Bath & North East Somerset Council

Improving People's Lives

Informal - Avon Pension Fund Committee Investment Panel

Date: **Friday, 30th September, 2022**
Time: **10.00 am**
Venue: **Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil**

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

Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch, Pauline Gordon and Jackie Peel

Chief Executive and other appropriate officers
Press and Public

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

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

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

3. **Recording at Meetings:-**

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Avon Pension Fund Committee Investment Panel - Friday, 30th September, 2022

at 10.00 am in the Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil

A G E N D A

1. WELCOME & INTRODUCTIONS

2. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE 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: 27TH MAY 2022 (Pages 7 - 24)

8. SOCIAL IMPACT PORTFOLIO (Pages 25 - 46)

The Committee discussed Impact Investing at its meeting in December 2021. It was agreed that the topic would be explored further as part of the Strategic Investment Review in 2022/23.

9. DRAFT TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT (Pages 47 - 76)

The Panel have requested the draft TCFD report be shared prior to it being approved for publication by the Committee to give members an opportunity to review the content and make suggestions/recommendations as necessary.

10. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2022 (Pages 77 - 156)

This paper reports on the performance of the Brunel and legacy portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 30 June 2022.

11. RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 JUNE 2022 (Pages 157 - 198)

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

12. FORWARD AGENDA (Pages 199 - 200)

This report sets out the forward agenda for the Panel for 2022/23. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Friday 27 May 2022, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch, and Shirley Marsh-Hughes (left the meeting at 4.33pm)

Advisors: Josh Caughey (Mercer), Steve Turner (Mercer), Luke O'Donnell (Brunel) and Daniel Spencer (Brunel)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk) and Nathan Rollinson (Investments Manager)

1 WELCOME AND INTRODUCATIONS

The Chair welcomed everyone to the meeting.

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were received from Pauline Gordon.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

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

Nick Aslett addressed the Panel asking that 2050 target for the removal of all funding to the fossil fuel industry be revised and money be divested from fossil fuel industries immediately.

The Chair confirmed that a written response would be sent to Mr Aslett and this, along with the statement, would be attached as an online appendix to these minutes.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were no items from Councillors or co-opted Members.

7 MINUTES - 25TH FEBRUARY 2022

RESOLVED that the minutes of the meeting on 25 February 2022 be confirmed as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2022

The Investments Manager introduced the report and invited representatives from Brunel and Mercer to present their update.

Daniel Spencer and Luke O'Donnell (Brunel) gave an update as follows:

1. Credit update: US and UK Government Bond Yields were trending upwards.
2. Last year there was a supply shortage which caused prices to rise and inflation to increase and the Government Bond Yields adjusted accordingly.
3. Corporate borrowing costs had also increased due to the events of the last 3 months.
4. Managers and their portfolios: CQS had expertise in loans and asset class criteria, Neuberger Berman had a broad approach and Oaktree had specialist in asset class strength and distinctive asset allocation.
5. Asset types and return drives: 60%-80% of returns were of moderate risk. Higher risk assets were low in the portfolio (10%-20%).
6. Environmental, Social and Governance (ESG) progress of Managers to date were set out in the presentation slides, including key milestones to date in relation to climate issues. In the shorter term, there would be a full climate audit followed by target setting.
7. Responsible Investing: Q1 had been impacted by 2 events, the invasion of Ukraine by Russia and subsequent impact on commodities and the continuing lockdown policies of China which was causing bottlenecks in terms of supply. This had resulted in higher inflation causing central banks to react.
8. In Q1 ESG companies had done badly compared with carbon intensive ones so it had been difficult for sustainably focused investors to achieve progress this year due to global events. Sustainable themed investments were down by 5-6%.
9. Drivers of market in Q1: Growth and Quality stocks underperformed value and economic/commodity sensitive stocks
10. Current credit themes: Inflation; Covid; global growth uncertainty; rising credit volatility and central bank tightening.

In response to questions, Committee Members were advised:

1. In relation to responsible investment, the Portfolio Managers were of a high standard and the pipeline of investible opportunities was strong.
2. The target for net zero was 2050, but interim targets had been set for 2030 to monitor progress.
3. In terms of timescales for ESG progress, the long term would be 5-10 years and medium term 2-3 years. It was hoped that the short-term target of a climate audit would be completed this year.
4. Neuberger Berman was the leader in terms of RI and may be able to

achieve ambitious medium term targets.

5. Consideration was being given to the impact of commodity production resulting from the Russia/Ukraine situation.
6. Even though sustainable themed investments were down, there would be no compromise on RI and Managers were looking at different scenarios in the event of the Russia/Ukraine conflict continuing for a long period.
7. The result of the Australian election would not impact on investments as this was a small part of the global equity universe.
8. Even though there were no direct investments in China in this portfolio, the zero covid policy and lockdowns in areas such as Shanghai did have an impact on inflation and market behaviour causing a domino effect.
9. In relation to the risks and opportunities of stagflation, work was being undertaken in terms of scenario planning and this would be reported back to Panel members.

The following questions from Panel Members would be raised with Portfolio Managers:

1. What were the knock-on risks and impact on poorer countries of commodity shortages resulting from the Russian/Ukraine conflict?
2. What analysis was taking place about the lessons learnt from the Covid pandemic in relation to investment risk?

Josh Caughey and Steve Turner (Mercer) gave an update as follows:

1. Market background: key issues were the Russian invasion of Ukraine and the increase in inflation. This had an impact on the Liability Driven Investment (LDI) portfolio.
2. Performance Summary: All global equity mandates were ahead of the assumed strategic returns with the exception of the Paris aligned fund, which has an insufficient track record to be able to draw any conclusions
3. Property, secured income and infrastructure were all ahead of returns.
4. Equity protection had been adding value, equity markets had come down and the funding level was protected by 1-2%.
5. The LDI portfolio made a large positive contribution to returns due to the protection it provided against inflation.

In considering whether any issues should be brought to the attention to the Pension Fund Committee, it was noted that the performance of responsible investment and the reasons for this would be highlighted to the committee in the officers' report. Officers also advised the Panel of the Government guidance due later in the year in relation to the levelling up agenda and the potential impact for the local government pension scheme.

RESOLVED that the information in the report be noted.

8 CLIMATE POLICY UPDATE

The Group Manager for Funding, Investment & Risk introduced the report and asked the Panel to note the outcome of the Analysis for Climate Transition (ACT) which would feed into the strategic review and also note the summary of the first Brunel 2022 climate stocktake workshop. She drew attention to the following:

1. It was important to manage expectations as it was only possible to divest from stocks that the fund owned.
2. There needed to be a way to demonstrate how the process worked for some high-profile stocks.
3. Communications were important especially the messaging in relation to selective divesting.

Panel members stressed the importance of communications and publicising information in a format that was easy to understand with basic facts about what the fund did not invest in; areas where the Council had some control; the reality of the size of investment and relatively small amount which was associated with fossil fuels and the progress already made towards achieving net zero alignment by 2050. It was agreed that the response to the public statement would be published on the website, and there could also be a press release to coincide with the publication of the responsible investment annual report in September.

The panel noted that consideration of the exempt appendices would need to be in exempt session due to the detail contained within, but that there would be a higher level presentation to the Committee which would be held in open session.

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.

RESOLVED that the following be noted:
1. the outcomes of the ACT analysis as summarised in Exempt Appendix 1.
2. the proposals for additional climate targets that will be considered as part of the 2022/23 strategic review.
3. the summary of the first Brunel 2022 climate stocktake workshop.

9 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 MARCH 2022

The Investments Manager fed back from the meeting of the Financial Risk Management Group (FRMG) which had considered financial and geopolitical assumptions and identified the main issue as the increase in inflation, how persistent it may be and whether this needed to be offset. He confirmed that Mercer had advised this was not necessary. Separately he drew the Panels attention to the recommendation for the collateral plan be approved, and the implementation of the plan be delegated to FRMG.

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.

RESOLVED

1. That the following be noted:
    a. the current funding level and Liability Driven Investment (LDI) hedging position.
    b. the impact and performance of the equity protection strategy
    c. the current collateral adequacy position
2. That the proposed collateral plan as set out in Exempt Appendix 2 be approved and the implementation of the plan be delegated to Funding and Risk Management Group.

9 FORWARD AGENDA

The Panel were advised that officers would soon be arranging meeting dates for 2023.

RESOLVED that the forward agenda set out in the report be noted.

The meeting ended at 4.39pm

Chair ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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My reason for speaking to you today is to ask that you revise your 2050 target for the removal of all funding support to the fossil fuel industry.

The summer picnic was always a cornerstone of the social calendar of this thriving community. From the babies born in the proceeding months to the diverse and rich mixture of elders, everyone enjoyed one another's company in the sunshine on the banks of the lake that was in the centre of the park. Tragically, in 2015, this idyllic happening was forever changed by the death of a child that drowned in the lake during the festivities.

In response to this tragedy the community banded together and committed to never letting this happen again. A committee was formed with the mission to ensure the lake was made safe. Lifesaving options were explored and a solution was proposed. The committee recommended a series of life lines and floating devices. There was just one issue; in the first instance, the preferred contractor could only guarantee that the lifesaving solution would cover "most" not all of the lake. They said that their technology was developing and that by 2050 they would guarantee full coverage of the lake and install the extra equipment free of charge.

The committee championed this solution saying that, whilst it was not perfect, it was cost efficient and represented a good compromise. The community was consulted and whilst concerns were raised that the proposed solution still put lives at risk, the committee went ahead with their plan. The equipment was installed and members of the committee sought coverage in the local media championing their efforts.

The annual picnics continued and memories of the events of 2015 slowly faded. Some 10 years later the picnic was, once again, in full swing. 2 children wandered off from the main group to explore the lake. It was a while before they were missed, following a brief search they were found playing at the far end of the lake. It became clear that they had strayed too far into the lake and were in trouble. The shout went out for the life lines a floats. Fatally for them, the 2 children had chosen to play in the part of the lake not reachable by the "compromise" lifesaving solution. They died

The efforts made by Avon Pension Fund (APF) to divest from fossil fuel (FF) funding are laudable as far as they go but greater courage is needed to fully divest from FF funding well before the current proposal of 2050.

In April this year the highest ever levels of CO2 were recorded in our atmosphere (421ppm, where no higher than 350 ppm is seen as healthy for humanity) and the trajectory is ever higher. Evidence grows every day of the determination of the fossil fuel industry to ensure a business as usual, growth focused model and the consequential destruction of our planet. The current investment plans of the top 12 FF companies is to spend $103m A DAY for the remainder of this decade on the expansion of oil, gas and coal extraction.

Through the UN Conference of the Parties (COP) mechanism, Nation States and Big Oil have consistently set targets without the slightest intention of ever meeting them. For them the approach is about procrastination and diversion, greenwash and greed. Carbon emissions continue to rise at frightening rates, drought, flood, fire and famine are becoming daily occurrences rather than rare events.

In my story the 2 children died not because the efforts of the committee weren't well intended but because those efforts fell short of what was actually needed. Humanity needs people with courage to make the hard decisions, to provide examples of what a positive future could be like. This Committee has the power to show that positive leadership. I implore you to recognise that, with every day that passes, money invested in the FF Industry is money that is accelerating this destruction of our planet. Be that positive example, have the courage, get our money out of FFs NOW.

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Avon Pension Fund

Local Government Pension Scheme

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Dear Nick,

Thank you for the statement delivered at the Pension Fund's Investment Panel meeting on the 27 May.

The Fund has long recognised the need for urgent action on climate change and has been taking tangible action to ensure we contribute to the solution while protecting our members interests, which remains our priority.

As at March 2022, the value of our holdings in the top 5 Oil & Gas companies was £4.1m, which equates to 0.2% of the Fund's listed equity portfolio and 0.07% of total assets. Using a broader definition of fossil fuel exposure[1], the Fund held around £86.6m in fossil fuels overall, representing just 3.4% of our listed equity portfolio and 1.4% of the total Pension Fund. Rather than operating a blanket divestment approach to fossil fuels, which we do not believe achieves any real-world impact in itself, we instead focus on portfolio decarbonisation, collective engagement, and investing to enable the climate-transition.

While our policy on climate change more broadly states we will become net zero by 2050 or earlier, we have important interim goals, targeting absolute emissions reductions of 43% by 2025 and 69% by 2030 (from a 2020 baseline), respectively.

In addition, we have made a number of strategic allocation decisions to align the portfolio with the transition to the low carbon economy. Recently we exited our investment in emerging markets where the ability to directly influence climate policy, at appropriate levels, is limited and this reduced our listed equity emissions by approximately 28% (from 86k tonnes to 62k tonnes of Co2).

In 2021 we invested over £500m in a new equity portfolio designed to divert capital away from the most carbon intensive sectors and companies and reward those that are investing in the transition and providing climate solutions. This portfolio does not invest in coal and tar sands companies as well as companies whose primary business function relates to the exploration, extraction or distribution of fossil fuels and will ultimately see us on a carbon reduction pathway consistent with achieving net zero by 2050, or earlier.

Decarbonisation represents one route to net zero, the other requires large capital investment in climate change mitigation technology. We are investing £380m in renewable infrastructure which includes traditional forms of renewable energy such as solar and wind as well as new technologies such as such as battery storage, bioenergy and sustainable agriculture.

These latest steps represent a continuation of the Fund's strategy on climate change, as it seeks to balance the need to generate an investment return required to fund our pension liabilities with setting ambitious – yet credible - climate change targets.

[1] Defined as companies that derive some proportion of revenues from either fossil fuel extraction, storage & transportation and/or power generated from fossil fuel consumption. This covers companies across Energy (Oil & Gas), Financials, Industrials, Materials & Mining and Utilities; a number of which are also known to own, operate and/or generate power from renewable energy sources. Fossil fuel figures as at December 2021.

Transformation at the speed and scale required to reach net zero will take a coordinated approach across the entire industry and ensuring the right policy frameworks are in place to unlock investment opportunities and scale up flows of low carbon finance is essential to addressing the issue. The Fund has engaged on finance and climate policy at the global, EU and national level which has helped inform and strengthen policy decisions made in support of a low carbon, climate resilient economy.

As a relatively small investor in global terms and, in order to maximise the contribution the Fund can make to reducing emissions in the real economy, it works collectively with industry groups and initiatives. As a signatory to ClimateAction100+, for instance, the Fund is represented at some of the most high-profile engagements with corporate greenhouse gas emitters. Last year we saw successes after engaging intensively with the banking sector on measures to limit the amount of financing the fossil fuel sector receives.

To ensure that we maintain our position as a market leader in responsible investment we are working with our investment manager, Brunel, on a review of their Climate Policy during 2022. This includes an assessment of the effectiveness of company engagement with a view to identifying those companies that we invest in that have not met our expectations and where selective divestment is an option. The Fund will report on the progress of this ‘climate stocktake’ in due course.

Details relating to our responsible investment policy as well as our approach to climate change can be found on our climate microsite here. The Fund’s net zero target is consistent with the framework set-out by the Institutional Investors Group on Climate Change, further details of which can be found here. You may also find more information in our latest Responsible Investment Report here.

Yours sincerely,

Cllr Shaun Stephenson-McGall

Chair of the Avon Pension Fund Investment Panel

Investment Panel 27 May 2022 – Follow up answers from Brunel

1. **What were the knock-on risks and impact on poorer countries of commodity shortages resulting from the Russian/Ukraine conflict and how do your managers assess this when constructing their portfolios?**

Food prices as are their highest level since 1990. Ukraine and Russia, being major agriculture and fertilizer producers, the war in Ukraine further compounded the upward price spiral which began in mid-2020. For poorer countries surging food and fuel price inflation are a worrying prospect. Food represents a larger percentage of headline CPI baskets in EM (50% of India's CPI basket, 30% of Philippines and China vs 8% in the US) While high food and fuel inflation impacts all countries – lower income countries are hit harder as families spend more of discretionary income on basic goods and services. This has prompted export restrictions from governments with Indonesia and India banning palm oil and wheat exports recently. Continuation of the conflict is putting the planting season for wheat, barley, maize, rapeseed, sunflower at risk. It is unclear at this stage if food will be weaponised or will food exports from the region flow through. Some of the poorest countries in the developing world like, Sri Lanka and Ethiopia for example, have seen food inflation running at 25-40%. This crisis will no doubt set back the UN SDG to end world hunger by 2030, and worsen malnutrition in many low-income countries.

