31 December 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 increased allocation to equities under the new strategic asset allocation, as well as the rise in the absolute value of the assets.

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.

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Performance summary

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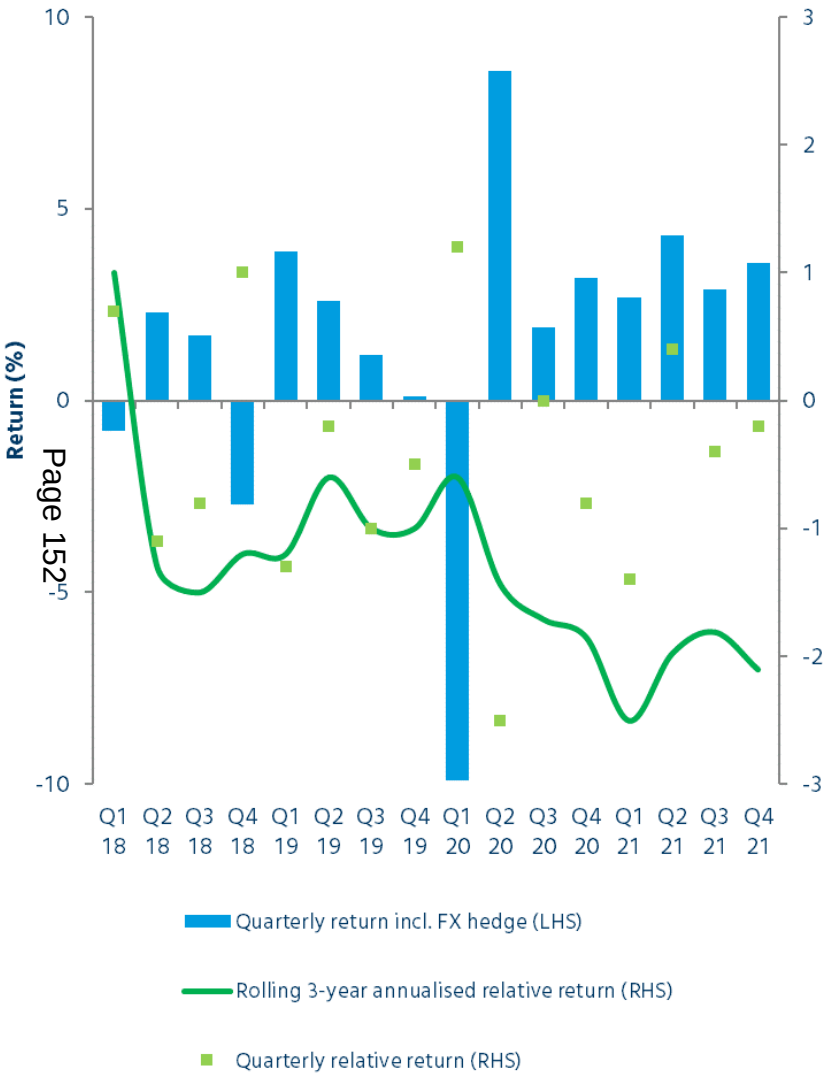
Total Fund performance



	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	3.6	14.2	8.2
Total Fund (ex currency hedge)	3.3	14.0	7.8
Strategic Benchmark **(2)** (ex currency hedge)	3.8	16.0	10.3
Relative (1 - 2)	**-0.2**	**-1.8**	**-2.1**

Commentary

- Most assets delivered positive returns over the quarter, with Global Equities doing particularly well. Property and Infrastructure also had a strong period amid a benign valuation environment for the underlying assets.
- The Fund underperformed its benchmark mainly due to the detraction from the equity protection as developed equities were strong, and underperformance of the High Alpha mandate and multi-asset mandates against their benchmarks. The Currency Hedge overlay added to overall returns due to a strengthening of sterling.
- High Alpha underperformed due to stock selection and an overweight to China, though elsewhere within the equity portfolio, the Sustainable Equity mandate outperformed thanks to sector allocation, particularly in IT. These mandates make up over a quarter of the Fund's strategic allocation.
- 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. Secured Income has also done well over the year.
- 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.

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Mandate performance to 31 December 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	7.9	7.3	+0.6	23.4	22.9	+0.4	19.6	19.2	+0.3	-	N/A
Brunel Global High Alpha Equity	6.3	7.4	-1.0	21.9	23.5	-1.3	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	6.8	6.3	+0.5	20.5	20.1	+0.3	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Low Carbon Equity	7.4	7.4	0.0	23.1	23.2	-0.1	20.1	20.2	-0.1	-	N/A
Brunel Emerging Market Equity	-1.8	-1.7	-0.1	-1.9	-1.3	-0.6	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	0.5	0.8	-0.3	5.5	3.1	+2.3	N/A	N/A	N/A	+4-5	N/A
Brunel Private Debt	-0.9	1.0	-1.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan FoHF	0.2	0.8	-0.6	4.9	3.2	+1.7	10.0	4.3	+5.5	-	Target met
Brunel Multi-Asset Credit	0.4	1.0	-0.6	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel UK Property	7.9	7.5	+0.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	4.4	2.5	+1.8	5.7	10.0	-3.9	2.1	10.0	-7.2	-	Target not met
Brunel Secured Income	2.1	2.4	-0.3	10.7	5.4	+5.0	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	3.3	1.3	+2.0	15.6	5.2	+9.9	8.9	5.6	+3.1	-	Target met
Brunel Renewable Infrastructure	4.6	2.4	+2.1	3.4	5.4	-1.9	N/A	N/A	N/A	+4	N/A
Brunel Private Debt	-0.9	1.0	-1.9	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	1.1	1.1	0.0	-4.9	-4.9	0.0	7.3	7.4	0.0	-	N/A
BlackRock LDI	1.0	1.0	0.0	48.0	48.0	0.0	8.1	8.1	0.0	-	N/A
Equity Protection Strategy	-0.9			-5.7			-5.0			-	N/A

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

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

Performance for JP Morgan and Partners in IRR terms. Performance for IFM is in TWR terms.
Performance of the 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 September 2021 as this is the latest date that this is available. The mandate's inception was in 2009.

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Asset allocation

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Valuations by asset class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Relative (%)
Global Equity	760,524	1,086,633	13.3	18.4	17.0	12 - 22	+1.4
Global Sustainable Equity	607,893	649,094	10.6	11.0	14.5	9.5 - 19.5	-3.5
P. Low Carb/ Paris-Aligned Equity	763,187	822,170	13.4	13.9	10.0	5 - 15	+3.9
Emerging Market Equity	280,490	-	4.9	-	-	- - -	-
Diversified Returns Fund	533,213	535,962	9.3	9.1	6.0	4 - 10	+3.1
Fund of Hedge Funds*	288,796	228,309	5.1	3.9	-	No set range	-
Multi-Asset Credit	322,864	324,157	5.7	5.5	6.0	3 - 9	-0.5
Property	346,729	383,740	6.1	6.5	7.5	5 - 10	-1.0
Secured Income**	385,384	438,515	6.7	7.4	10.0	5 - 15	-2.6
Core Infrastructure	403,824	416,777	7.1	7.1	5.0	2.5 - 7.5	+2.1
Renewable Infrastructure**	70,741	80,341	1.2	1.4	5.0	2.5 - 7.5	-3.6
Private Debt	19,530	42,418	0.3	0.7	5.0	0 - 7.5	-4.3
Corporate Bonds	132,115	133,538	2.3	2.3	2.0	No set range	+0.3
LDI & Equity Protection	630,516	615,390	11.0	10.4	12.0	No set range	-1.6
Cash***	164,295	137,325	2.9	2.3	-	0 - 5	+2.3
Total	**5,710,314**	**5,894,582**	**100.0**	**100.0**	**100.0**		

