

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Friday, 30th September, 2022

Bath and North East Somerset Councillors: Shaun Stephenson-McGall (Chair) and Paul Crossley

Co-opted Independent Voting Members: John Finch, Pauline Gordon and Jackie Peel

Advisors: Steve Turner (Mercer) and Nick Page (Mercer)

Also in attendance: Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager) and Jeff Wring (Director - One West)

12 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

13 DECLARATIONS OF INTEREST

There were none.

14 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

15 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair announced that he had agreed that the Panel should receive an update from our advisors / officers regarding the financial markets following the mini budget announcement made by the Government last week.

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

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

There were none.

17 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

18 MINUTES: 27TH MAY 2022

The Panel approved the minutes of the previous meeting.

19 SOCIAL IMPACT PORTFOLIO

The Group Manager for Funding, Investment & Risk introduced the report to the Panel. She explained that the Committee had previously discussed Impact Investing at its meeting in December 2021 and had agreed that the topic would be explored further as part of the Strategic Investment Review in 2022/23.

She added that they were still awaiting the consultation for the draft guidance on Levelling Up from DLUHC so any decisions may be impacted once the guidance is published.

She said that officers have been working alongside Mercer to understand what would be possible on a local / national level and that conversations have been held with both Brunel and Foresight. She added that further work will need to be done prior to the strategic review in 1Q23.

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

The Panel were minded to note:

- (i) The report from Mercer.
- (ii) That officers will undertake feasibility studies of local / social impact opportunities to inform asset allocation decisions at the Strategic Review.

20 DRAFT TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

The Investments Manager introduced the report to the Panel. He explained that the Committee had approved the report last week and that the Communications Team were doing a final revision of it prior to publication.

He added that the Fund is due to respond on this matter to the DLUHC in due course.

The Panel is minded to note the draft 2021/22 Taskforce on Climate-related Financial Disclosures Report with it having been approved by the Committee at its September meeting.

21 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2022

The Investment Manager introduced the report to the Panel.

Steve Turner, Mercer addressed the Panel and referred them to page 100 of the agenda pack. He explained that the chart shows the attribution performance of the Fund for 12 months to June 2022.

He said that it has been a challenging period for investment markets due to the high rise in inflation. He added that as a result in the rise of bond yields this has seen a negative performance in equity markets.

He explained that the Dynamic Equity Protection Strategy remains a positive initiative for the Fund as although since implementation equity markets have gone down around 10%, this is only 8% in real terms. He added that the currency hedging policy would need to be reviewed at some point.

Pauline Gordon asked what proportion of schemes / quantum of assets were not able to fulfil their LDI commitments and whether that would lead to a demand in long lease property or alternative matching assets.

Steve Turner replied that anecdotally, clients that have bespoke segregated arrangements in place have been able to react to events more quickly over the past week and have not had to reduce hedging levels. He added that in terms of long lease property we need to be mindful of the number of private sector schemes that might be looking to either buy in or buy out.

He said that Brunel were one of the largest purchasers of long lease property assets in recent times.

The Group Manager for Funding, Investment & Risk asked why the pooled LDI funds took the decision to de-gear the leverage – was it due to a lack of available funds or accessing collateral from their clients.

Steve Turner replied that it was probably a combination of both, but said that this did not happen to all pooled LDI funds. He added that some managers were simply not able to buy the Gilts they wanted to and that the Bank of England were only able to purchase £1 billion from a target of £5 billion.

The Panel were minded to:

- (i) Note the information as set out in the reports.
- (ii) Identify any issues to be notified to the Committee.

22 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 JUNE 2022

The Investment Manager introduced the report to the Panel.

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

The Panel was minded to note:

- (i) The performance of each of the underlying RMF strategies
- (ii) The decision by FRMG to adjust the inflation trigger framework to reflect the RPI/CPI difference
- (iii) The ongoing FRMG consideration regarding the hedge ratio of the LDI portfolio
- (iv) That the FRMG may consider adjusting the interest rate trigger framework to reflect current market conditions so that the Fund hedges at attractive levels.

23 FORWARD AGENDA

The Investment Manager introduced the report to the Panel. He informed them that a provisional list of agenda items for the 25th November 2022 meeting were listed within the report.

The Panel were minded to note their forward agenda.

The meeting ended at 11.55 am

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services