From a portfolio construction perspective - large agricultural and energy exporters like Brazil, and the middle east benefit from these elevated prices while large importers like Sri Lanka, Egypt and Vietnam have been adversely impacted. Using the Emerging Markets Equity portfolio as an example, some managers have approached this from a bottom-up perspective to identify company specific risks around food/agricultural input costs and revenue streams which could create a margin squeeze. For example, in consumer staples, one of our EM managers focused on which companies have the brand and pricing power to pass on price increases and where demand is relatively inelastic.

2. **What analysis was taking place about the lessons learnt from the Covid pandemic in relation to the investment risk and within wider markets?**

The main lesson learnt was the true value of diversification by investment style and also by sectors, themes and countries. Covid was first a short-lived demand shock as the world shut down but was then followed by a longer lasting supply shock. In the demand shock phase - the level of stimulus (low rates and anomalous QE that central banks unleashed) led to outperformance of a narrow group of growth stocks – led by digital companies that benefitted from pandemic lockdowns. However, in phase 2 - when demand recovered, it was clear that years of underinvestment in commodities meant the world cannot produce enough of these commodities at scale and the global economy saw persistent supply chain bottlenecks. This was the catalyst for the comeback of value as an outperforming style, led by sectors that were unloved and had underperformed for a decade. Rather than time style rotations, many managers learnt that an effective way to manage risk around these transitions is to prudently balance style exposures and monitor the earnings inflection these companies were going through.

COVID created one of the fastest stockmarket sell offs in history and a massive bull run in a year when economies saw the biggest contraction since WW2. Taking advantage of these dislocations and subsequent regime changes from QE to QT, disinflation to record inflation needed an adaptive process. It was important for managers to discriminate between intrinsically expensive companies and optically expensive companies - for example in the strongly performing technology – hardware, software, semicon/internet sectors. As value rotation took hold, again the analysis focused on sifting value traps from sound business models that offered discounts to intrinsic value.

Finally, several managers cited the need to maintain a strong liquidity profile of their portfolios to manage risks at this time of multiple transitions.

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**09 September 2022**	**AGENDA ITEM NUMBER**
TITLE:	**Social Impact Portfolio**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Exempt Appendix 1 – Mercer paper**		

1 THE ISSUE

1.1 The Committee discussed Impact Investing at its meeting in December 2021. It was agreed that the topic would be explored further as part of the Strategic Investment Review in 2022/23.

1.2 Since then DLUHC has announced its aspirations of how LGPS funds could support the Levelling Up agenda. We are still awaiting the consultation for the draft guidance on levelling up so any decisions may be impacted once the guidance is published.

1.3 Mercer have provided a more detailed report which considers the main strategic issues for discussion at the meeting. Further work will need to be done prior to the strategic review in 1Q23.

2 RECOMMENDATION

The Panel notes

2.1 **The report from Mercer.**

2.2 **That Officers will undertake feasibility studies of local / social impact opportunities to inform asset allocation decisions at the Strategic Review.**

3 FINANCIAL IMPLICATIONS

3.1 The budget has a provision for the Strategic review and Impact investing advice.

4 IMPACT INVESTING

4.1 The Fund already has exposure to "impact investments", for example, at a high level through global sustainable equities, Paris aligned equities and renewable infrastructure, representing c.33.5% of the total strategic asset allocation, as well as a small (£10m) commitment to UK affordable housing in our UK Property portfolio. Our £140m investment in the Greencoat renewables fund is all invested in UK renewable energy and infrastructure projects.

4.2 Measuring the societal impact of specific strategies or assets is a growing area of interest for investors in the future, albeit doing this is not straightforward. One aspect that needs developing to assist decision making is the monitoring (on a look through basis) and reporting capabilities; this will enable investors to understand the impact of their investments held in generalist portfolios that do not have a distinct impact criterion. Brunel is working on this, but data availability is very poor and inconsistent and is resource intensive to collate. Currently the focus has been on quantifying the impact of 'E' of ESG using green revenues as a metric for example which is more readily available. On this basis around 11% of the revenues generated by underlying companies in the Global Sustainable Equity portfolio are assessed as 'green impact' (this compares to c. 8.5% for the index).

5 PORTFOLIO CONSIDERATIONS

5.1 Mercer have provided a report for the Panel to consider (see Exempt Appendix 1) which sets out the strategic issues that will need to be agreed as part of the framework for an impact portfolio. It considers how such a portfolio could be structured, including underlying asset classes, risk/return characteristics, consideration of local investment, and implementation approaches.

5.2 The specification for the portfolio will need to consider the following (in due course):

a) Investment objective – mix of capital appreciation and income generation

b) Performance target – net after fees and over what time frame. As it will be less liquid the time frame will need to reflect this

c) Benchmark – as there is no index for social impact investments, we will have to have an absolute return target

d) Strategy – we need to define what we mean by social, impact and local. Will need to consider how an 'impact' portfolio overlaps (or not) with other existing allocations e.g., to renewable, affordable housing so that we are aware of overall exposure

e) Risk – will be moderate to higher risk. Diversification within the portfolio may be limited depending on whether it focuses on a few specific sectors and geographies or not. There could be higher political/reputational risk given target investment universe

f) Liquidity – the investments will be illiquid so will need to consider any allocation within the context of overall liquidity of the fund (already have 32.5% allocated to illiquid private markets and property)

g) Portfolio construction – will be relatively concentrated, driven by the amount allocated and sector decisions as well as how it is implemented

h) Responsible investment – will expect robust ESG approach

5.3 Ahead of the strategic review and to help determine the appropriate criteria for the portfolio framework, officers will undertake a review of the social / local impact opportunities across various asset classes. This would include engaging with Brunel and possibly other specialists in this area.

6 RISK MANAGEMENT

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

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and 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 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 Director – One West has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investment & Risk; 01225 395357
Background papers	Mercer papers
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

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Information Compliance Ref: LGA-1006304

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 9th September 2022

Author: Liz Woodyard
Report Title: Social Impact Portfolio **List of attachments to this report:** Exempt Appendix 1 – Mercer paper

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

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

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

PUBLIC INTEREST TEST

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

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

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

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

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

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

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

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**09 SEPTEMBER 2022**
TITLE:	**DRAFT TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) REPORT**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Draft Taskforce on Climate-related Financial Disclosures (TCFD) Report for the year ending 31 March 2022 Appendix 2 – Mercer Paper: Current Topics	

1. THE ISSUE

1.1. The Fund's draft TCFD report for periods ending 31 March 2022 can be found at Appendix 1. The report forms part of the Fund's wider public disclosures which include an Annual Responsible Investment Report and a FRC Stewardship Code Statement, which are approved by the wider Committee.

1.2. The Panel have requested the draft TCFD report be shared prior to it being approved for publication by the Committee to give members an opportunity to review the content and make suggestions/recommendations as necessary.

1.3. Regulations on how the LGPS will be expected to comply with TCFD are expected to be published by DLUHC later this year. In preparing its TCFD report for the year to 31 March 2022, the Fund has followed statutory guidance which is currently only applicable to private sector schemes.

1.4. Mercer have reviewed the draft TCFD report for compliance with best practice, details of which can be found at Appendix 2.

2. RECOMMENDATION

2.1. **Notes the draft 2021/22 Taskforce on Climate-related Financial Disclosures Report ahead of final approval by Committee at its September meeting.**

3. FINANCIAL IMPLICATIONS

3.1. The budget includes the costs of the carbon and environmental analysis provided by Brunel as an elective service and the supplementary climate analysis undertaken by Mercer on the Fund's behalf.

4. DRAFT TCFD REPORT

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

4.2. In 2017 the TCFD issued initial recommendations for reporting to help stakeholders in financial markets understand their climate risks and opportunities. This covers the areas of Governance, Strategy, Risk and Metrics & Targets.

4.3. In June 2022 the consultation outcome from the Government response to “Climate and Investment Reporting” was published. Within their TCFD requirements, financial institutions (excluding LGPS) now need to include a portfolio alignment metric which describes the extent to which their activities are aligned with the climate change goal of limiting the increase in the global average temperature to 1.5˚C above pre-industrial levels (i.e. with the goals of the Paris agreement). Organisations subject to TCFD requirements must select and report on a minimum of one absolute emissions metric, one emissions intensity metric, one portfolio alignment metric and one additional climate change metric.

4.4. TCFD disclosures are expected to be compulsory for LGPS when regulations are published by DLUHC in late 2022. The rules are expected to be similar to those introduced last year for private sector schemes and will apply to all LGPS funds regardless of size. The Fund is a strong supporter of these disclosures and was an early adopter of the framework, publishing its first report in 2021.

4.5. This is the second time the Fund has reported against these standards and reporting has been completed to the fullest extent possible. The report contains details of the decarbonisation progress made versus last year and against the Fund’s 2019 baseline across various metrics including absolute emissions, carbon footprint and weighted average carbon intensity.

4.6. The Fund uses Implied Temperature Rise (ITR) as its portfolio alignment metric and is currently using Mercers ACT tool to assess transition alignment of underlying companies in the Fund’s listed equity portfolios.

4.7. Brunel are currently piloting green revenues reporting using the FTSE Russell methodology. At present green revenues reporting is only available for the sustainable equities portfolio but will be rolled out by Brunel to the other listed equity portfolios over time and will serve to strengthen the Fund’s future TCFD reporting. Brunel produce their own TCFD report which is available here.

5. RISK MANAGEMENT

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

6. CLIMATE CHANGE

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

7. EQUALITIES

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

8. OTHER OPTIONS CONSIDERED

8.1. None.

9. CONSULTATION

9.1. The Director – One West has had the opportunity to input to this report and have cleared it for publication.

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

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Task Force on Climate-Related Financial Disclosures (TCFD) Report – 2021/22

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

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

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

This is the second time the Fund has reported against these standards and reporting has been completed to the fullest extent we are able. While data is not always available in the quantity or quality desired, this is becoming more readily available over time, along with best practice frameworks and methodologies. It is hoped that the level of detail and number of areas covered can increase with each future reporting period as the industry makes positive steps forward and as more disclosures become mandatory.

(I) Governance

Governance and Climate-related Risks and Opportunities.

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

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

Our approach to RI continuously evolves and our Policy is revised and updated, due to both changing landscapes and broader industry developments, as part of our 3-year investment strategy review cycle. At the last strategic review, the Committee agreed a series of climate change objectives that are kept under review as we move toward our 2050 Net Zero goal. Implementation of policy and objectives is monitored by the Committee. The next strategic review will begin in late 2022. Ongoing review of sustainable and Paris-aligned strategies, policy advocacy work, carbon emissions metrics, examples of material and/or successful engagement outcomes and key initiatives that the Fund has committed to, either in its own right or through one of its strategic partnerships, form the basis of climate change reporting. The Committee is also responsible for ratifying the annual RI Report, while Officers and external experts convey further climate change information and developments to Committee to maintain knowledge levels, with further training being provided in specific areas as required. For instance, this year the Fund has adopted the Hyman's LGPS Learning Academy, which includes dedicated modules on climate change and disclosures.

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

Brunel Pension Partnership

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

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

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

Assessing and Managing Climate-related Risks and Opportunities.

Day-to-day responsibility for implementation and oversight of the Fund's climate policy lies with Officers of the Fund, with advice and monitoring support provided by external consultants with specialist ESG expertise. Significant resource and budget is set aside to ensure the Fund fully integrates climate change into the investment decision making process. This includes an internal senior officer with direct responsibility for ESG disclosures, industry group member representation and management of projects relating to carbon footprinting and emissions analysis, among other duties. As our assets are primarily managed by Brunel, the implementation of much of the management of climate-related risk is delegated to Brunel.

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

(II) Strategy

The Fund was early to recognise the significance of climate change, reporting it as a long-term financial risk in 2016, and subsequently publishing details of our carbon footprint in 2017 and annually thereafter. In the same year we began investing in specific Low Carbon funds, alongside setting climate targets that we continue to monitor and update (see section 'Metrics & Targets')

We seek to address both the transition risk and physical risks associated with climate change by investing in low carbon assets and allocating capital to renewable and sustainable assets which enable the Fund to access optimal return opportunities. We expect the financing of renewable infrastructure projects (via funds) to have wider positive impacts by playing its role in mitigating the physical risks of climate change over time. This is undertaken within an overall framework whereby the expected return on the assets helps support the long-term funding of the liabilities, within acceptable levels of risk.

Climate change scenario modelling has helped the Fund understand keys risks over the short (1-5 years), medium (5-10+ years) and long term (10-20+years). Risks range from short-term market adjustments on the back of regulatory change (for example the introduction of carbon pricing to certain markets), to wider movements in public policy, and over the longer-term, the need to reassess the operating viability of real assets such as infrastructure under extreme climate conditions.

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

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

Bondholders are often faced with more resistance when approaching companies through traditional channels as investors financing companies through loans typically do not possess the same voting rights as shareholders, which often leads to a less impactful dialogue between lender and borrower. To overcome this, Brunel have been working with their underlying managers within the Private Debt portfolio, to which we have a 5% strategic allocation, to develop new ways of engaging with and influencing the underlying borrowers on ESG issues. Lenders are increasingly financially incentivising borrowers to embrace ESG best practice and reduce their carbon footprint through the terms of loan agreements. For example, a manager within the portfolio currently incentivises one of its investments, a large European glass testing firm, by offering more favourable lending rates upon achieving certain high standards in a sustainability assessment of its supply chain, based on ratings covering areas such as environment, ethics, human rights and sustainable procurement.

Positive opportunities also exist for companies prepared for the low carbon transition and those generating green revenues[1]. For the Fund, examples include a new multi-fuel facility set up in Slough which uses waste as an energy source and greenhouses in East Anglia warmed by heat pumps using water from near-proximity recycling centres.

Even for companies generating green revenues, further efficiencies are always being explored. In our Brunel Infrastructure portfolio this included a major wind energy provider looking to reduce emissions in the construction of its assets by carrying out geological borehole surveys at its sites. Those surveys that found rock close to the surface allowed construction of the wind turbines to include a 'rock anchor' foundation. This type of rock anchor required 70% less concrete than traditional foundations and resulted in a 27% drop in emissions. Another holding, a French renewable-power producer, is seeking ways to effectively recycle its used wind-turbine blades and solar panels.

The Impact of Climate-related Risks and Opportunities on Business Strategy and Financial Planning

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

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

[1] Company revenue exposure to products and services that deliver environmental solutions per an agreed framework such as the EU taxonomy.

funds to invest in passively managed low carbon equities (although the Fund has more recently evolved its approach, investing in a more ambitious “Paris aligned” portfolio – see below for further details).

(I) Asset allocation

Asset allocation remains one of the Fund’s primary tools to help meet our ambition to become a net zero investor. Following a full risk/return analysis the Fund exited its dedicated allocation to emerging market equities in 2021. A contributory factor was the limited ability to directly influence climate policy, at appropriate levels, in these geographies. The Fund subsequently invested in a newly launched “Paris aligned” passive index. Developed jointly by FTSE Russell and Brunel, the index targets material reductions in emissions today as well as into the future. At launch, we switched our 10% (c. £575m) strategic allocation from a first-generation low carbon fund into the new Paris Aligned fund, setting a precedent for the wider investment industry. The Fund now has a combined £1.4bn in Paris -aligned passive and sustainable listed equities.

We have committed £380m to renewable infrastructure projects across a number of portfolios, covering wind and solar energy generation as well as emerging technologies including bioenergy and energy storage solutions. The Fund also seeks, where possible, to integrate climate risks and opportunities into its credit portfolios, benefitting from Brunel’s robust due diligence and manager selection process as outlined earlier.

In addition to our £380m renewable infrastructure capital commitment, our £440m core infrastructure portfolio, managed by IFM, has recently taken steps to improve its sustainability credentials. Most notably in 2022, the General Infrastructure Fund, which the Fund has a 5% strategic allocation to, provided seed-capital, and acquired a large initial stake in a newly launched Net Zero fund. This Net Zero fund seeks to accelerate the world’s transition to a net-zero emission economy by targeting investment opportunities in areas such as renewable power, energy storage, electricity transmission and distribution, electric transport infrastructure, low-carbon fuels and carbon capture.