Source: Custodian, Investment Managers, Mercer. Red numbers indicate the allocation is outside of tolerance ranges.
Totals may not sum due to rounding and other residual holdings.
*Mandate due to be terminated.
**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	275,451		297,132	4.8	5.0
Brunel	Global High Alpha Equity	448,289	275,580	756,038	7.9	12.8
Brunel	Global Sustainable Equity	607,893		649,094	10.6	11.0
Brunel	Global Low Carbon Equity	763,187	-574,942	225,669	13.4	3.8
Brunel	Passive Dev Eq Paris Aligned	0	574,901	596,501	0.0	10.1
Brunel	Emerging Market Equity	280,490	-275,580	0	4.9	0.0
Brunel	Diversified Returns Fund	533,213		535,962	9.3	9.1
JP Morgan	Fund of Hedge Funds	288,796	-59,332	228,309	5.1	3.9
Brunel	Multi-Asset Credit	322,864		324,157	5.7	5.5
Brunel	UK Property	140,467	43,880	198,282	2.5	3.4
Schroder	UK Property	29,669	-17,980	11,909	0.5	0.2
Partners	Overseas Property	176,593	-8,030	173,549	3.1	2.9
Brunel	Secured Income*	385,384	44,062	438,515	6.7	7.4
IFM	Core Infrastructure	403,824		416,777	7.1	7.1
Brunel	Renewable Infrastructure*	70,741	6,130	80,341	1.2	1.4
Brunel	Private Debt	19,530	22,963	42,418	0.3	0.7
BlackRock	Corporate Bonds	132,115		133,538	2.3	2.3
BlackRock	LDI & Equity Protection	630,516		615,390	11.0	10.4
Record	Currency Hedging**	16,330	-12,000	22,354	0.3	0.4
BlackRock	ETF	102,066	-40,000	65,532	1.8	1.1
Internal Cash	Cash***	80,830		81,060	1.4	1.4
Total		5,710,314	-20,451	5,894,582	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.
*** Start of quarter valuation includes assets in transit.

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Appendix

Q4 2021 equity market review

Equity markets performance was strong over the fourth quarter.

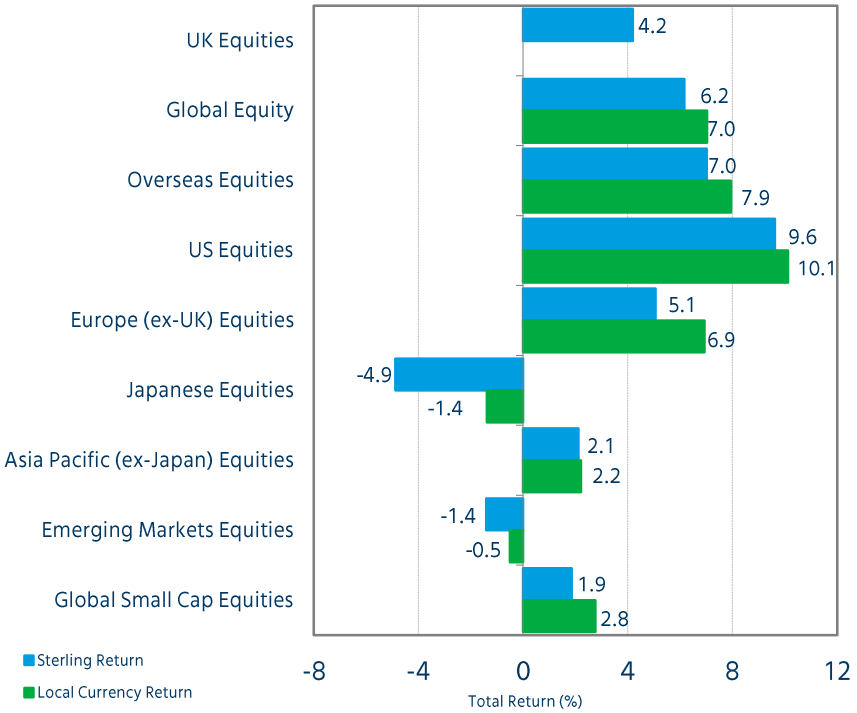
Global Equities returned 7.0% in local currency terms. Markets sold off mid-quarter as the risk of meaningful Covid-19 restrictions returning following the discovery of the latest variant were priced in; but rallied towards year end when this did not materialise.

US equities returned 10.1% in local terms, supported by the favourable earnings outlook, whilst **European (ex-UK) equities** returned 6.9%. **Japanese equities** stood out as the only large developed market with negative returns of -1.4%. For both Europe and Japan, the aforementioned supply chain stresses and high energy prices were headwinds.

Emerging markets equities returned -0.5% in local terms. Russian and Brazilian equity markets performed poorly over the quarter as the commodity price rally stalled somewhat, China continued to grapple with the impact of the property market slowdown on the wider economy whilst supply chain stresses were also a headwind for South Korea.

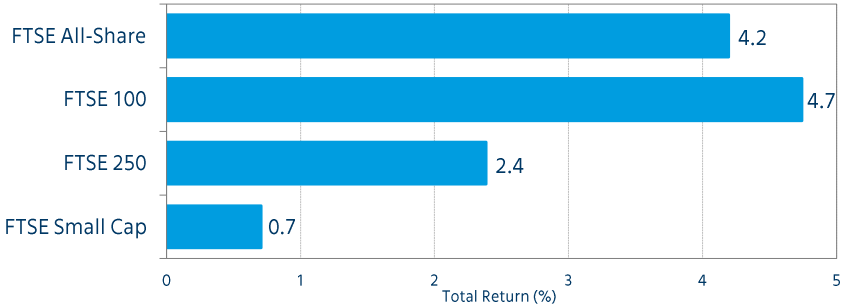
Global small cap stocks returned 2.8% in local terms. Small caps lagged global equities as investors opted for less cyclical stocks in a quarter that cast some doubt on the durability of the economic rebound, at least in the short term.

Equity Performance - Three Months to 31 December 2021



The FTSE All Share index returned 4.2% over the quarter with the large cap FTSE 100 index returning 4.7%. UK small cap and mid-cap stocks produced positive returns, after initial sell-offs amid the risk of the latest Covid-19 variant on consumption and business activity in the short term.

FTSE Performance by Market Cap - Three Months to 31 December 2021



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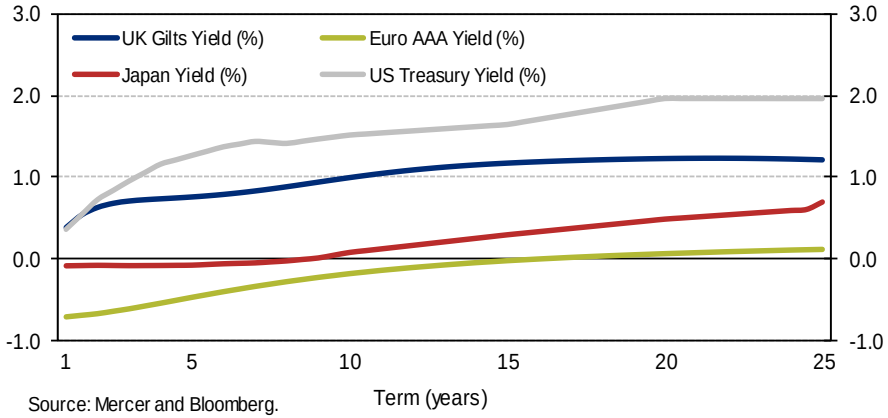
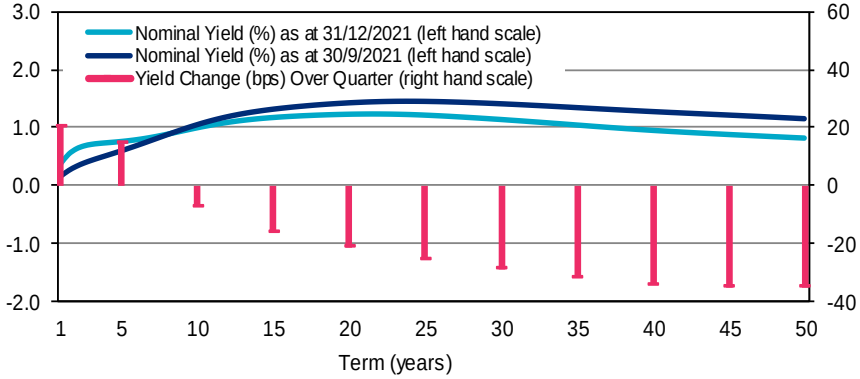
Source: Refinitiv

Q4 2021 bond market review



Source: Mercer and Bloomberg.
End date taken as at 30 December 2021.



Source: Mercer.
End date taken as at 31 December 2021.

Government Bond Yields

Global government bond yields generally declined slightly over the quarter as concerns around the Omicron variant sparked risk-off sentiment. Gilt yields fell by most compared to other countries and the curve flattened, whereas US 10-year Treasuries remained largely unchanged over the quarter.

Both the Federal Reserve and the Bank of England signalled less accommodative stances, heralding an end to ultra-loose monetary policy. This triggered an increase in short term rates in both the US and UK. The effect was less pronounced in the Eurozone.

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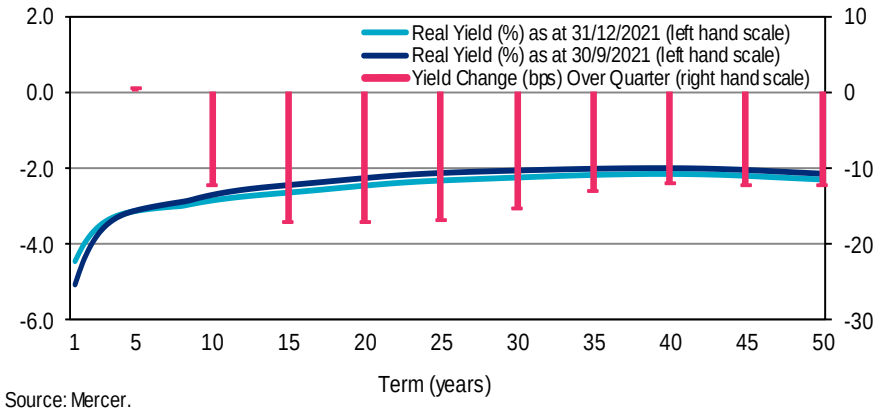
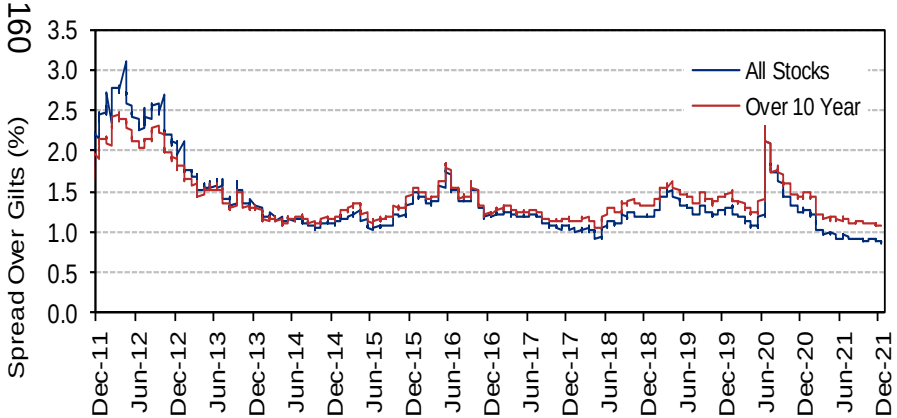
Q4 2021 bond market review



Source: Mercer.
End date taken as at 31 December 2021.

UK Index-Linked Gilt Yields

UK real yields fell across the curve, except for at the short end. Market based measures of inflation expectations, in the form of breakeven inflation, shifted upwards which added to the modest fall in nominal yields. The UK 10-year breakeven rate rose to 4.2% intra-quarter but fell back to 4.0% by quarter end – still the highest level since the 2008 Financial Crisis.



Source: Refinitiv.
End date taken as at 31 December 2021.

Corporate bonds

Spreads on UK investment grade credit generally rose which largely offset the decrease in gilt yields, leading to almost flat performance over the quarter.

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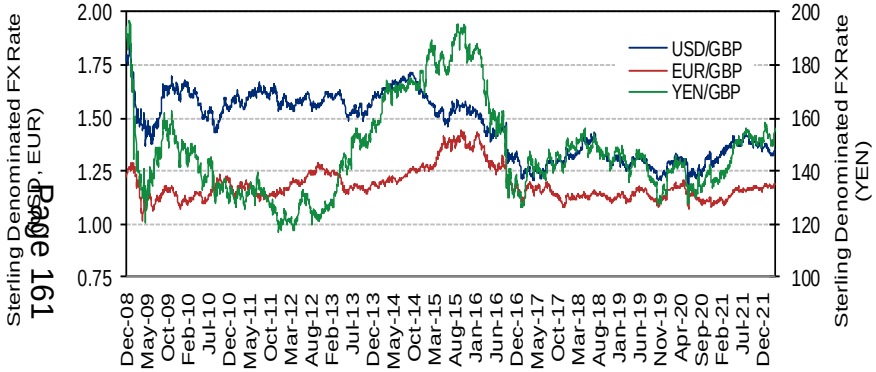
Q4 2021 currency market review

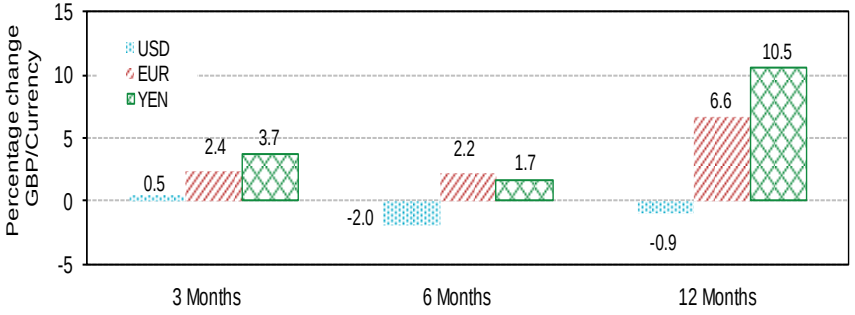
Sterling appreciated against the US dollar, euro and yen over the quarter, following the Bank of England's interest rate increase at year end. For the year as a whole, sterling has appreciated considerably vs yen and euro as stronger economic growth and the prospect of rising UK yields makes sterling more attractive relative to the former two, but has weakened marginally against US dollar as US monetary conditions are tightening as well.