Furthermore, the Fund’s cash management strategy, which uses a basket of exchange-traded funds (ETFs) to replicate the Fund’s strategic benchmark, was recalibrated with a significant portion allocated to an ETF designed to track a Paris-aligned equity index.

The Fund will continue to explore innovative ways of achieving net zero alignment in its risk management framework by, for instance, utilising synthetic instruments in less well-advanced areas of the market where structural and regulatory hurdles still exist and will also consider the potential to build its exposure to green gilts in a cost-effective way as issuance increases.

(II) Stewardship

Engagement forms a critical part of the Fund’s approach to climate risk. Significant progress was made recently in a number of areas through Climate Action 100+, the world’s largest investor initiative on climate change (CA100+), of which the Fund is a supporter alongside 615 signatories representing $65 trillion USD in assets under management. 167 companies were engaged with over 2021 to help them reach net zero with successes including;

- Rolls-Royce (aerospace and defence) - mapped out detailed decarbonisation plans, with clearer short- and medium-term targets. It committed to making all its civil aero-engines compatible with 100% Sustainable Aviation Fuel (SAF) by 2023 and embedded this target into its executive remuneration policy.

- Nissan Motors (automobile manufacturer) - set goals to achieve carbon neutrality across operations and the life cycle of its products by 2050, investing USD 17.6 billion over the next five years to speed up electrification of its products. The company also aims to have 100% of all new vehicle offerings in key markets electrified by the early 2030s.

Our voting and engagement partner, EOS, also engaged with luggage manufacturer Samsonite on climate change, product innovation and circularity. This led to the launch of a sustainability strategy to 2030, which includes plans to use 100% renewable energy while achieving operational carbon neutrality by 2025. Samsonite will also collect and recycle products for up to 20 years post-purchase.

(III) Operational considerations

Environmental decisions also factor into the Fund's daily operations. While day-to-day considerations such as access to offices could be disrupted by physical climate change risk and severe weather events like flooding, the ability of staff to work remotely and the provision of the necessary technology aids business continuity and helps minimise risk to service delivery. Bath & North East Somerset Council, who administer the Fund, are working towards their own Net Zero goal by 2030 and this desire to reduce emissions is reflected in staff policy, from hybrid working arrangements allowing some meetings to be held remotely to, where an office presence or travelling is required, encouraging public transport use, and providing bike storage.

Separately the pension fund has an ongoing digitalisation programme to improve IT infrastructure, reduce the use of printed/posted material and increase electronic communication with members and employers. Whilst all employers and many members are set up for electronic communication, we recognise that not all members wish to communicate with the Fund electronically or by self-service access.

Organisational Resilience Under Different Climate-related Scenarios

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

We initially undertook climate change scenario modelling in 2019 to help us understand the impact on the Fund of different temperature increases. This included modelling the returns of alternative portfolios with increased allocations to sustainable equities and low carbon real assets under different climate change scenarios and timeframes. Results showed that a portfolio with increased allocations to sustainable assets has the potential to improve returns under all but the most extreme scenario (+4°C), which would see all model portfolios suffer as the physical risks of climate change are realised. In addition, the analysis identified the potential to capture a 'low carbon transition premium' by investing over the medium term to 2030 in sustainable and transition aligned assets. The analysis helped support the decision to increase our allocation to Global Sustainable Equities from 3.5% to 10% (which has since increased again to 15%) of total assets, alongside a dedicated 5% allocation to Renewable Infrastructure.

The Fund has commissioned an independent consultant to undertake annual climate transition analysis to help us monitor progress on a periodic basis against the 2019 baseline year. In addition to well established climate metrics such as absolute emissions and weighted average carbon intensity, this analysis helps the Fund understand its decarbonisation trajectory by assessing, among other things, the implied temperature rise associated with its equity portfolios. Further information on the

Analytics for Climate Transition ('ACT') tool is set out in the 'Metrics & Targets' section of this statement.

(III) Risk Management

Identifying, Assessing & Managing Climate-related Risks

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

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

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

- Climate modelling and metrics – Routine climate scenario modelling, carbon footprinting, absolute emissions and weighted average carbon intensity help to inform strategic decisions relating to climate change and to chart progress towards our interim and long-term climate change objectives. The Fund also works with its strategic partners to promote best practice in carbon analytics and disclosures. In 2021 we collaborated with Brunel and the Institutional Investors Group on Climate Change (IIGCC), to test the Paris Aligned Investment Initiative (PAII) Investment Framework, which provides the first practical blueprint for investors to achieve net zero targets.
- Engagement activity - The Fund adopts a pragmatic approach to engagement, recognising companies need time to successfully adapt their business models to manage climate risk in the context of generating long-term shareholder value and real reductions in carbon emissions. Equally, those companies that are intentionally failing to take account of climate transition risk and adapt their business models accordingly should be candidates for divestment, due to the financial risk they pose. The Fund is keen to ensure that all companies make progress in tackling climate change and selective divestment will be considered as an option where companies have made insufficient progress following the Paris Agreement's Global Stocktake, led by the UN.
- Voting guidelines - In 2021, with the support of the RI sub-group, Brunel published enhanced voting guidelines which specified that they would vote against the re-election of a company chair where Oil & Gas, Utilities and all European companies had not reached level 4 of the TPI framework (or level 3 for US and Asian companies) and where companies' net zero strategies were materially misaligned with the goals of the Paris Agreement.
- Private Markets - Climate risk, in terms of both transition and physical risk, is embedded into the approach of the Fund's investments in private markets. For instance, the investment in

Brunel's Secured Income portfolio comprises a 30% allocation to the Greencoat Renewable Income Fund which invests in a diversified portfolio of UK renewable infrastructure assets with a focus on solar, wind and biomass, with selected other green infrastructure opportunities such as renewable heat.

- Property – our UK Property portfolio is given a sustainability score by GRESB, a leading global provider of ESG real estate assessments. This assessment helps identify how sustainable the portfolio may be compared to its peers and hence its potential climate change resilience. Our 2021 portfolio results showed that we exceeded the peer average in overall ESG performance. Contributors to this score included boosting biodiversity at an industrial park near Birmingham by installing 'bug hotels' at the front of the park, fitting bird boxes on mature trees and sowing wildflowers across grass areas. These initiatives all help to support the UN Sustainable Development Goal to halt biodiversity loss and build on the park's previous sustainability improvements such as installing energy efficient LEDS and procuring only renewable electricity. In Coventry, alongside annual sustainability audits, £1.4 million has now been allocated to Skydome, a leisure and entertainment complex, for energy saving upgrades. This includes replacing legacy boilers to reduce energy consumption by 25% and installing solar panels on the roof to cover almost 11% of the building's electricity needs while reducing grid demand.
- Risk Management Framework – This year we continued to develop ways of integrating climate change into our risk management framework by investing cash held for collateral purposes in a fund that lends to companies and financial institutions with above average environmental practices, while placing exclusion criteria around areas such as fossil fuels and thermal coal.

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

In addition, the Fund independently participates in investor led initiatives such as Climate Action 100+, Local Authority Pension Fund Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC) to increase pressure on companies and governments to align with the Paris goals and lobby for further climate change progress. Recent actions by the Fund included becoming an initial signatory of the '2022 Global Investor Statement to Governments on the Climate Crisis', coordinated by IIGCC, calling on governments worldwide to step-up their activities in regard to the climate crisis and meeting the Paris Agreement goals. This statement includes requests to strengthen national targets before COP27, helping to meet the global Methane Pledge, scaling up climate finance and strengthening financial disclosures.

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

2022/23 Strategy review and Brunel Stocktake

In 2022 the Fund began to work with Brunel as part of its climate change stocktake to evaluate its approach to managing climate risk. Critically the stocktake will seek to address whether actions taken so far have been effective, how emerging research and broader stakeholder views can be integrated into future climate strategy and whether there are any companies that we should not invest in. The Fund's own forthcoming investment strategy review will provide the first opportunity to measure progress and revisit the appropriateness of targets, ultimately, to serve the best interests of our members.

The results of scenario and climate analysis carried out on the Fund's behalf will be considered as part of both reviews and will be key to setting more granular targets across climate solutions and stewardship, which will include identifying the most strategically important sectors and companies from a climate perspective. Future iterations of ACT analysis will seek to expand the net zero approach beyond listed assets to real estate and infrastructure (data permitting) and will also serve to enhance the Fund's climate-related disclosures, noting that further work is still required on data consistency, and industry adoption of common definitions of net zero 'aligned' or 'aligning' companies and 'climate solutions'.

(IV) Metrics & Targets – Listed Equity Portfolio

Our overarching goal is to achieve net zero emissions alignment by 2050 or earlier, in accordance with the Paris Aligned Investment Initiative Net Zero framework, co-created by the IIGCC.

To help our progress towards Net Zero and in recognition of the need to accelerate our trajectory towards this goal over the next 10 years, the Fund has also set targets to reduce the absolute emissions in our equity portfolio by:

(I) 43% by 2025: and
(II) 69% by 2030, compared to its 2020 levels.

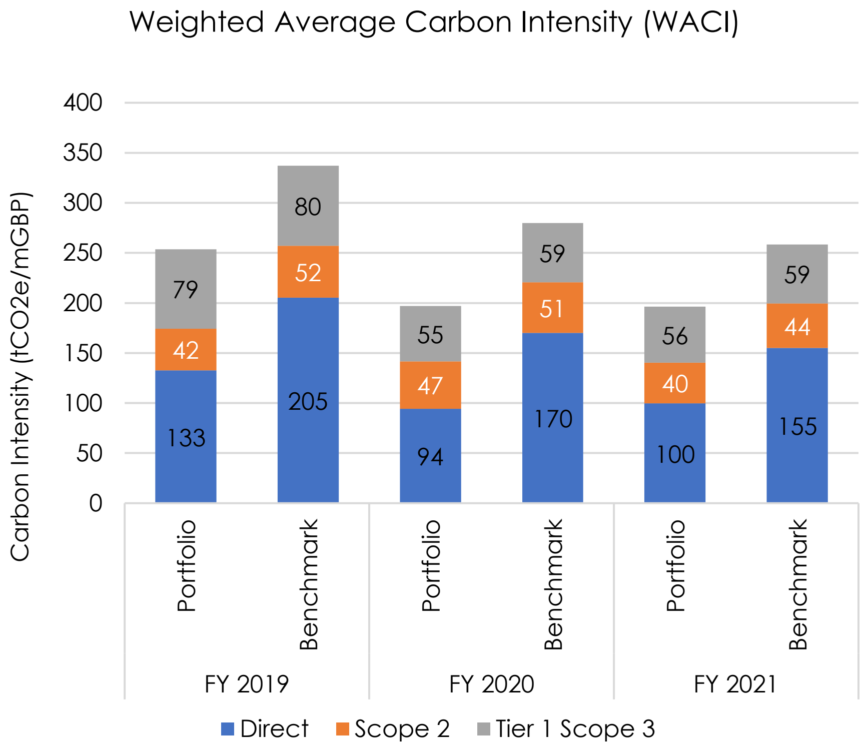
As part of our commitment to the IIGCC framework, we have also set qualitative 'climate solutions' targets across different areas that build on the allocation decisions we have already made.

A comprehensive list of our short-, medium- and long-term targets can be viewed here alongside the targets of other Net Zero signatories. We routinely report absolute emissions, the Weighted Average Carbon Intensity (WACI)[2], fossil fuel related revenues, reserves exposure and the disclosure rates among companies within the portfolios we invest in. The analysis covers Scope 1, 2 and downstream Scope 3 emissions (i.e. emissions generated by usage of end-products by consumers).

This year's Carbon Metrics Report shows that all the active equity portfolios the Fund invests in exhibit a lower WACI than their respective benchmarks and the aggregate portfolio, relative to its benchmark[3], is 24% more efficient (or less carbon intensive).

As the graph below shows, the Fund's carbon intensity is unchanged versus 2020 despite energy price rises pushing up the value of energy-generating companies within the Fund.

[2] Weighted Average carbon Intensity or 'WACI' quantifies a portfolio's exposure to carbon intensive companies. The metric takes the carbon intensity (total carbon emissions divided by total revenue) of a company and multiplies it by its weight in the portfolio.
[3] Proxied using a custom benchmark composed of a series of market-cap based indices.



In terms of stranded asset risk, the Fund is less exposed to both fossil fuel revenues (0.62% vs 1.72%) and future emissions from reserves (0.90 MtCO2 vs 3.11 MtCO2) than its benchmark. The year-on-year improvement in future emissions from reserves and fossil fuel reserves are due to a combination of factors including decarbonisation of the underlying portfolios (driven by investment managers allocating capital to less carbon intensive sectors and/or companies) and the Fund's own strategic asset allocation; principally the removal of the more energy intensive emerging markets allocation and an increased allocation to the Brunel global sustainable equity portfolio which has a nil exposure to future emissions from reserves.

The proportion of companies in the Fund's listed equity portfolios which fully disclose carbon data was 60% (carbon weighted method) and 46% (investment weighted method). While the rates for full disclosure of carbon data via the carbon-weighted measure have increased since 2020, indicating disclosure rates among extractive companies have increased, full disclosure via the investment-weighted measure has fallen since 2020. This is primarily due to a change in methodology implemented by the data provider which makes it harder for smaller companies, who lack the resources of larger firms, to meet all disclosure requirements needed. These scores still indicate scope for improved reporting among investee companies remains, which continues to be a core aim of the engagement work adopted by the Fund, Brunel and its strategic partners.

Looking ahead, we expect improvements in carbon metrics at the Fund's overall portfolio level to be more incremental given the significant changes to strategic asset allocation implemented in previous years.

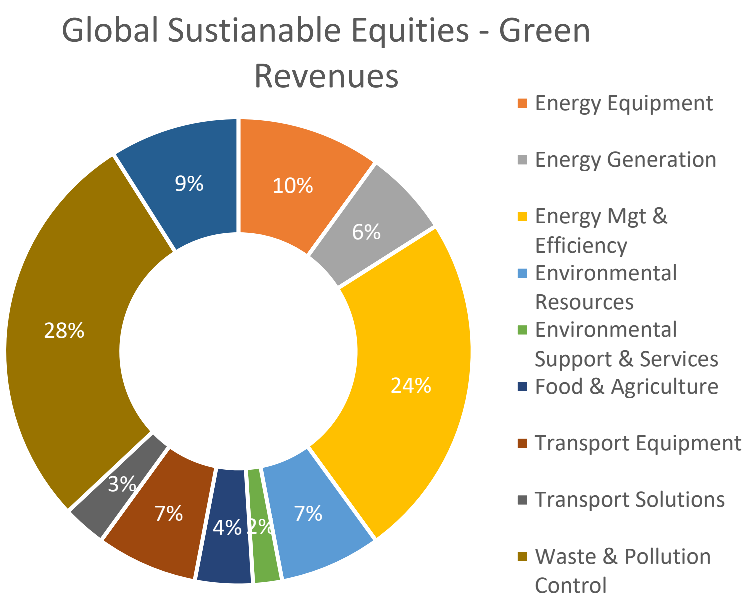
Data Quality

The Carbon Metrics Report highlights the importance of looking at a range of metrics that incorporate both backward- and forward-looking inputs. The improvement in WACI brought about by the Fund's decision to exit emerging market equities has been partially offset by its switch from the legacy passive low carbon equity fund (which focussed on portfolio decarbonisation) to the next generation Paris-aligned index which weights companies based on their transition capability and, for this reason, is far more likely to lead to real-world emissions reductions.

Focussing on certain metrics in isolation can often lead to misinterpretation or erroneous conclusions being drawn. For instance, the Fund's global high alpha equity portfolio has the lowest WACI of all active equity portfolios but has the highest future emissions number, whereas the sustainable equity portfolio exhibits the reverse, with a relatively high WACI driven by investments in companies who are at the forefront of the energy and industrial transition to net zero. These companies are leaders in challenging and difficult-to-abate sectors and often have a higher carbon intensity today than companies in other sectors, whose own transition journey is dependent on such companies.