Sterling Denominated FX Rate



Source: Refinitiv.

Change in sterling against foreign currencies



Source: Refinitiv.
Performance figures for 3 months, 6 months and 12 months are shown since 31 December 2021, 30 June 2021 and 31 Decemeber 2020 to 31 December 2021 respectively.

Q4 2021 property

UK property as measured by the MSCI Index increased by 7.9% over the quarter to 31 December 2021.

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Source: Refinitiv

Summary of mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Global Equity	MSCI World	-	December 2017
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-	July 2018
Brunel	Passive Paris Aligned Developed Equity	FTSE Developed World PAB Index	-	October 2021
Brunel	Emerging Market Equity	MSCI Emerging Markets	+2 -3%	October 2019
Brunel	Diversified Returns Fund	SONIA	+4-5%	July 2020
JP Morgan	Fund of Hedge Funds	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	-	-

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Market background indices

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

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Mercer

Ukraine and Russia

An Action Checklist

1 March 2022

welcome to brighter

What we simply don’t know

How or when the conflict will end

Treaty with ceded territories like Crimea?
Prolonged conflict ending in annexation?
Russian regime change?

Full scale and impact of sanctions

With Ukraine and Russia being significant mineral, energy and commodity producers, there will be complex and unpredictable effects on many businesses and markets

Financial market linkages

Exclusion from SWIFT unprecedented for such a large economy and commodity producer.
Knock-on effects of asset seizures?

Policy Response in West

Will central banks pause from rate hikes and QE unwinding?
Will governments assist affected Western businesses?

What does history teach us?

Globally significant conflicts and the S&P 500

Event	Date of event	Duration of Sell-off (Trading Days)	Size of Sell-off (%)	Days to recover prior level	12 Months from Bottom (%)
WWII – Germany attacks France	9 May 1940	22	-20.5	108	18.9
WWII – Pearl Harbour	7 Dec 1941	17	-10.8	201	15.3
Israel Arab War / Oil Embargo	16 Oct 1973	27	-17.1	1475	-28.2
First Gulf War	16 Jan 1991	6	-5.7	8	31.4
Iraq War	20 Mar 2003	7	-5.3	16	32.8
Annexation of Crimea	14 Mar 2014	6	-2.0	13	11.5

Source: Deutsche Bank, Haver Analytics,

Other factors than the conflicts themselves were at play in each period so movements are only indicative

Three things we do know

1

Higher Energy Prices

Some forecasters expect oil to hit $110-$120 per barrel, with similar moves in other energy prices

Gas supply lines could be disrupted globally and supplies potentially under threat, particularly in Europe

2

Supply Chains Disrupted

East-West trade links disrupted around conflict zone. Alternative routes slower and more costly

Prolonged conflict could exacerbate global chip shortage, and affect other tech industries reliant on key minerals

3

Volatility and illiquidity

Ruble and Russian assets have borne brunt to date.

Expectations of pause in monetary tightening supportive of other assets

Heightened volatility and sporadic illiquidity likely to persist in most markets

Action Checklist

1. Direct exposure to Russia likely to be small but should engage with investment managers to assess potential range of indirect risk exposures to the conflict
2. Review hedging strategy, given movements in market-implied inflation and gilt yields. Depending on scheme circumstances, could be opportunity to increase rate hedging, or reduce inflation hedging, as inflation caps come into play
3. Where equity and credit spread risk high, consider “tactical” options for reducing identified risk exposures, subject to market levels and conditions (e.g. futures, options, Credit Default Swaps)
4. Reconfirm desirability of any planned changes to current portfolio given transactions costs higher due to market volatility and sporadic illiquidity
5. Removal of Russia from global equity and fixed incomes indices likely, which could result in illiquid off-benchmark exposures. Discuss exit strategy with investment managers.
6. Consider whether member expectations, or broader reputational risk, warrant disinvestment from all holdings in Russian assets, irrespective of exit costs

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Avon Pension Fund
Members' Responsible Investment Survey

Bath & North East Somerset Council

AVON PENSION FUND

lgps 2014

Survey Results
03 December 2021

Thank you, the survey is now complete.

We appreciate you taking the time to complete this survey.

Campaign stats:

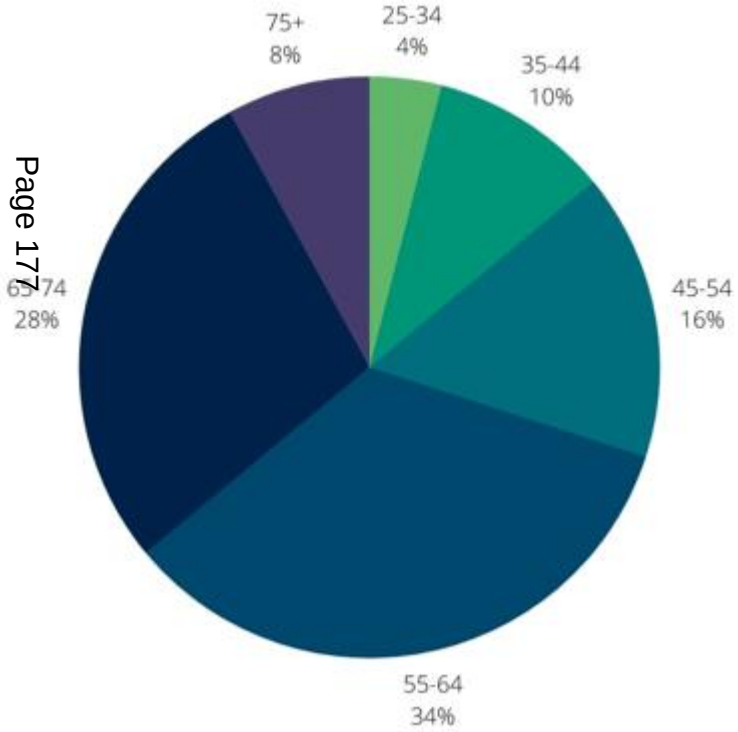
- 41,358 Members contacted
- 3,765 Completions
- 9.1% Completion rate

We ran a follow-up campaign targeting those who had either:
- opened the email and not clicked the survey link,
or
- who hadn't opened the email at all.

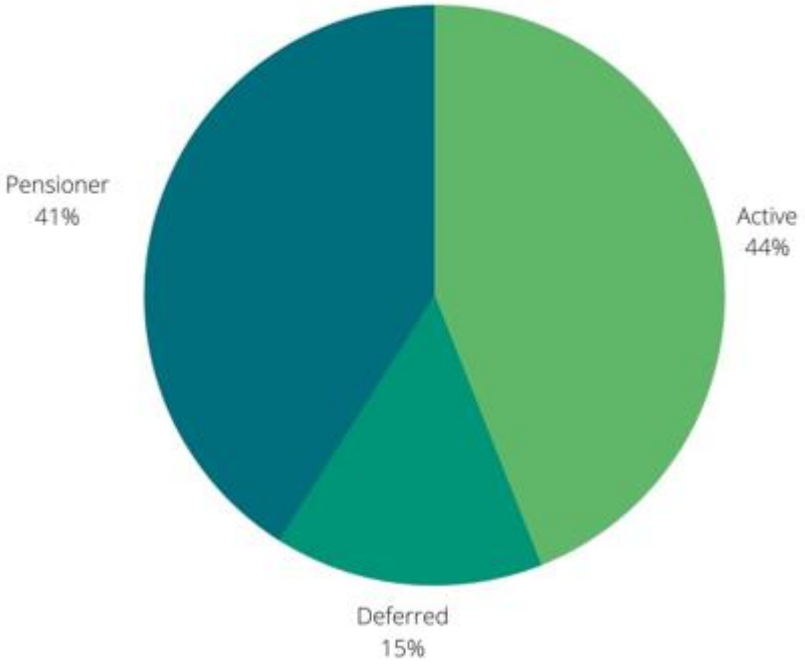
This yielded an extra 829 survey completions bringing us up to that figure of 3,765 quoted above.

Demographics

1. Please tell us your age range

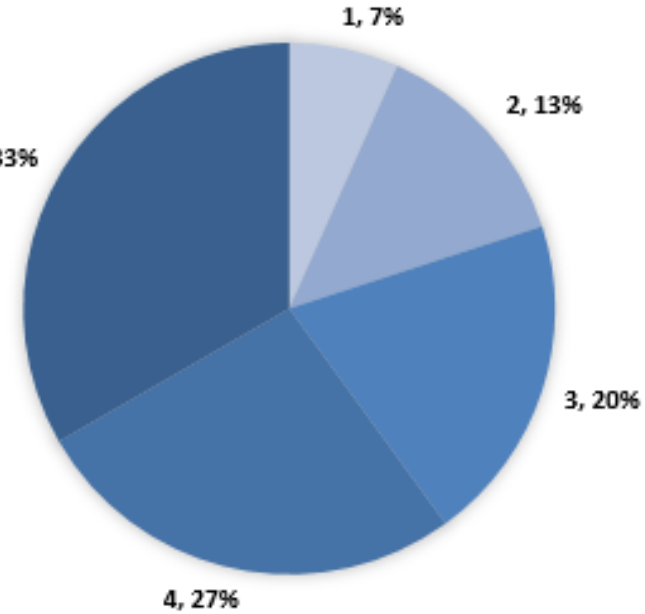


2. What is your membership status?



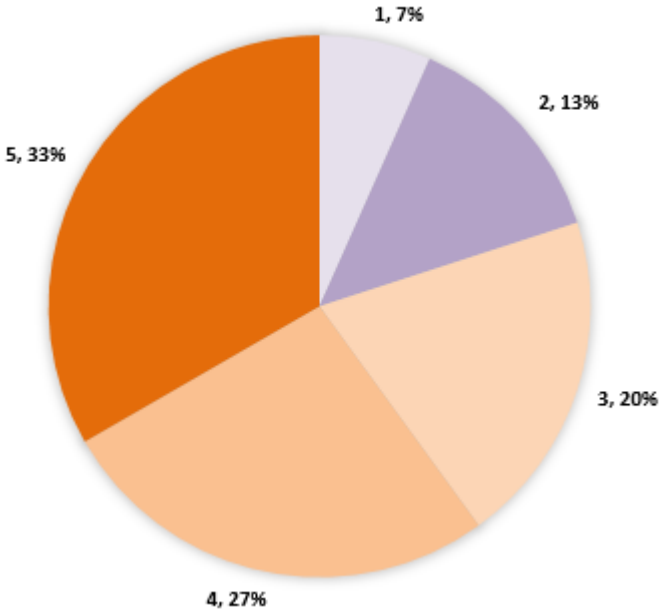
How important is RI to our Members (1)?

3. What level of interest do you have in how Avon Pension Fund invests?



1 = Not interested
5 = Very interested

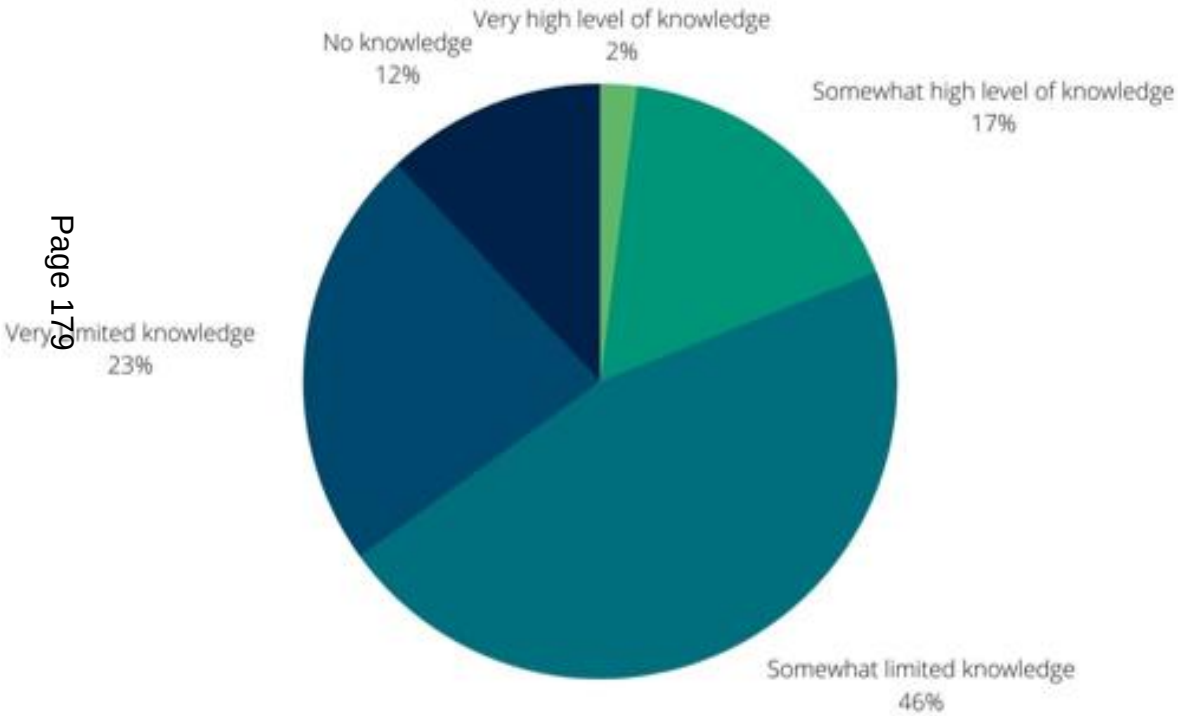
5a. How important do you think it is for the Fund to take account of Responsible Investment issues when making investment decisions?



1 = Not important
5 = Very important

How important is RI to our Members (2)?