Additionally, it is well recognised that corporate reporting on downstream Scope 3 emissions remains incomplete and inconsistent. Work on standardising Scope 3 methodologies and reliable accounting for downstream emissions is ongoing through a number of bodies including the IIGCC's Paris Aligned Investment Initiative (PAII). This Initiative recognises the challenges presented by the lack of Scope 3 disclosures and the risk that portfolio level emissions reporting is often subject to double-counting (where the Fund holds shares in two companies and where Company A's Scope 3 emissions are equivalent to Company B's Scope 1 emissions). Notwithstanding these challenges, and as data becomes more reliable, the Fund will factor in Scope 3 downstream emissions when setting interim and long-term climate change targets to the greatest extent possible.

The Fund is supportive of the development of a wider set of metrics that can provide a more rounded perspective on companies vital to the transition and, in time, will utilise measures such as green revenues to help quantify the proportion of our investments in climate solutions. We were encouraged this year by Brunel's progress with respect to measuring the positive impact of its listed equity portfolios by piloting the FTSE Russell methodology to assess revenues of companies across various sectors that have exposure to products and services that deliver environmental solutions.

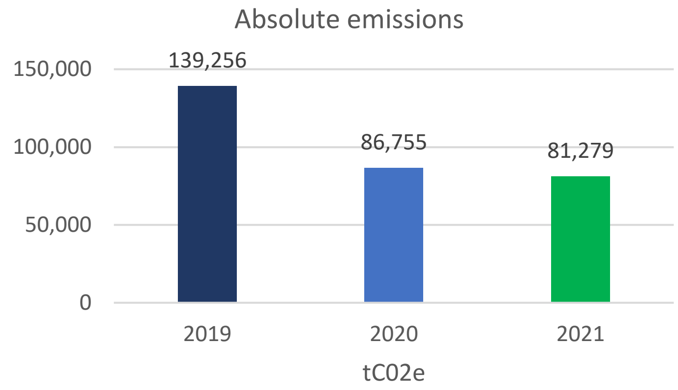


The Global Sustainable equity portfolio has 10.9% of exposure to green revenues compared to 8.5% in a standard global equity benchmark. The majority of green revenues (28.7%) come from waste and pollution control technologies and solutions, followed by energy management and efficiency (23.8%) and energy equipment (10.1%). Critically, the top portfolio contributors to green revenues are the same companies that exhibit the highest carbon intensities today.

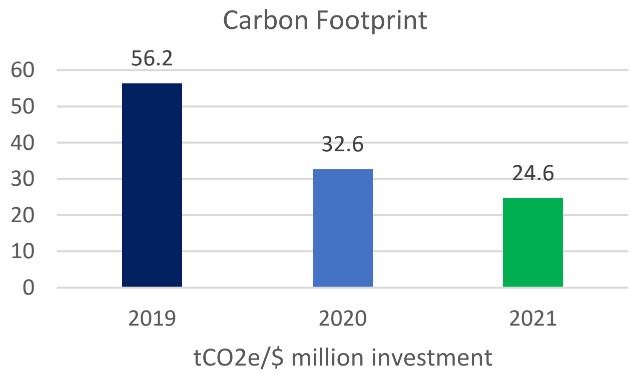
Analytics for Climate Transition (ACT) Tool

In order to monitor progress and, over time expand the scope of what is covered under our climate objectives, the Fund undertakes supplementary bottom-up analysis of its portfolios designed to highlight what is driving the Fund's carbon exposure across mandates, geographies and sectors. This year the analysis includes details of how the Fund has decarbonised relative to the prior year (and the 2019 baseline year), how the transition alignment of the portfolios has evolved and a progress check against the Fund's overarching 2050 net zero flightpath. The outcome of the 2022 analysis (December 2021 data) shows the equity portfolio has decarbonised across all three metrics faster than the decarbonisation flightpath used to determine emissions reductions on a Scope 1 + 2 basis required to meet net zero by 2050.

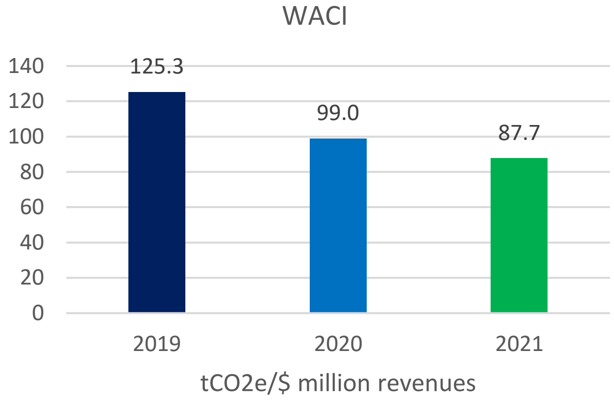
(I) **Absolute emissions -** The equity portfolio has decarbonised by 6.3% versus 2021 and by 41.6% versus the 2020 (December 2019 data) baseline year despite having increased the strategic allocation to equities in the period covered by the analysis (from 37.5% to 41.5%). Absolute emissions are required to decrease by a further 2% to hit the Fund's 2025 interim decarbonisation target.



(II) **Carbon footprint -** The equity portfolio saw a 24.7% reduction in intensity versus 2021 and a 56.3% reduction versus the baseline year.



(III) **Weighted Average Carbon Intensity (WACI)**[4] saw an 11.4% decrease versus 2021, which equates to a 30% decrease versus the baseline year.



(IV) **Transition Alignment -** Along with providing emissions intensity data, Mercer's ACT analysis also categorises the holdings within our listed equity portfolios from 'Grey' to 'Green' showing a spectrum of those assessed to be 'high carbon intensity with low transition potential' to those with 'high transition capacity' with respect to a low carbon transition. The transition alignment categorisation is assigned with the use of a variety of metrics such as carbon emissions intensity and fossil fuel reserves combined with transition scores and green revenues a company produces. This helps us identify the portfolios, and investment sectors, where more engagement may be needed, and pressure applied. Alternatively, it could have the potential to identify areas unable to successfully transition and hence our continued investment may need to be re-assessed. The 2022 analysis showed 20.5% of the Fund's listed equities are invested in so-called 'green' assets, a significant increase from 5.7% in 2021, although we note this was largely driven by changes to the methodology.

Asset transition rating	2021 (data as at 31/12/2020)	2022 (data as at 31/12/2021)
Green	5.7%	20.5%
In-between	93.7%	79.0%
Grey	0.6%	0.5%

Source: Mercer, 2022

Here the 'Green' assets are those deemed well aligned and 'Grey' assets not well aligned with a low carbon transition. The methodology was also updated between 2020 and 2021 to include a number of new factors, one of which was the measurement of companies with Science Based Targets initiative (SBTi) approved targets. The Fund will continue to use the most accurate and up-to-date data and methodologies available as the quality of data and resources improves over time.

[4] WACI figures may differ to the Annual Carbon Metrics Report undertaken by Brunel Pension Partnership on behalf of the Fund due to exclusion of Scope 3 Tier 1 emissions

(V) **Implied Temperature Rise (ITR[5]) -** One important metric drawn from this analysis was the Fund's implied temperature rise. In 2021 results showed the then current equity portfolio was on a +2.2°C pathway on a weighted average basis, based on MSCI's ITR metric. This analysis directly influenced investment policy and was a key driver in increasing our positioning with strategies that were Paris-Agreement aligned and more resilient to temperature changes.

The ACT tool will enable the Fund to set more granular climate targets and measure progress and assess the proportion of the portfolio aligned to a low carbon transition over time. It will also improve the focus of our stewardship policies. It will support the development of a framework to engage with the most strategically important companies in the Fund from a climate perspective by assessing companies' transition risk, whether transition plans are credible and have been subject to independent assessment and whether companies have been identified by leading collaborative engagement initiatives as key to driving the net zero transition. The results of the 2022 ACT analysis will be fed into our wider investment strategy review in 2022/23 and Brunel's 2022/23 climate policy review and stocktake.

The Just Transition

We fully support the idea of a 'Just Transition' and a key goal for the Fund is to use its power as a shareholder to encourage companies and policy makers to adapt their activities to support the transition to a low carbon economy. In 2021/22 the Fund attended evidence sessions of the All Party Parliamentary Group for Local Authority Pension Funds enquiry into 'Responsible investment for a just transition', supported by LAPFF. These evidence sessions heard from investors, industry, academics, community groups, trade unions, and other non-government organisations and produced a report seeking to inform politicians, policymakers and the public on the roles and responsibilities that investors can play, with government support, in enabling a just transition to net zero carbon emissions. The conclusions were multifaceted but possible investor actions included understanding the risks and opportunities of climate change and the potential social impact on companies of transitioning to net zero. From there, investors can seek to identify where the greatest material transition risks are and engage with companies on these issues, setting clear expectations around how they can address explicit concerns. Additional areas of focus included specific reporting around just transition risks and outlining why they matter, alongside engaging with policymakers themselves to ensure they've considered the social dimension to any climate reforms.

[5] https://www.msci.com/our-solutions/climate-investing/net-zero-solutions/implied-temperature-rise

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MSCI

In addition, some of the underlying data has been provided by MSCI which is ©2022 MSCI ESG Research LLC. Reproduced by permission.

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Current Topics

July 2022

1. TCFD Reporting

2. The ESG spotlight turns to natural capital

welcome to brighter

TCFD Reporting

1

Government's consultation response

Task Force on Climate Related Financial Disclosures ("TCFD")

In June 2022 the consultation outcome from the Government response to "Climate and investment reporting: setting expectations and empowering savers" was published. Two major areas were discussed – TCFD Reporting and Implementation Statements

More can be found on: Government response: Climate and investment reporting: setting expectations and empowering savers - GOV.UK (www.gov.uk)

Within their TCFD requirements, financial institutions **now need to include a portfolio alignment metric** which describes the extent to which their **activities are aligned with the climate change goal of limiting the increase in the global average temperature to 1.5°C** above pre-industrial levels (i.e. with the goals of the Paris agreement).

Trustees must select and report on a minimum of one **absolute emissions** metric, one **emissions intensity** metric, one **portfolio alignment** metric and one **additional climate change metric.**

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Metric	Examples under the 2021 guidance[1]	Examples under the updated 2022 guidance[2]
Absolute Emissions	•Total Greenhouse Gas ("GHG") emissions	•Total GHG emissions
Emissions Intensity	•Carbon Footprint (***recommended***) •Weighted Average Carbon Intensity ("WACI")	•Carbon Footprint (***recommended***) •WACI
Portfolio Alignment	•Not required	•Binary target measurements •Benchmark divergence models •Implied temperature rise
Other	•Portfolio alignment metric (no metrics explicitly specified) •Climate value at risk ("VaR") •Data quality	•Climate VaR •Data quality •Carbon price(s) •Proportion of assets materially exposed to physical risks •Proportion of assets materially exposed to transition risks •Proportion of assets aligned toward climate-related opportunities •Amount of senior management remuneration impacted by climate considerations •Amount of expenditure or capital investment deployed toward climate risks and opportunities

Schemes with a year end date on or after 1 October 2022 need to consider an appropriate fourth metric for their reporting requirements

[1] https://www.gov.uk/government/publications/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes

[2] https://www.gov.uk/government/consultations/climate-and-investment-reporting-setting-expectations-and-empowering-savers/proposed-amendments-to-the-statutory-guidance-governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes

The ESG spotlight turns to natural capital

2

Protecting natural capital is the next big challenge and an essential component of mitigating climate change

What is biodiversity and natural capital?

- **Biodiversity** is the variety of living things on Earth and includes the variability within and between species, and within and between ecosystems;

- **Natural capital** includes the services the ecosystem provides to society and economies.

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- Over half of the world's economic activity is highly or moderately dependent on nature[1]

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[1]https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

Taskforce on Nature-related Financial Disclosures

TNFD

The TNFD published its beta framework on 15 March 2022 and its second iteration, including draft metrics in June 2022. TNFD is in a consulting phase ahead of producing the final recommendations in September 2023.

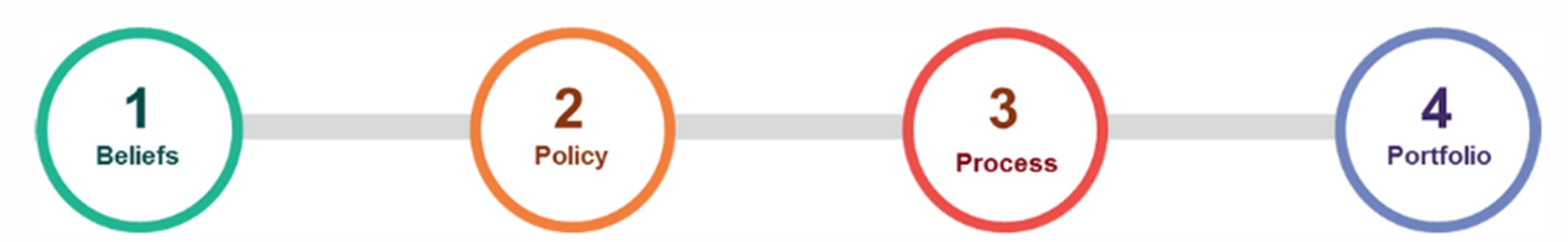
The TNFD is aiming to replicate the success of the Taskforce for Climate-related Financial Disclosures (TCFD):

- It seeks to understand the interactions between business and natural capital;
- It aims to agree a framework to monitor nature impacts to encourage businesses and investors to minimise negative impacts on nature and maximise positive impacts
- The TNFD will create a toolkit for business leaders and the financial community to allocate capital away from nature-negative and towards nature-positive outcomes

Mercer sits on the TNFD forum and is actively involved in providing feedback and input to the TNFD

What can investors do now?

Sustainable investment pathway



- Incorporate natural capital considerations into your investment beliefs.

- Make nature-positive statements in sustainable investment policies and stewardship policies.

- Understand how asset managers are monitoring and measuring natural capital metrics.

- Understand how asset managers integrate natural capital considerations into the management of your investment portfolio.
- Understand your exposure to high risk sectors (e.g. food producers)
- Allocate to a thematic fund.

Find out more…

https://www.uk.mercer.com/our-thinking/environmental-social-governance/the-esg-spotlight-turns-to-natural-capital.html

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https://www.mercer.com/our-thinking/wealth/podcast-critical-thinking-critical-issues.html

Podcast episode 22 – Making waves: A spotlight on water scarcity

https://www.uk.mercer.com/our-thinking/environmental-social-governance/the-esg-spotlight-turns-to-natural-capital.html

https://insightcommunity.mercer.com/

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**09 September 2022**
TITLE:	**Review of Investment Performance for Periods Ending 30 June 2022**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 - Mercer Performance Monitoring Report Appendix 2 – Brunel Quarterly Performance Report Appendix 3 – Quarterly Portfolio Monitoring Summary	

1. THE ISSUE

1.1. This paper reports on the performance of the Brunel and legacy portfolios and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for periods ending 30 June 2022.

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

1.3. Appendix 2 is the quarterly performance report published by Brunel which focuses on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf over the quarter.

1.4. The performance of the Fund's Risk Management Framework is considered separately under Agenda Item 11 – Risk Management Framework Review.

1.5. Appendix 3 contains a summary table which is designed to flag any concerns from a performance, operational and/or RI perspective. The table has been compiled using data provided by Brunel as part of their routine reporting process. There are no concerns arising from the Brunel portfolios this quarter.

2. RECOMMENDATION

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

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

3. FINANCIAL IMPLICATIONS

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

4. INVESTMENTS UPDATE

A – Fund Performance

4.1. The Fund's assets decreased by £370m in the quarter (-7.1% net investment return) ending June 2022 giving a value for the Fund of £5,456m.

4.2. The second quarter of 2022 saw a continuation of the negative sentiment around risk-assets, primarily driven by multi-decade high inflation, fears of a global recession and further geopolitical tensions. The MSCI All Country World Index was down 9.0% in GBP terms with all but two countries registering negative returns. In terms of equity styles (see below table), the inflationary environment continued to support value stocks and punish growth stocks although the discrepancy between styles started to narrow in June as the market pivoted into defensive names expected to perform strongly in an economic downturn, which in turn led to opportunities to generate alpha.