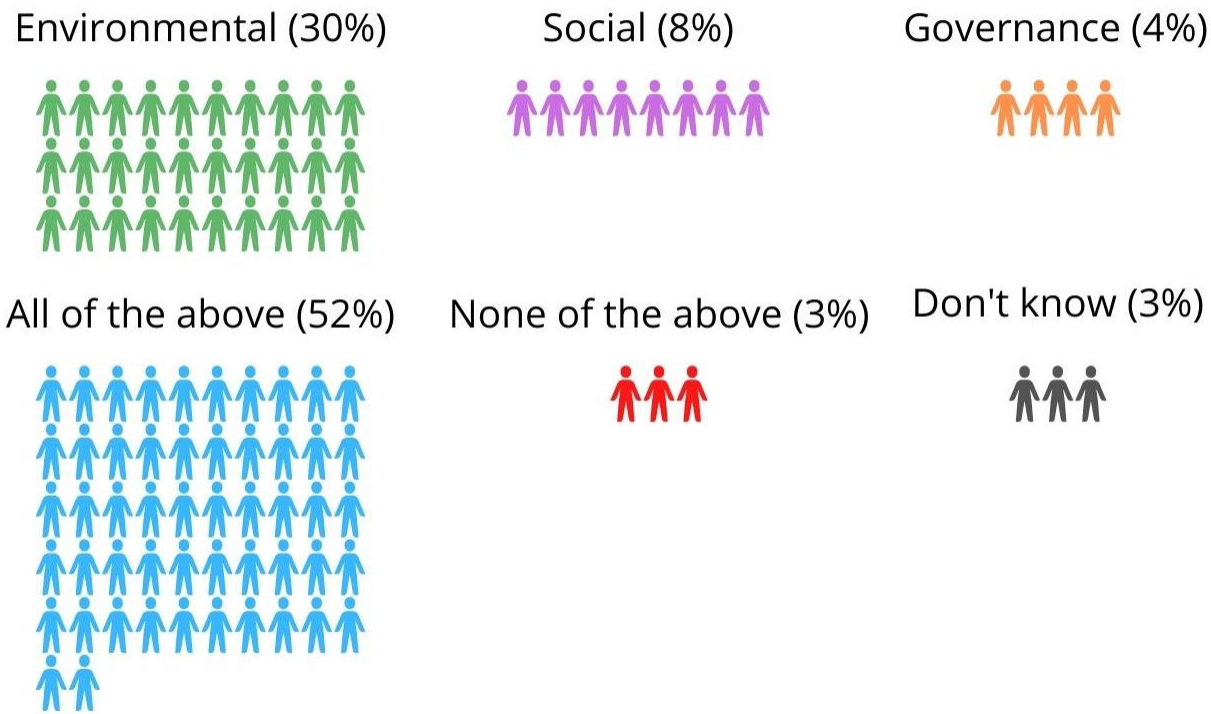
4. What level of knowledge do you already have of Responsible Investing?



How important is RI to our Members (3)?

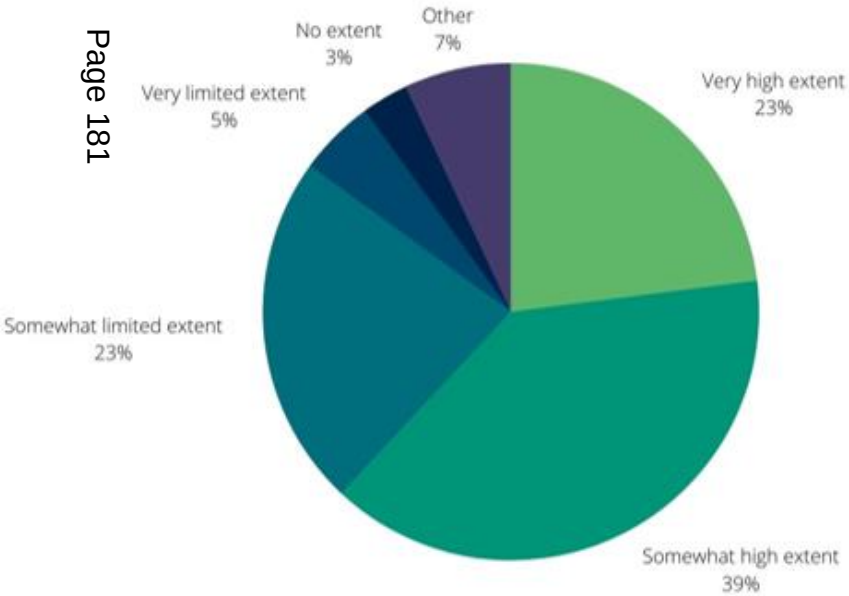
6. Which of the following areas of Responsible Investment do you believe is the most important for the fund to consider?

The majority of respondents believed Environmental is the most important, **or equally** important as the rest

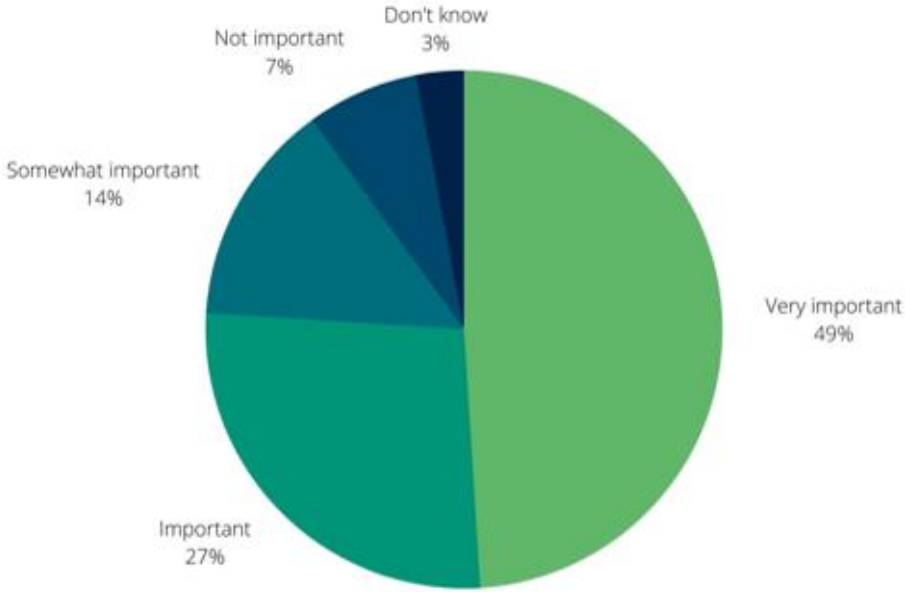


Climate Risk as a Financial Risk…

7. To what extent do you believe that climate change presents a financial risk to the Pension Fund's investments?

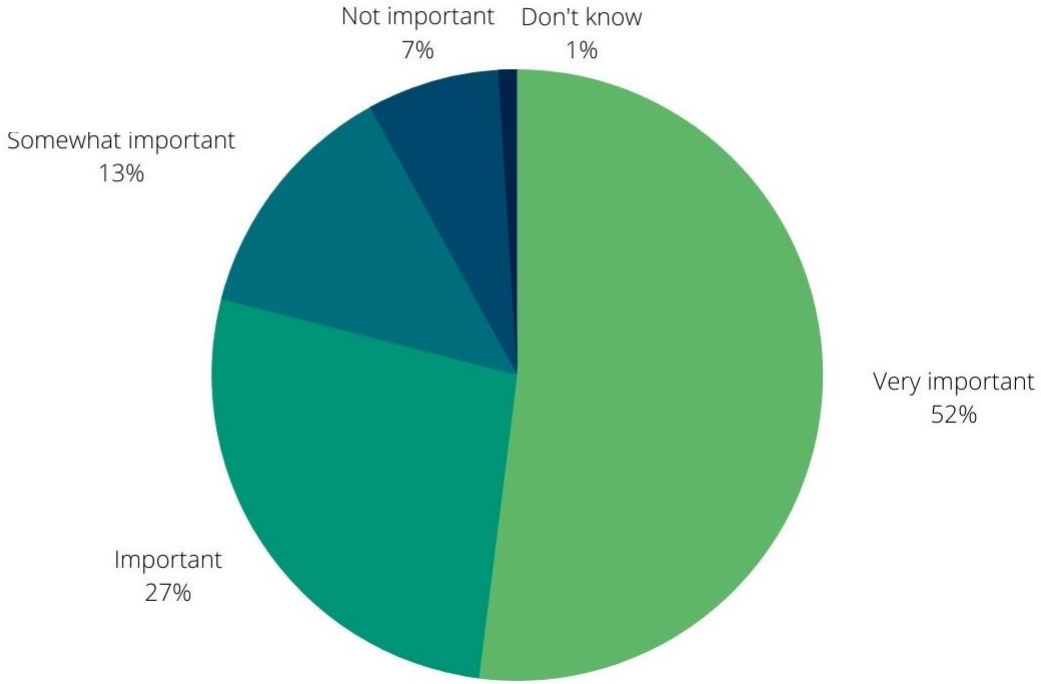


8. Is it important to you for Avon Pension Fund to invest in sustainable and/or low carbon assets?



Using our influence to bring about change…

9. Is it important to you that Avon Pension Fund seeks to influence the behaviour of the individual companies in which it invests, to bring about better environmental and social outcomes?

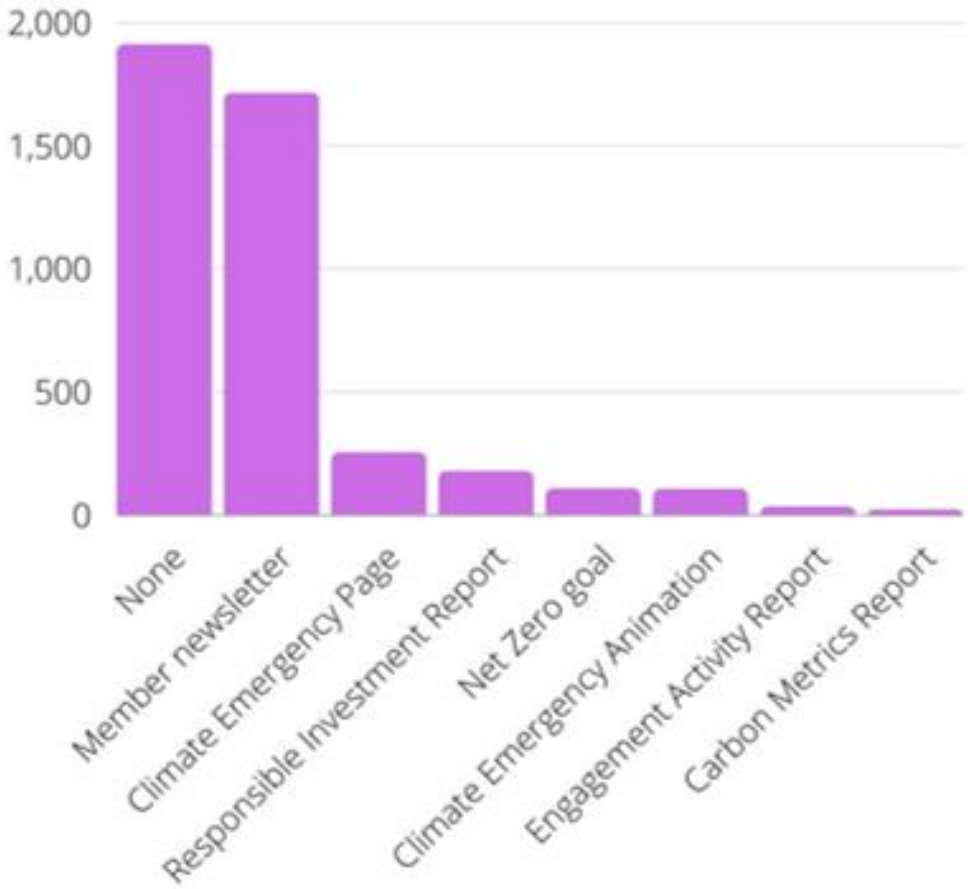


Other comments and feedback

Theme of comment	No. of comments	% of total comments
1. Supportive of integrating ESG factors into investment decisions	219	31%
2. Calling for investment strategy to go further on RI	177	25%
3. Stating investment returns should be prioritised over anything else	68	10%
4. Thanking the Fund for engaging on RI	9	1%
5. Requesting further information on RI	21	3%
6. Other	207	30%

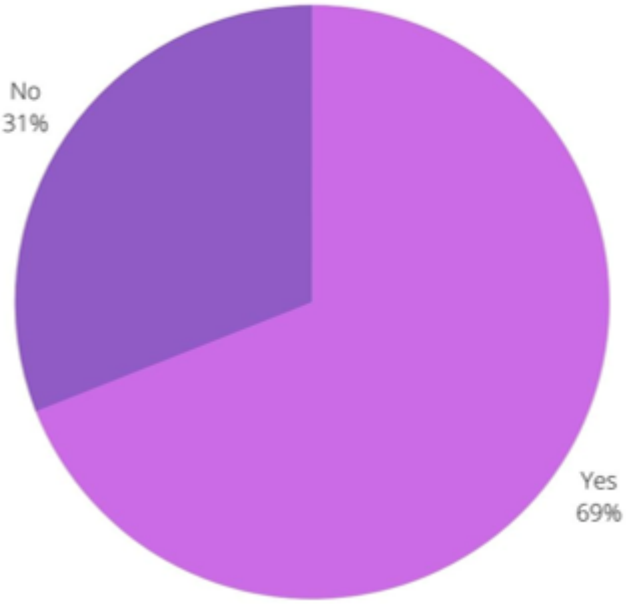
Communications with Members (1)

10. Which of the following publications/announcements from Avon Pension Fund have you seen? (Please select all that apply)

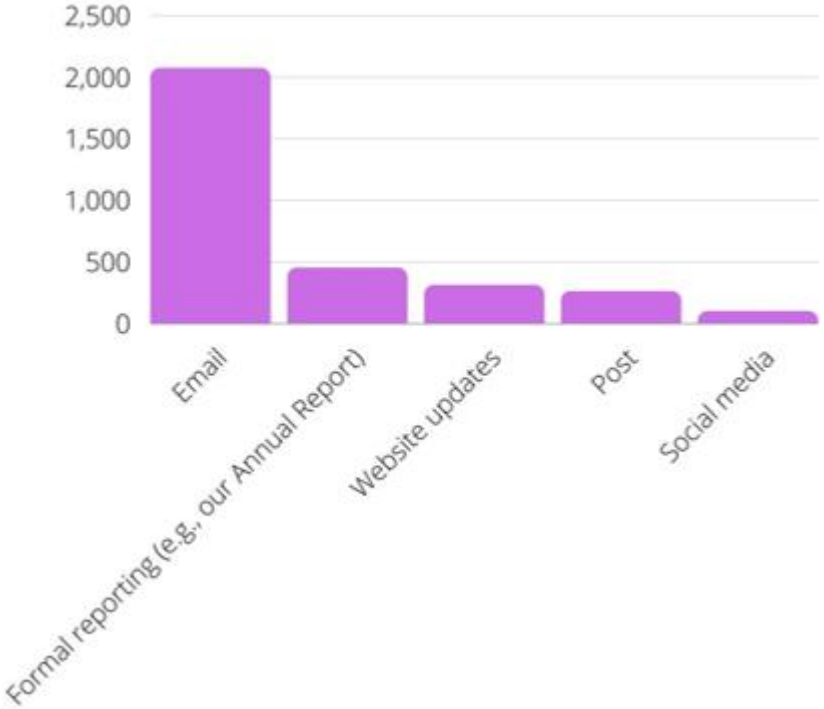


Communications with Members (2)

11a. Would you be interested in learning more about Avon Pension Fund's approach to Responsible Investment?