Equity 'Style'	1Q 2022 Return	2Q 2022 Return	1H 2022 return
MSCI World	-2.32	-9.00	-11.12
MSCI World Growth	-7.01	-14.51	-20.50
MSCI World Value	2.37	-3.95	-1.67
MSCI World Quality	-5.88	-9.90	-15.19
MSCI World Minimum Volatility	-0.29	-2.49	-2.77
MSCI World Large cap	-1.99	-8.84	-10.66
MSCI World small cap	-3.72	-10.08	-13.43

Credit markets fared particularly badly as a result of rising rates and widening credit spreads. In UK LDI markets 10-year gilt yields rose by 62bps. Across Private Markets, Infrastructure opportunities, particularly in the renewables sector, remained in demand. In Private Debt, managers began to move into more defensive sectors with a focus on covenant strength. Property has yet to see a pricing impact from rising inflation and interest rates, with industrial leasing and warehouses remining buoyant. Demand for offices remained steady with availability falling. The retail sector performed well but this is unlikely to continue as consumer confidence falls. In the long-lease sector rents are typically contracted to rise in line with inflation, but this is often capped at ~5%, which could impact performance as inflation continues to rise. Sterling depreciated against the US Dollar by 7.8%, by 1.8% against the Euro and appreciated by 3.2% against the Japanese Yen. Further information on Q2 asset class performance can be found in the Mercer report at Appendix 1.

B – Investment Manager Performance

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

4.4. Brunel reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found on pages 17-33 of Appendix 2.

4.5. Overall, the Fund saw a negative return over the quarter. Leading detractors Global High Alpha and Global Sustainable Equities both produced absolute returns of -10.3% (-1.3% and -1.9% respectively on a relative basis). Global High Alpha's relative underperformance was driven by sector selection, suffering from a large underweight position in the best performing sector (Energy) and a large overweight position in the worst performing (Consumer Discretionary). GSE's underperformance is attributable to its style bias, the overweight to US names and underweight to China. The Passive Paris Aligned Portfolio posted a negative absolute return of -9.1%, with Consumer Staples and Healthcare being the only two positive contributors to returns over the quarter. The MAC portfolio posted a -8.6% return vs. the 1.2% cash benchmark. It performed in line with its proxy credit benchmark. DRF saw negative returns of -3.0% vs its 0.9% cash benchmark. Its relatively low equity beta insulated it from the sharp falls seen in equity markets. Core Infrastructure, Renewable Infrastructure, Private Debt, Secured Income and Property portfolios all produced positive absolute returns over the period. Of those mandates with a 1-year track record the majority of private markets portfolios still earnt positive absolute returns, with notable outperformance from the Cycle 2 Brunel Secured Income (which benefits from a larger allocation to renewable infrastructure than Cycle 1) and IFM Infrastructure portfolios. Listed market portfolios have produced negative absolute and relative performance figures for the year largely because of the ESG tilt in these portfolios. The currency hedge detracted 1.2% over the quarter as Sterling weakened against the Euro and US Dollar.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. **Returns versus Strategic Assumptions:** Returns versus the strategic assumptions used during the 2019/20 investment review can be found on p22-23 of Appendix 1. Significantly, Global Sustainable Equity returns are below expected returns due to portfolio biases. Multi Asset Credit is also behind due to negative returns from fixed income markets in 2022. Some of the private markets mandates are either still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

5.2. **Rebalancing:** The wind-down of the JPM hedge fund mandate continues with the third redemption of $80m settling in May and the fourth in August.

The Blackrock QIF collateral pool was topped up by £60m during the quarter, funded from the hedge fund wind-down.

5.3. **Responsible Investment (RI) Activity**: A summary of RI activity undertaken by Brunel is included on page 10-11 of Appendix 2.

The Fund has drafted its second Taskforce on Climate Related Financial Disclosures (TCFD) report and is considered under Item 9.

5.4. **Voting and Engagement Activity:** Hermes engaged with 323 companies held by Avon in the Brunel active portfolios on a range of 967 ESG issues. Environmental topics featured in 26% of engagements, 72% of which related directly to climate change. Social topics featured in 18% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 45% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 475 meetings (6,832 resolutions). At 311 meetings they recommended opposing one or more resolutions. 64% of the issues Hermes voted against management on comprised board structure and remuneration. During the quarter, the underlying investment managers undertook the following voting activity on behalf of the Fund:

Companies meetings voted: 2.353

Resolutions voted: 35,170

Votes For: 26,642

Votes Against: 7,863

Abstained: 72

Withheld vote*: 593

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

6. RISK MANAGEMENT

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

7. EQUALITIES

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

8. CLIMATE CHANGE

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

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

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

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

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Avon Pension Fund

Panel Investment Report
Quarter to 30 June 2022

August 2022

Steve Turner
Joshua Caughey

Contents

Executive summary

1

Executive summary

Market background

- The broad macro trends seen since the beginning of the year continued throughout the second quarter of 2022. Surging commodity prices led to new multi-decade inflation records.
- Central banks doubled down on monetary tightening, resulting in elevated market volatility and a sell-off in virtually all asset classes except commodities and property. Growth expectations were dialled down drastically over the quarter.

Mercer market views

- Our medium term outlook is mixed after the turbulent start to 2022, given the crosscurrents at play.
- High inflation and rising interest rates are typically not a good environment for most risk assets. However markets have already fallen sharply year-to-date and our concerns around valuations have eased as a result.

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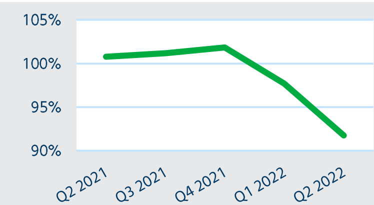
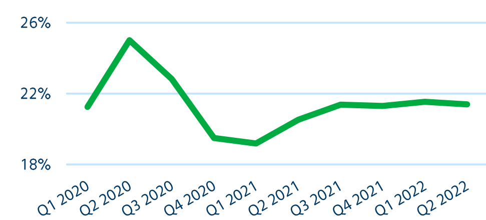
Funding level and risk

- The funding level is estimated to have decreased over Q2 to 92%, as the assets fell in value by more than the liabilities.
- It is estimated to have decreased by 9% over the year to 31 March 2022 (as illustrated to the right).



- The Value-at-Risk fell slightly over the quarter to £1,272m, largely due to the fall in absolute value of the assets.
- It was broadly unchanged as a percentage of liabilities at 21.4%.
- Risk as a proportion of liabilities has increased over the year due to rises in expected volatility. However it remains below the levels of 2020, in part due to the move from a static to dynamic equity protection strategy.



Executive summary

Performance

- The Fund assets fell in value primarily due to negative returns from the equity and LDI portfolios as markets declined. The Diversified Returns and Multi-Asset Credit mandates also lost value (as we would expect given the market backdrop).
- The alternatives in real assets and the Equity Protection cushioned losses.

- Underperformance relative to the strategic benchmark over the one year period to 30 June 2022 is mainly due to the underperformance of the active equity and multi-asset mandates.
- This has also contributed to underperformance over the three year period, alongside the Equity Protection and Overseas Property.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-7.1	-2.0	3.0
Strategic Benchmark **(2)** (ex currency hedge)	-6.0	2.5	6.0
Relative **(1 - 2)**	**-1.1**	**-4.5**	**-3.0**

- Conversely the real assets have done well over the one and three years against their benchmark.
- The Currency Hedge overlay detracted from returns over all time periods shown due to a weakening of Sterling.

- Absolute returns for the global equity mandates compared to the strategic returns modelled at the strategy review in 2019 have been mixed. The most recently-incepted Paris-Aligned mandate has underperformed due to its point of inception, though the underperformance of the Sustainable Equity mandate is due to active management.
- The Diversified Returns and Multi-Asset Credit mandates have also fallen short of expectations due to this year's losses, however the alternative assets have generally outperformed.

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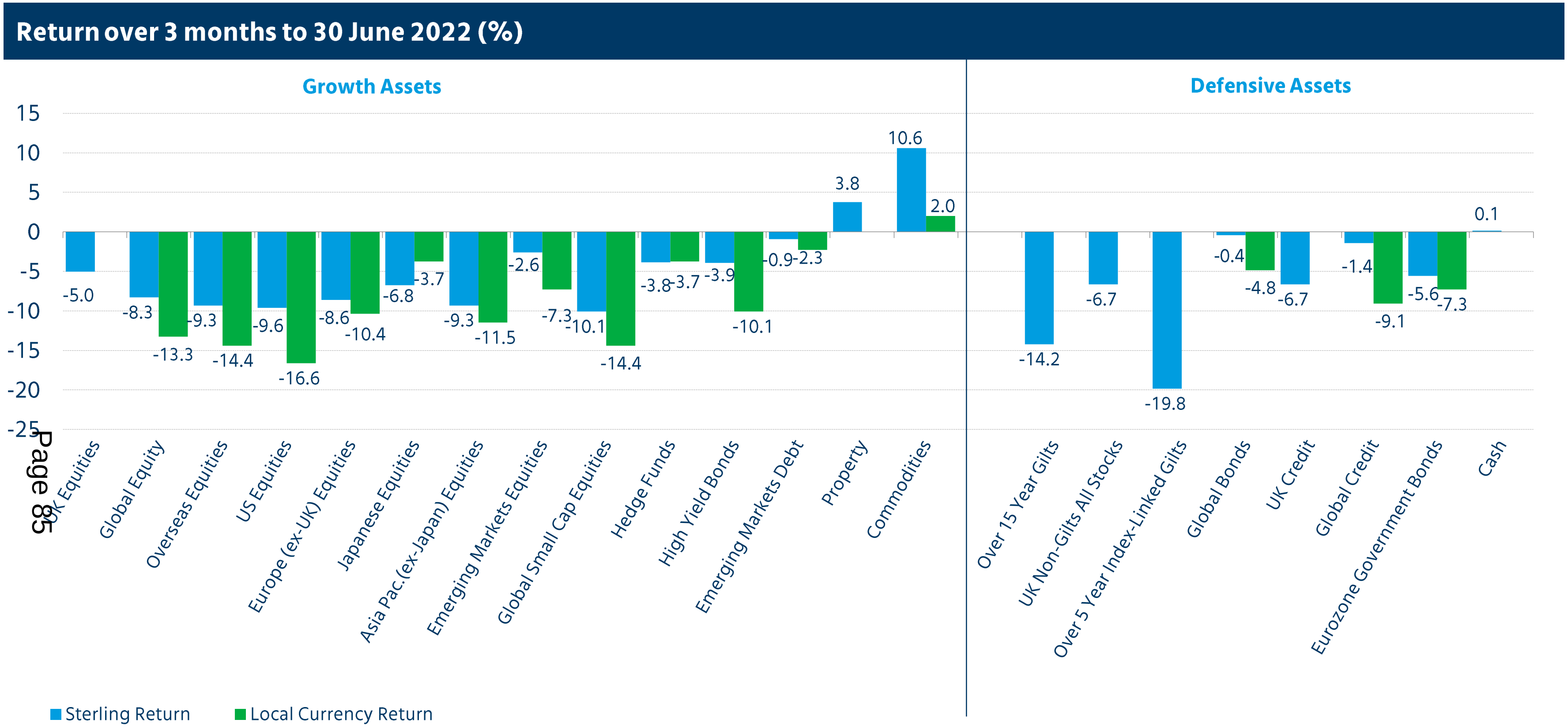
Asset allocation and strategy

- During the quarter, the BlackRock QIF collateral pool was topped up by £60m, funded from the Hedge Funds mandate which is in the process of being wound down.
- A net amount of c£47m was drawn down to the Brunel private market portfolios during the period.
- At quarter-end, all asset classes were within their ranges, except for the Core Infrastructure allocation due to its stronger relative recent performance. This is offset by the equivalent underweight to Renewable Infrastructure.

Market background

2

Market background



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The broad macro trends seen since the beginning of the year continued throughout the second quarter of 2022. Surging commodity prices, to a large degree the result of the ongoing conflict in Ukraine and supply chain disruptions from Chinese lockdowns, led to new multi-decade inflation records.

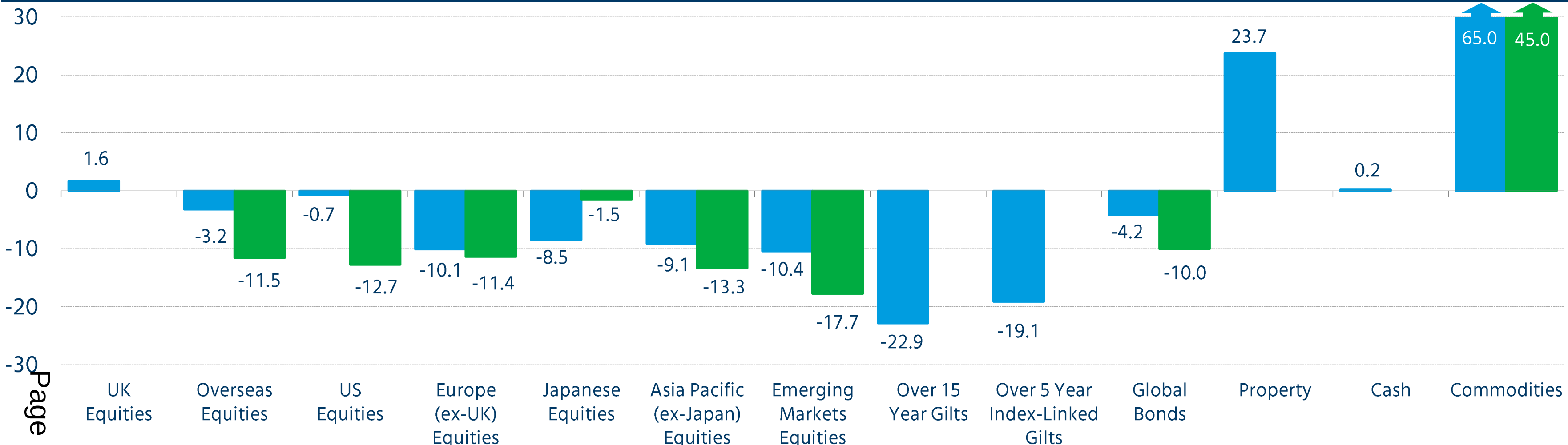
Central banks in many major regions doubled down on monetary tightening as a consequence, resulting in elevated market volatility and a sell-off in virtually all asset classes except commodities and property. Growth expectations were dialled down drastically over the quarter with a growing number of investors seeing a recession as an increasingly plausible scenario.

Mercer

Source: Refinitiv

Market background – 1 & 3 years

Return over 12 months to 30 June 2022 (%)



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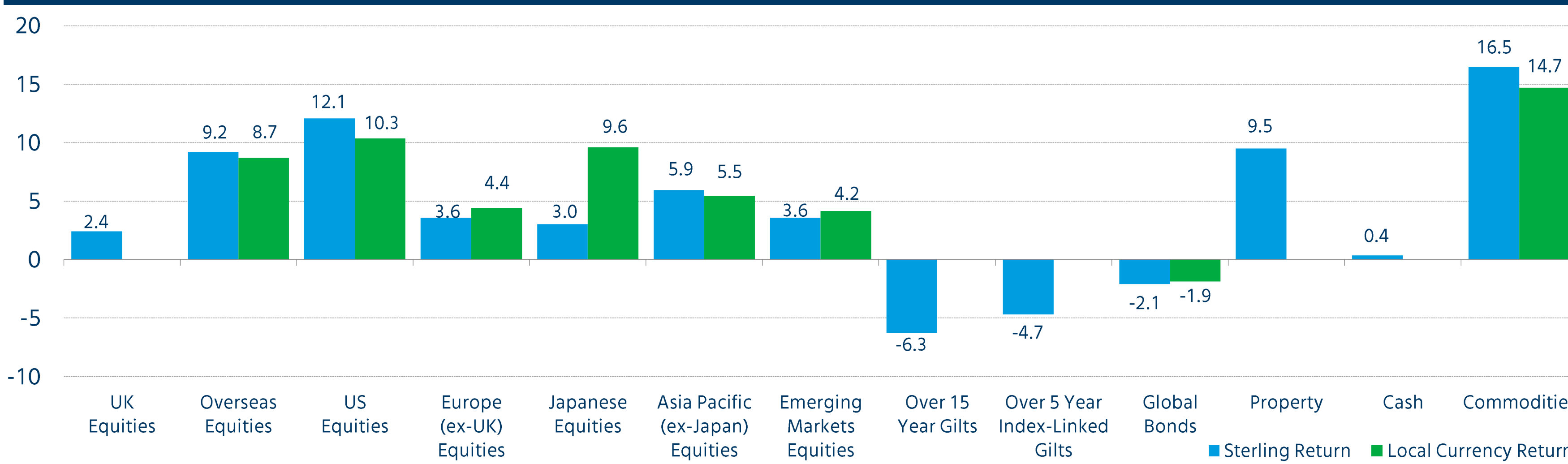
Return over 3 years to 30 June 2022 (% p.a.)