11b. If you answered 'Yes', what is your preferred method of communication? (Please select all that apply)



What do the results tell us (1)?

- The majority of people agree that it is important for us to take account of **responsible investment** issues when making **investment decisions**

- Over half of people agree the **E, S and G are of equal importance** (of those that selected one option **'E' was considered the priority**)

- The majority agree **climate change presents either a high risk** or very high risk to returns

- 75% of people think investing in **sustainable and low carbon assets is important**

- The vast majority believe it is important to **use our influence as an investor to bring about better environmental and social outcomes**

What do the results tell us (2)?

- Nearly half of people said they'd **not seen any of the Fund's recent ESG related communications**

- Of those members that had seen recent communications, **the newsletter was the most popular channel followed by the website**

- **The majority of people said they wanted to know more** and that email was the preferred method of communication

How do the results support the Fund's current approach to RI?

2021 at a glance

30%
less carbon intensive than broader equity market

£380 million
committed to investment in renewable infrastructure

>£0.5bn
invested in new Paris Aligned Benchmark (PAB)

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

>650
companies engaged with

Absolute emissions reduced by:
43% by 2025 and
69% by 2030*

Participated in
3,880
company meetings, casting over
50,000 votes

Agrees to increase investment in dedicated sustainable equities to
>£800m

What can we do in response to this survey?

- **Publish the results** of this survey on the website and to actively promote it via multiple channels

- **Review the Fund's progress against its current climate change targets as part of the Fund's 2022/23 strategic review** and to explore further ways to factor in ESG into the investment strategy e.g. impact investing, decarbonisation of other asset classes

- Continue to **build on communications** work using traditional and digital channels e.g. website and social media as key tools

- To follow up directly with those who requested more information with **'member-friendly' formats of the Fund's RI and TCFD Reports**.

- **Seek to enhance knowledge** so members feel better informed e.g. topical areas in RI investing (bioenergy in e-zine)

Appendix – Free text responses from Members

5b. Would you like to add any further comments on how important it is for the Fund to take account of Responsible Investment issues when making investment decisions?

"Pension funds are huge contributors to the impacts of investments on the lives of ordinary people (including in particular the impact of investments on the planet and climate justice) who have little or no control over these impacts so I think the funds have a moral responsibility to consider these issues in everything they do. When doing this I think it is imperative that the fund takes advice from those actively involved in climate emergency activities i.e. NGOs such as Greenpeace, Friends of the Earth etc"

"It's crucial & urgent, particularly in regard to Climate Change. The Fund's target of being carbon neutral by 2050 is not enough. The Fund should align with all the Local Authorities (& other public sector organisations e.g. Avon Fire & Rescue Service) in the Avon area - all of whom have shared goals of Net Zero by 2030. The Fund needs to divest from all direct or indirect investments in fossil fuels urgently. As well as Net Zero, demonstrate how the Fund is addressing the Ecological Emergency through its investments."

"It's clearly the responsible thing to do."

"Investments must be Environmentally sound."

"Best return should be paramount."

"I feel that responsible investments are key to the future, we cannot protect our funds unless we protect the source of their growth."

"I have three young kids who will have to contend with the impact of investment decisions. I don't see why their generation should lose out just so I can profit from harmful investments."

5b. Would you like to add any further comments on how important it is for the Fund to take account of Responsible Investment issues when making investment decisions?

"You need to make as much money as possible so don't get all woke on your members."

"Fund should not take undue risks for example by investing in very speculative companies."

"High Risk is more important than responsible investment... it's important to look after the fund with no risk!"

"Appreciate that ethical investment isn't easy; there are trade-offs. E.g. the mining industry has a poor reputation for worker exploitation, dirty conditions and dirty dealings (blood diamonds etc.). But mining also produces lithium which is needed for our electric cars which are a major part in saving the environment!"

"I would hope there was no irresponsible investment involved."

"I see no sense in investing in organisations that are not committed to sustainability and zero emissions."

"If the fund managers can achieve the necessary growth with responsible investment and sustainable strategies, then that is a good ethical position to hold and promote."

"Critical to addressing Climate Change."

"Stop funding fossil fuels and ecocide related activities."

5b. Would you like to add any further comments on how important it is for the Fund to take account of Responsible Investment issues when making investment decisions?

"I would like to see the APF divest fully from fossil fuel investment. The thought strikes me that we invest in pensions as a security for our future. Yet in using that money to invest in industries that contribute to climate change we are contributing to the single biggest risk that we face in enjoying that a comfortable future. It makes no sense!"

"It is essential that the Fund not only 'take account of responsible investment issues' but that it divests from any fossil fuel investment, that it takes the most strident steps possible in initiatives such as Climate Action 100+ and the IIGCC, and further that it only invests in sustainable and positive activities from now on."

"Inflation is killing us globally the only asset providing a year on year 200% return is bitcoin."

"Whilst I recognise that the trustees have a duty to maximise members investments this is not incompatible with responsible investing. In fact I strongly believe that responsibly run companies will outperform those that are not."

"Essential - large corporations not attending to environmental issues to a level that is going to significantly reduce damage (i.e. beyond tokenism) need to understand that investors will withdraw. Ethical investment also includes the elimination of people exploitation, not just environmental erosion."

"We work in education so Global corporate responsibility should be important to all of us."

5b. Would you like to add any further comments on how important it is for the Fund to take account of Responsible Investment issues when making investment decisions?

"My understanding is some what limited, but I expect the experts to make the right discussions."

"It shows responsibility and gives a message to all non ethical companies in which we would not invest."

"The fund should take into account responsible investment as long as they are also financially sound also."

"I would expect my pension fund to make responsible, moral and ethical investments on my behalf. Not doing so will have economic and climate consequences that will impact myself, my children and future generations."

"My lifestyle follows responsible ways to care for the environment and, through using fair trade and such like products, ethical purchasing. I can't do much myself, but it is the lifestyle I choose. Avon Pension Fund has greater powers and they should lead by example."

5b. Would you like to add any further comments on how important it is for the Fund to take account of Responsible Investment issues when making investment decisions?

“Not having any real knowledge of investment or of what the options are, I am not best placed to comment, but nonetheless I do have an opinion and moral standards which I would like to see reflected in any investment decisions from which I benefit. I appreciate that at the end of the day the investment choices of the Fund will have to be taken from what is currently on offer and will also need to adequately deliver pensions. This will inevitably mean that compromise of some sort will have to be tolerated because perhaps the 'ideal' investments aren't available or there are other mitigating factors which mean they're not a suitable option. However, there are some standards below which I would be unhappy to go and I would not enjoy my pension knowing that my money to support me was being provided 'off the back of another's extreme hardship' or arms dealing etc., It is unrealistic to expect to solve all the worlds problems in one fell swoop and many of these ills have to be changed in stages. For example, to deny a developing nation the freedom to use fossil fuel is in my view unfair. Yes, it is polluting, but it may be used as a step along the way to more environmentally sound methods of fuel production and use. To use child labour is cruel but perhaps the child is the only bread-winner and puts food on the table for the family. These are uncomfortable facts but developed nations should be on the one hand investing whilst at the same time investing to improve the portion of the disadvantaged so that the long term investment is that those in poverty, hardship and unacceptable working conditions will experience significant improvement in their lifetime. I believe we should invest to give back, as much if not more, as invest to take. An example would be to provide schooling for children in developing nations or clean water to a village community.”

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