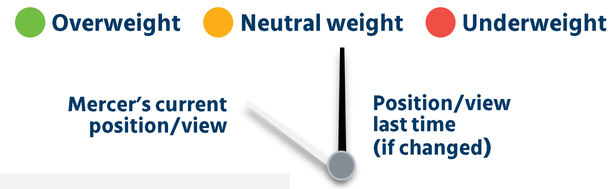


Mercer

Source: Refinitiv

Mercer market views

3



Market Outlook (July 2022)

Global equities and almost all other asset classes fell sharply in Q2 as inflation continued to rise and central banks accelerated their interest rate hiking plans. Having fallen by c. 5% (USD return) in Q1, global equities as represented by the MSCI World Index fell by over 10% (USD return) in Q2 with a whiff of panic visible in June following a much worse than expected US inflation reading at the start of the month. Both equities and bonds have experienced close to their worst first six months of the year ever, albeit after over a decade of very strong performance. Central banks continued to raise interest rates, with 0.5% hikes becoming the new normal, while the US Fed raised rates by 0.75% in June, its largest single meeting increase since the 1990s. Government bond yields rose sharply in many parts of the world, with yields hitting their highest level since the immediate aftermath of the great financial crisis in some countries. Bond markets in China and Japan were the key standouts with both continuing to experience low inflation and stable interest rates. Commodity prices were strong for much of the quarter although weakened into quarter-end on fears that the rate hikes would push the US into recession. The US dollar rose against most currencies, with the Japanese yen especially weak.

Global economic growth was soft on the back of sharply higher inflation which ate into household budgets. While higher wages helped cushion the blow, higher wages failed to match inflation leading to negative real income growth in most parts of the world. The main bright spot remained labour markets with unemployment at or close to the lowest level in decades in many parts of the world. However despite the strength in labour markets, consumer confidence fell to very low levels, suggesting weak consumption in the months ahead. Business investment remained decent, despite the inflationary pressure as businesses continued to invest, in part to resolve supply chain challenges and boost inventories. The Chinese economy remains out of sync with the rest of the world and is being driven largely by its approach to COVID, where it continues to target zero cases.

Inflation rose sharply in most countries, with the notable exceptions of China and Japan, where it remained subdued. Inflation in the US and elsewhere was driven by both non core items (food and energy) and core items. The breadth of the increases took many by surprise and suggested higher inflation may last longer and take higher interest rates than had previously been expected. Household inflation expectations also rose, leading to fears that higher inflation would become self re-enforcing.

Looking forward, the US economy will inevitably slow sharply as the Fed hikes rates. The Fed (and to a lesser extent other central banks) is explicitly targeting a period of slower growth to soften labour demand and end the upward pressure on wages. Whether this leads to a recession and a so-called hard landing is uncertain. We think a hard landing is likely to be avoided, because of the strength of household and corporate balance sheets and the possibly that some of the inflationary pressures will ease. However, any further sharp rise in commodity prices on the back of the conflict in Ukraine would make achieving a soft landing more difficult. The Chinese economy is likely to accelerate in the near term as the economy re-opens.

We expect inflation to remain above target, although to reduce from current levels over the next few quarters. Recent weakness in commodities, if sustained, would lead to a sharper fall and there are some tentative signs of the supply chain pressures easing. Despite this it will take several quarters for the tightness in labour markets to ease and central bankers are likely to continue to raise interest rates and reduce the size of their balance sheets (QT) for some time.

Uncertainty is high at the moment and as a result we do not have strong views on most asset classes. High inflation and rising interest rates are typically not a good environment for most risk assets. However markets have already fallen sharply year-to-date and our concerns around valuations have eased as a result. Some assets have started to look cheap. In addition, sentiment appears to be very low and risk markets could rally if a soft landing is ultimately achieved. We considered increasing our rating on both equities and growth fixed income to overweight, but decided against it given elevated risk levels and uncertainty over the near term path of inflation. For fixed income, we increased overall positioning to growth fixed income to the overweight side of neutral and increased defensive fixed income to neutral. Within equities, we did increase our exposure to small cap equities which appear cheap relative to large cap and would be supported by a soft landing. Our overweight to cash was consequently removed.

LISTED EQUITIES

GROWTH FIXED INCOME

DEFENSIVE FIXED INCOME

CASH*

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

Mercer

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

Listed equities

ASSET CLASS	APRIL 2022	JULY 2022	COMMENTARY
Global Sustainable Equity	Neutral	Neutral	**The MSCI World Index returned -9.0% in GBP terms over 2022Q2 and -11.1% on a year-to-date basis.[1] We have maintained our broad market equity sector position at neutral within the global equities portfolio.** Valuations have improved considerably over the quarter. Most metrics are now at or slightly below their long term average (except for CAPE). However, the macroeconomic outlook continues to deteriorate which may justify lower valuations to a degree. Inflation remains at multi-decade highs and central banks therefore maintain an accelerated pace of tightening. The earnings outlook is still somewhat optimistic given the slowdown in consumer sentiment and deteriorating economic outlook. It seems that the equity sell—off was mainly driven by rising discount rates rather than equity markets positioning for higher recession risk. This leaves room for further downside even if more attractive valuations have also increased the upside. Investor sentiment as measured by the Bank of America fund manager June 2022 survey kept deteriorating with investor optimism on global growth falling to an all-time low and the fear of stagflation rising to multi-decade highs. 25% of investors see a global recession as the biggest tail risk. Attractive valuations that compensate only partly for our unfavorable macro backdrop and sentiment informs our decision to remain neutral on broad market equities.
Global Small Cap Equity	Neutral	Neutral/Positive	**The MSCI Small Cap index returned -10.1% in GBP terms over 2022Q2 and -13.4% on a year-to-date basis.[1] We have upgraded our small cap allocation from neutral to the overweight side of neutral.** The asset class looks much more attractive as valuations improved considerably and more than for large caps. Most valuation metrics are now 0.5–1 standard deviations below their long term averages. Small cap's cyclical nature make it more vulnerable in a downturn but we would equally expect more upside in a soft landing which is our base case. As with other equity sectors, sentiment has worsened and remains unfavorable for small caps. A majority of investors believe large cap equities will outperform small-caps over the next year, the highest proportion in a decade. Nevertheless, attractive valuations that compensate small cap investors more than large cap investors for macro downside and leave more upside if our soft landing base case materializes inform our decision to increase our exposure to small cap.
Emerging Markets	Neutral	Neutral	**The MSCI Emerging Markets index returned -3.9% in GBP terms over 2022Q2 and -8.0% on a year to date basis.[1] We have maintained our current neutral position for emerging market equity.** Valuations have further improved and remain attractive relative to their own history but are not attractive compared to developed markets anymore. Emerging market equities (driven by China) being the strongest performing equity sector on a relative basis over the quarter has reduced the valuation discount. A weakening economy, even if it is just a soft landing is a headwind for export-orientated economies and the recent slowdown in commodity prices has already started to reduce the momentum for commodity exporting countries. Even if the easing of Chinese lockdowns and continued policy support is expected to improve the growth outlook for China, such lockdowns could return at short notice, Macau being the latest example. According to the Bank of America Global FMS, investors still see EM equities as a candidate for the best performing asset class of 2022. In summary, our neutral position is informed by valuations still being attractive but less so on relative basis and macro-economic uncertainty, especially around Chinese lockdowns which offsets positive sentiment.

Mercer

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

Growth fixed income

ASSET CLASS	APRIL 2022	JULY 2022	COMMENTARY
Global Loans	Neutral	Neutral	**Over 2022Q2, global loans returned 3.6% in GBP hedged terms[1]. We have maintained our position at neutral within growth fixed income.** Loans outperformed the other growth fixed income asset classes for the second straight quarter given their lack of duration risk. The dramatic sell-off in rates has resulted in much better absolute valuations given significantly higher all-in yields across credit sectors, including bank loans which now offer a current yield of 8.5%. Further, their floating rate nature and senior secured position makes them quite appealing in an environment of more hawkish central banks. JP Morgan has revised up their 2022 leveraged loan default rate to 1.25%, but still below the long-term average of 3.1%. Importantly from a pure default perspective, only 6.2% of the securities in the high yield bond and loan markets are due to mature in the next two years, which takes a significant level of refinancing risk off the table over the DAA horizon. However, we see bank loan spreads as vulnerable to further widening given the deterioration in quality coinciding with further economic stress. Whilst the appetite for floating rate remains, technicals may not be as supportive as one would expect over the near-term.
High Yield	Neutral	Neutral	**Over 2022Q2, global high yield returned -2.3% on a GBP hedged basis[1]. We have upgraded our position to the positive side of neutral within growth fixed income.** The recent drawdown in the high yield market has increased the opportunity set in the asset class as the index now yields roughly 270bps more than it did at the start of the quarter. While absolute yield levels are attractive, spread valuations still appear rich given the increasingly uncertain macro environment. JP Morgan has revised up their 2022 high-yield bond default rate to 1.25%, but still below the long-term average of 3.6%. While strong fundamentals support low default activity going forward, it is worth pointing out that spreads may be vulnerable to an environment with less abundant liquidity and potentially slower economic growth. Given rising recessionary risks, the relative value between floating rate loans and high yield bonds is more evenly distributed. Given the better overall credit quality within the high yield asset class, we hold a slight preference for high yield over global loans.
EM Debt (Local Currency)	Neutral	Neutral	**EMD local currency market returns fell through Q2 2022, posting a return of -0.9% in GBP hedged terms[1]. We have marginally reduced our position to neutral within the growth fixed income portfolio.** We maintain a slight preference relative to Hard Currency due to more attractive spread valuations, historically cheap EM currencies, and generally lower duration profile. FX has held up surprisingly well given the nature of the risk-off event, but rates are coming under pressure. The sharp rise in commodity prices has continued to drive a number of idiosyncratic stories and will support both headwinds and tailwinds for a number of regions. EM central banks continue to raise rates in the face of ongoing inflationary pressures, supporting highly attractive real yields across the asset class. Flows into the asset class continue to be heavily stemmed by the general risk-off environment as well as the continued rising rate path of EM central banks.
EM Debt (Hard Currency)	Neutral	Neutral	**EMD hard currency markets underperformed through Q2 2022, posting a return of -4.0% in GBP hedged terms[1]. We have reduced our position to a lower conviction neutral allocation within the growth fixed income portfolio.** Spreads continued to widen and remain elevated versus pre-pandemic levels. The continued strength of the US dollar, rising rates and continuing geo-political risks are headwinds, as is the large duration component of the asset class. Performance during 2022 has been driven by Russia's invasion of Ukraine and the sustained global inflationary pressure and subsequent rate hikes. The impact this particular event has had on global commodity prices will weigh further on global growth which had already slowed, stoking fears of recession and even a period of stagflation. The recent dollar rally, in tandem with a hawkish Fed and subsequent rising US rates, will increase the effective interest payments on dollar denominated debt. Sentiment remains vulnerable to the slowdown in global growth, inflation, US rate hikes and the ongoing conflict in Ukraine.

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

Defensive fixed income

ASSET CLASS	APRIL2022	JULY 2022	COMMENTARY
UK Sovereign Fixed Income	Neutral	Neutral	**Over 2022Q2, UK sovereign bonds returned -1.3% in GBP terms. We have maintained our neutral position in UK sovereign fixed income within the defensive fixed income portfolio, but have become marginally more negative given the ongoing inflation risks to the UK economy.** Gilt yields moved markedly higher over the quarter in response to elevated levels of inflation, despite softening towards the end. We note that the BoE, which was one of the more hawkish major central banks at the turn of the year, has adopted a more dovish tone, following concerns around growth, acknowledging that households will likely come under significant pressure in the coming months with surging energy prices and other factors placing a significant burden on households. The UK economy is suffering ongoing supply side issues which will likely ensure inflation remains elevated, but headwinds to growth mean that they may struggle to raise rates as much as priced, with the UK economy already slowing.
UK Inflation-Linked Bonds	Underweight	Underweight	**Over 2022Q2, UK inflation linked bonds returned -17.5% in GBP terms. We maintain our underweight position in the defensive fixed income portfolio.** Long term breakevens across developed markets fell over Q2 as the market narrative shifted slightly from inflation to lower growth, weighing on the asset class. Valuations have improved as real yields have increased, but we still consider UK linkers expensive (for structural local market reasons) despite the potential for inflation to continue to surprise on the upside. Globally, we would still expect inflationary pressures to ease as temporary supply-side factors slowly normalize, seeing current inflation prints falling from their very elevated levels but likely remaining above central bank targets within our 1-3 year time horizon. However, timeframes remain highly uncertain and the risk of stagflation has increased since Russia's invasion of Ukraine as well as renewed lockdowns in China, both of which have exacerbated pressures on supply chains. From a technical perspective, the market continues to be actively supported by participants seeking to hedge higher inflation expectations.
UK Investment Grade Credit	Neutral	Neutral	**Over 2022Q2, UK investment grade credit returned -6.7% in GBP terms. We have maintained UK investment grade credit within the defensive fixed income portfolio at neutral, but have become more positive off improved valuations.** Risk-off sentiment dominated and spreads widened over the quarter in all geographies and sectors in response to slowing growth risks. At this point, there may be opportunities to tactically add exposure, particularly given our "soft landing" base case. But with the possibility of spreads moving wider from here, we remain cautiously positioned from an overall beta perspective given concerns over slowing economic growth and central banks intent on curbing inflation, and the impact on earnings growth. At current levels, however, credit offers a potentially decent income cushion for any further widening, and the asset class looks very attractively priced particularly over the longer end of the 1-3 year DAA horizon. Despite the heightened risk environment, corporate fundamentals remain solid, while downgrade and default expectations remain muted. M&A activity, and its subsequent effect on corporate balance sheets, is one to watch, although we view UK/Europe as less aggressive than the US in this regard. With higher core yields, the market may see less demand for spread product.. However, after outsized issuance in 2020 and 2021, coupled with increased funding rates, this has seen less supply over 2022.

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

Global Property Market Outlook

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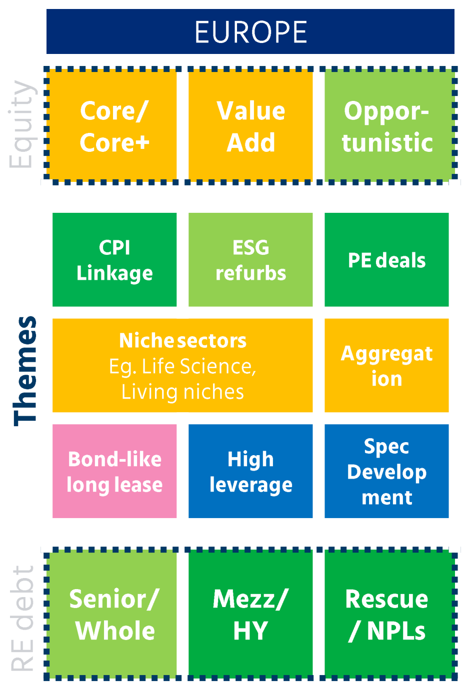
During the first quarter of 2022, the market showed great strength, activity and returns. Inflation concerns caused investors to focus on securely leased prime assets with inflation-linked income. However, since persistent inflation led to aggressive rate hikes by the US Federal Reserve (+150bps in five months) and several other Central Banks, attention is shifting towards the valuation side of returns. As the market is catching up with this reality, the next few quarters are likely to show a slowdown in the market until greater clarity on the economic and financial backdrop can justify renewed stabilization.

Real estate markets are not decoupled from the macro economic environment but the resilient and long-term nature of property should assist the asset class in remaining relatively stable in the period ahead as both equity and fixed income portfolios will suffer more from a recessionary environment caused by high inflation and rising interest rates. This notwithstanding, we anticipate the positive value growth observed in the past year to erode or even turn negative in some market segments. This unevenness will be caused by the relative weight of capital together with each properties ability to concert high inflation into NOI growth. cash was consequently removed.



Attractive value: Real estate's attractive attributes of long-term contractual cash-flows linked to inflation, illiquidity premiums and potential for GDP de-linking should remain at the forefront of investors' minds. The change in paradigm brought by the rapid rise in interest rates, at this point, is directly benefiting real estate debt strategies as well as opportunistic managers who can exploit capital market distress without relying (much) on external finance themselves.

Worst value: We have moderated our expectations compared to last quarter due to a weakening macro-economic and financial environment. We have moderated our outlook for Core to neutral as short-term risks appear on the downside, although the income growth component is an important mitigant and reason why investors may still want to enter this part of the market.

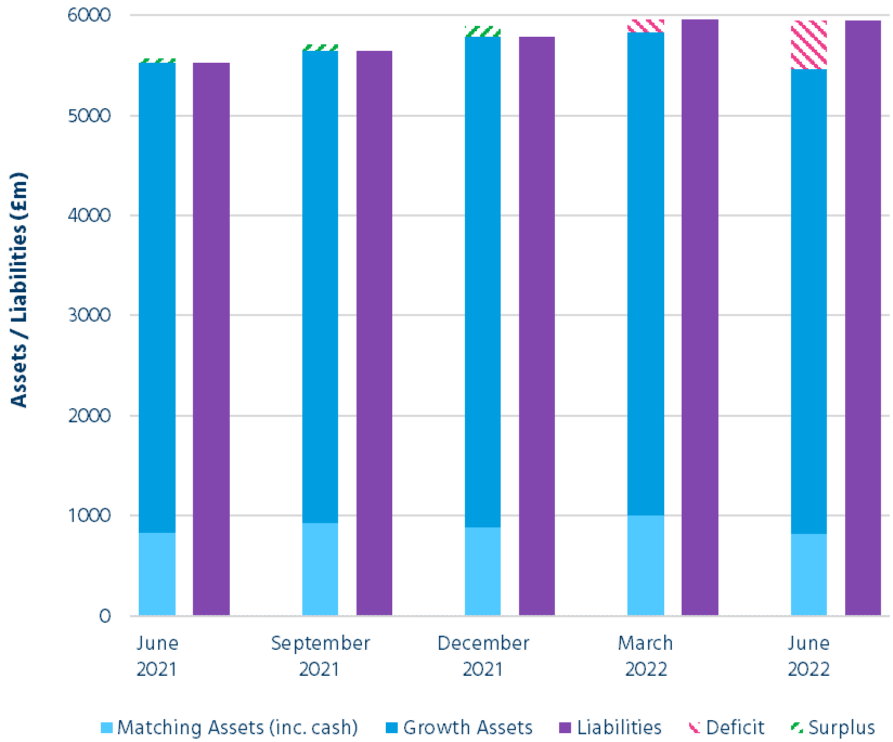
Disclaimer: For illustration purposes only. The table presents a simplified perspective at the time of writing this report and is subject to change without notice. All categories offer attractive opportunities and optimal allocations are subject to manager selection. The outlook represented is for new investors with a non-constrained risk budget over a 3 to 5 year investment horizon. 'Unattractive' positions therefore does not imply advice to liquidate existing investments.

Further guidance is available in Mercer's *Global Market Summary: Quarterly Real Estate Report, July 2022*

Funding level and risk

4

Change in deficit



Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have widened over Q2 to £490m.

This occurred due to the fall in value of the assets, whilst the present value of the liabilities fell only marginally.

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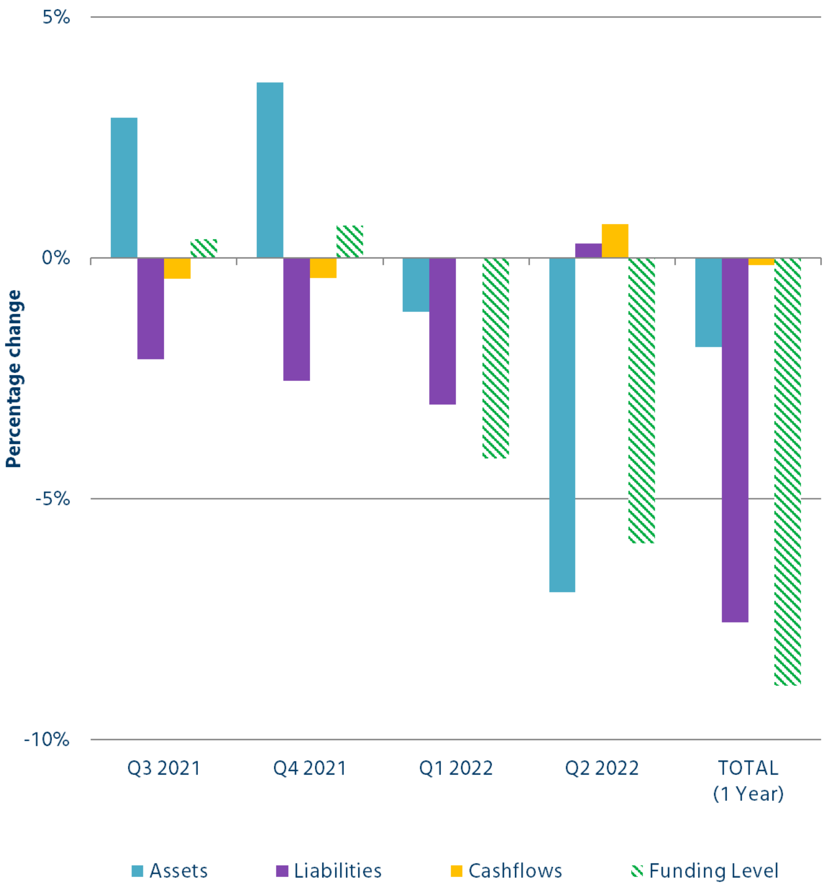
Liability values are estimated by Mercer.
They are based on the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.
31 March 2022 estimates have been revised upon receipt of updated asset / liability data.

Funding level attribution



Q1 2022 estimates have been revised upon receipt of updated asset / liability data.

The Fund's assets contracted by 7.1% over the quarter, whilst the liabilities are expected to have fallen by c. 0.3% due to the rise in inflation.

The combined effect of this, also allowing for expected cashflow over the period, saw the funding level decrease to c.92%.

The funding level is estimated to have decreased by c. 9% over the year to 30 June 2022.

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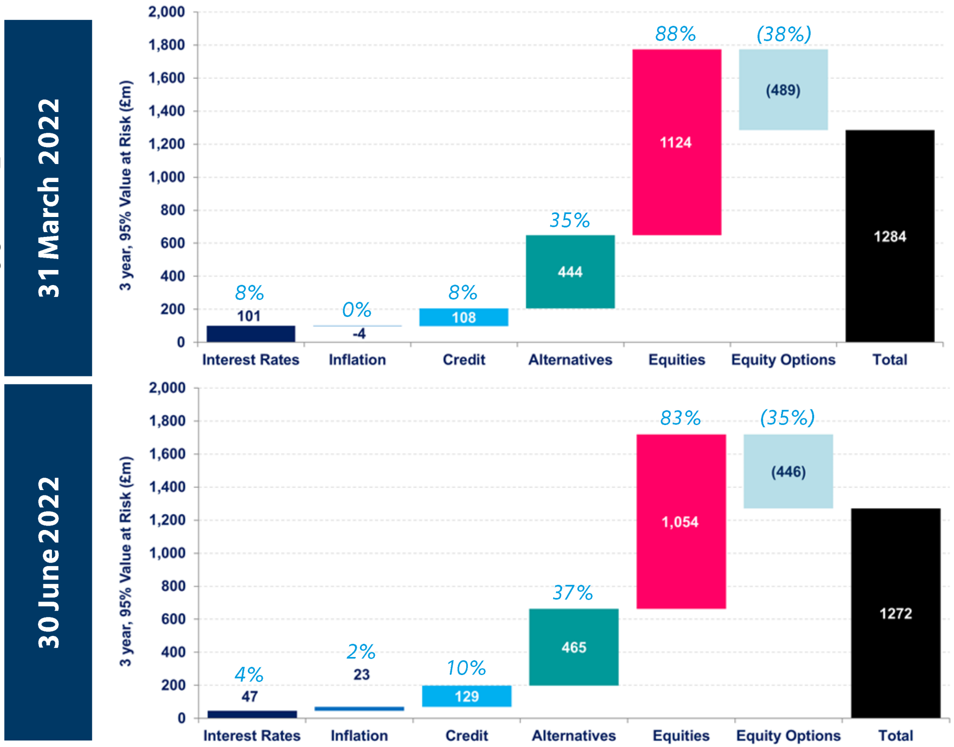
Risk decomposition – 3 year Value at Risk

- 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.



- As at 30 June 2022, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.3bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR decreased slightly over the quarter**, largely due to the fall in absolute value of the assets. This outweighed increases in the expected underlying volatility of the growth assets.

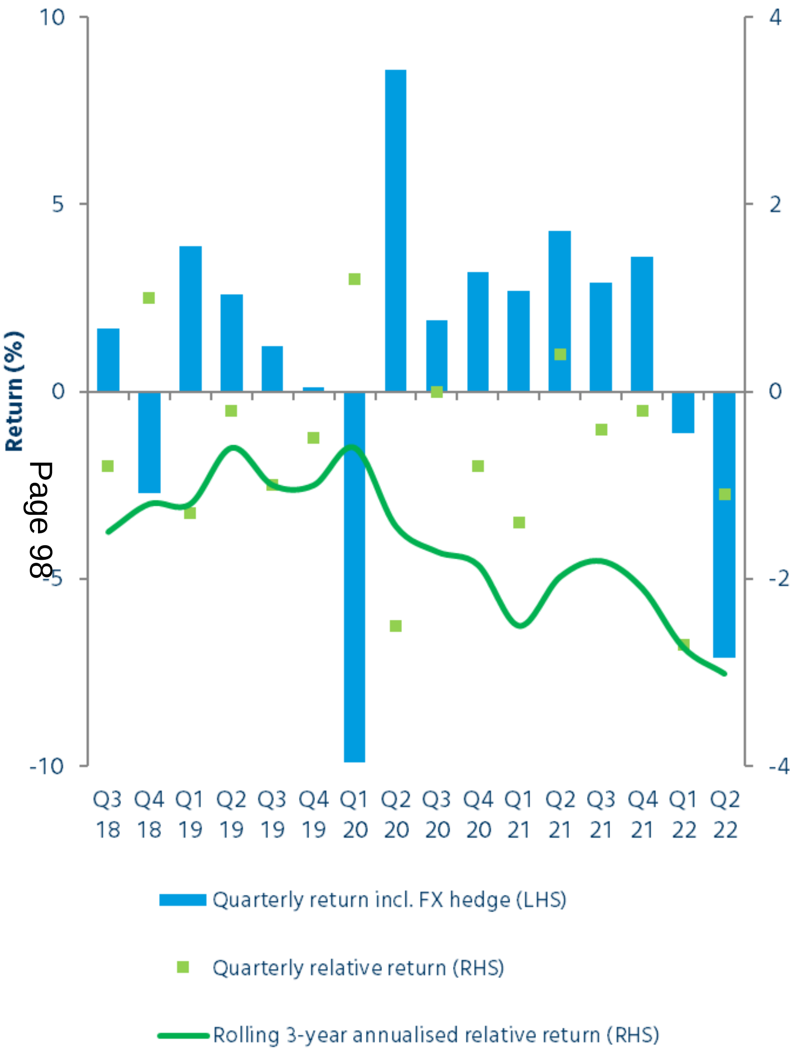
VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

Mercer

Performance summary

5

Total Fund performance



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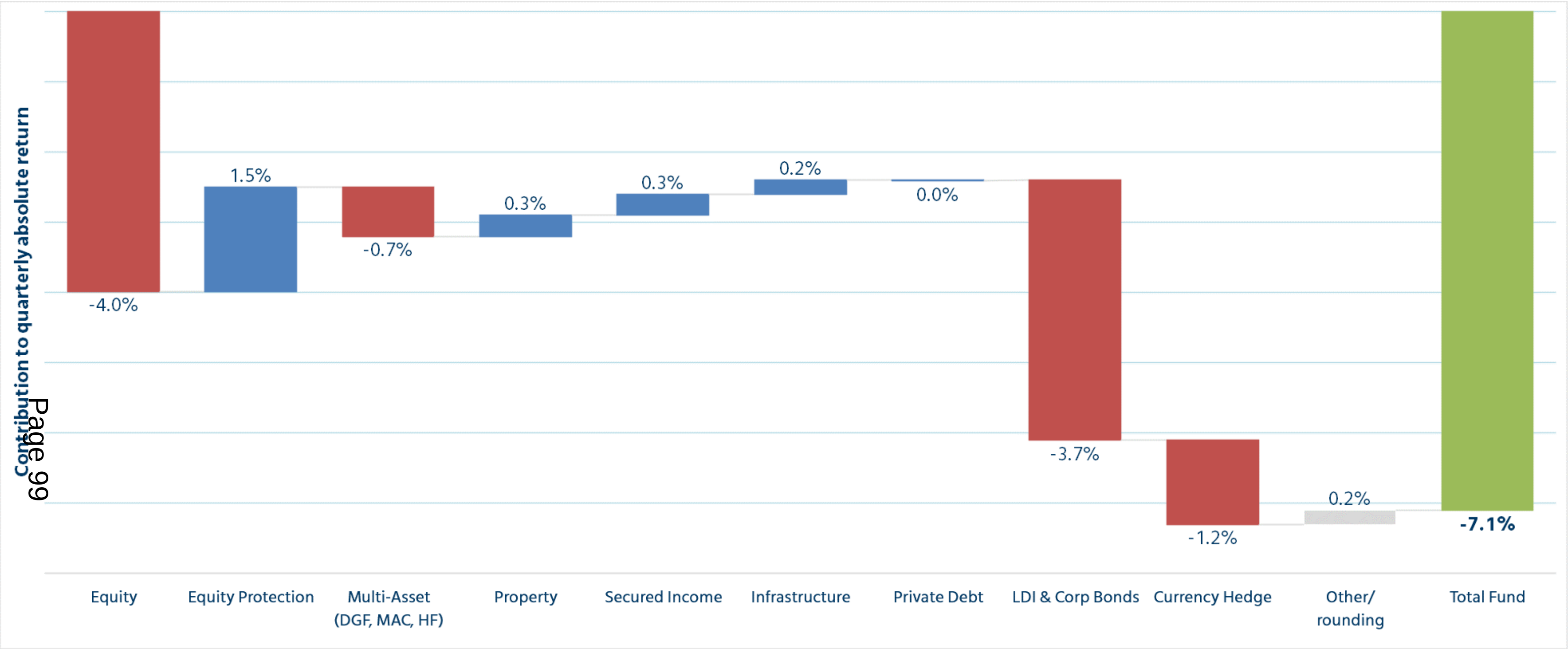
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-7.1	-2.0	3.0
Total Fund (ex currency hedge)	-5.9	-0.1	3.1
Strategic Benchmark **(2)** (ex currency hedge)	-6.0	2.5	6.0
Relative (1 - 2)	**-1.1**	**-4.5**	**-3.0**

Commentary

- As illustrated on the next slide, the fall in the value of Fund assets over the quarter was driven by equity market sell-offs, and the contraction of the LDI portfolio due to the fall back in long-dated inflation.
- The Diversified Returns and Multi-Asset Credit mandates also lost value, and the Currency Hedging detracted due to a weakening of Sterling. However the alternatives mandates (invested in real assets) held up, and the Equity Protection strategy also cushioned losses to a degree.
- Underperformance relative to the benchmark was driven by the Brunel High Alpha and Sustainable Equity mandates, and the multi-asset mandates also underperformed against their 'cash plus' benchmarks. Relative performance within the alternatives were mixed, though IFM and Brunel Private Debt were positive highlights.
- Drivers of the underperformance over three years include the Equity Protection strategy (as expected in an overall environment of positive returns on underlying equity markets), Overseas Property and the more recent underperformance of the active equity and multi-asset mandates.
- Over three years, relative performance of the Hedge Fund and Core Infrastructure mandates continues to be strong. Outperformance has also been seen from the Renewable Infrastructure and Secured Income mandates against their inflation benchmarks, albeit short of their outperformance targets.

Total Fund performance attribution – quarter

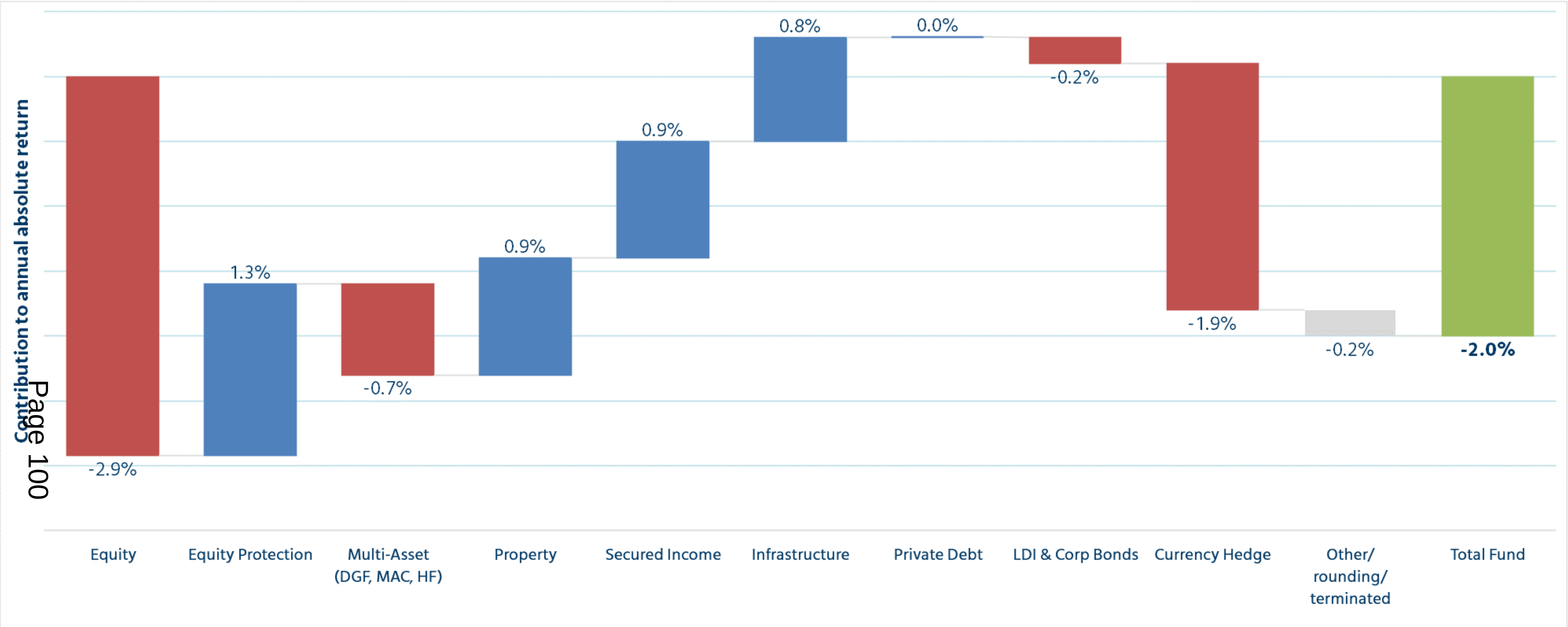


Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The fall in the value of Fund assets over the quarter was driven by equity market sell-offs, and the contraction of the LDI portfolio due to the fall back in long-dated inflation.

The Diversified Returns and Multi-Asset Credit mandates also lost value, and the Currency Hedging detracted due to a weakening of Sterling. However all of the alternatives mandates (invested in real assets) held up, and the Equity Protection strategy also cushioned losses to a degree.

Total Fund performance attribution –1 year



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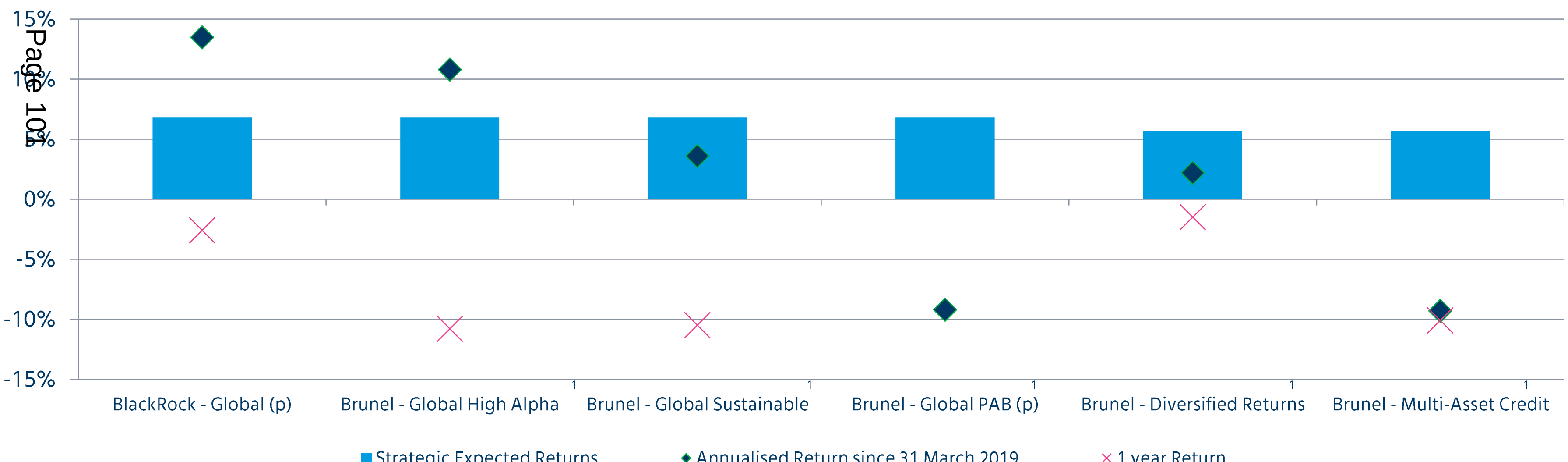
Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The performance drivers over Q2 have also been the key determinants of returns over the 1 year period:

- The Equity and LDI portfolio drove the negative performance.
- The alternative investments and Equity Protection cushioned losses.

Performance vs. expected strategic returns

	BlackRock Passive Global Equity	Brunel Global High Alpha	Brunel Global Sustainable	Brunel Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
Benchmark allocation	4.0%	12.5%	15.0%	10.0%	6.0%	6.0%
Commentary	Returns above strategic expectations since inception, but below over the year. Mandate has tracked the underlying market.	Returns above expectations since inception, but below over the year. Strong initial mandate outperformance added to returns, though recent relative performance has been weaker.	Returns below expectations due to mandate underperformance since inception.	Returns below expectations due to equity market weakness since inception. Mandate is still in its first year so longer-term performance will be more meaningful.	Returns below expectations due to muted performance in H2 2021 followed by contractions in 2022.	Returns below expectations due to negative returns across fixed income markets in 2022.



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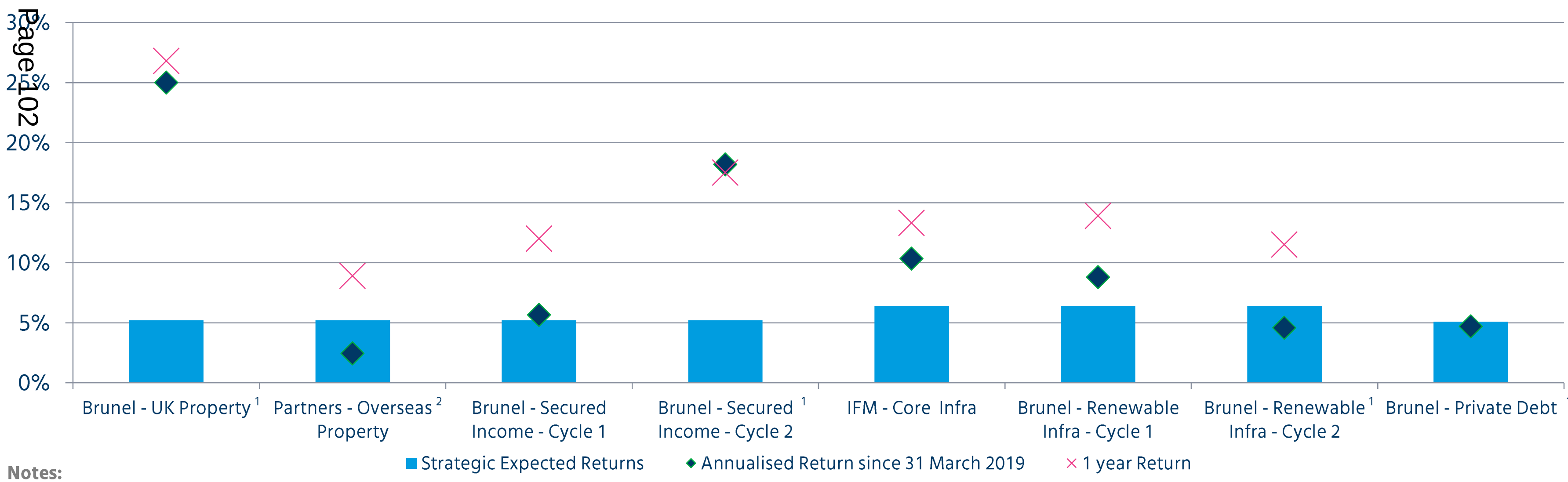
Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 March 2019 to 30 June 2022, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.
[1] Mandate was incepted after 31 March 2019. A list of inception dates can be found in the Appendix.

Performance vs. expected strategic returns

	Brunel UK Property	Partners Overseas Property	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt
Benchmark allocation	3.75%	3.75%	10.0%	5.0%	5.0%	5.0%
Commentary	Returns above strategic expectations; property has fared very well since inception in January 2021.	Returns below expectations. Recent improvements seen and generally the mandate's longer-term performance is stronger.	Returns above expectations for both cycles; especially cycle 2 (first drawdown in 2021), thanks to strong property markets. Mandates are still in the drawdown phase.	Returns above expectations as assets have continued to deliver.	Returns above expectations for cycle 1 (2019), but below for cycle 2 (2020). Mandates are still in the drawdown phase so longer-term performance will be more meaningful.	Mandate incepted in September 2021; too early to draw conclusions.



Notes:
We have illustrated the performance of the key mandates within the Fund's investment strategy.
Actual returns are from 31 March 2019 to 30 June 2022, except if otherwise stated below. Returns for periods over a year have been annualised.
The strategic expected returns are from the 2019 strategy review, which reflect the 20 year mean Mercer Q1 2019 asset model assumptions.
[1] Mandate was incepted after 31 March 2019. A list of inception dates can be found in the Appendix.
2 Returns are shown up to 31 March 2022, as this is the latest data available.

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Mandate performance to 30 June 2022

Manager / Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)	3 Year Performance vs Target
BlackRock Passive Global Equity	-9.3	-9.1	-0.2	-2.6	-2.6	0.0	8.7	8.7	0.0	-	N/A (p)
Brunel Global High Alpha Equity	-10.3	-9.0	-1.4	-10.8	-2.1	-8.9	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	-10.3	-8.4	-2.1	-10.5	-3.7	-7.1	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Equity Paris-Aligned	-9.1	-9.1	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	-3.0	0.9	-3.9	-1.5	3.4	-4.7	N/A	N/A	N/A	+3-5	N/A
JP Morgan FoHF	0.2	1.0	-0.8	-2.5	3.4	-5.8	7.2	3.2	+3.9	-	Target met
Brunel Multi-Asset Credit	-8.6	1.2	-9.7	-10.1	4.4	-13.9	N/A	N/A	N/A	-	N/A
Brunel UK Property	4.8	3.9	+0.9	26.8	23.3	+2.8	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	0.9	2.5	-1.6	8.9	10.0	-1.0	2.2	10.0	-7.1	-	Target not met
Brunel Secured Income - Cycle 1	2.8	4.0	-1.2	12.0	9.4	+2.4	5.7	4.1	+1.5	+2	Target not met
Brunel Secured Income - Cycle 2	4.4	4.0	+0.4	17.5	9.4	+7.4	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	3.1	1.4	+1.6	13.3	5.4	+7.5	8.7	5.5	+3.1	-	Target met
Brunel Renewable Infrastructure - Cycle 1	4.1	4.0	+0.1	13.9	9.4	+4.1	6.9	4.1	+2.7	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	2.3	4.0	-1.6	11.5	9.4	+1.9	N/A	N/A	N/A	+4	N/A
Brunel Private Debt	3.4	1.2	+2.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-10.8	-10.8	0.0	-18.9	-18.9	0.0	-3.0	-3.0	0.0	-	N/A (p)
BlackRock LDI	-27.4	-27.4	0.0	0.7	0.7	0.0	1.0	1.0	0.0	-	N/A (p)
Equity Protection Strategy	3.6			2.8			-3.3			-	N/A

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

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

Performance for JP Morgan and Partners in IRR terms. Performance for IFM is in TWR terms.
Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.
*Partners performance is to 31 March 2022 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	1,007,071	960,653	17.3	17.6	16.5	11.5 - 21.5	+1.1
Global Sustainable Equity	802,687	719,751	13.8	13.2	15.0	10.0 - 20.0	-1.8
Paris-Aligned Equity	574,338	522,026	9.9	9.6	10.0	5 - 15	-0.4
Diversified Returns Fund	538,061	522,169	9.2	9.6	6.0	4 - 10	+3.6
Fund of Hedge Funds*	171,125	119,113	2.9	2.2	-	No set range	+2.2
Multi-Asset Credit	315,433	288,351	5.4	5.3	6.0	3 - 9	-0.7
Property	391,001	399,363	6.7	7.3	7.5	5 - 10	-0.2
Secured Income	468,845	503,068	8.0	9.2	10.0	0 - 15	-0.8
Core Infrastructure	427,128	441,256	7.3	8.1	5.0	2.5 - 7.5	+3.1
Renewable Infrastructure	89,252	101,434	1.5	1.9	5.0	0 - 7.5	-3.1
Private Debt	42,713	64,267	0.7	1.2	5.0	0 - 7.5	-3.8
Corporate Bonds	121,987	108,803	2.1	2.0	2.0	No set range	0.0
LDI & Equity Protection	708,640	593,303	12.2	10.9	12.0	No set range	-1.1
Other**	167,500	112,446	2.9	2.1	-	0 - 5	+2.1
Total	**5,825,924**	**5,456,148**	**100.0**	**100.0**	**100.0**		

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

The underweights to Renewable Infrastructure and Private Debt mandates reflects the fact that the mandates are still being drawn down. Their control ranges have been temporarily widened to account for this.

The overweight to Core Infrastructure reflects its stronger relative recent performance. It offsets the underweight to Renewable Infrastructure.

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	288,513	60,000	321,713	5.0	5.9
Brunel	Global High Alpha Equity	695,906		624,338	11.9	11.4
Brunel	Global Sustainable Equity	802,687		719,751	13.8	13.2
Brunel	Passive Global Equity Paris Aligned	574,338	-54	522,026	9.9	9.6
Brunel	Diversified Returns Fund	538,061		522,169	9.2	9.6
JP Morgan	Fund of Hedge Funds	171,125	-60,760	119,113	2.9	2.2
Brunel	Multi-Asset Credit	315,433		288,351	5.4	5.3
Brunel	UK Property	210,953	-61	221,124	3.6	4.1
Partners	Overseas Property	168,035	-9,832	166,227	2.9	3.0
Brunel	Secured Income – Cycle 1	381,102	-1,966	389,926	6.5	7.1
Brunel	Secured Income – Cycle 2	87,742	20,750	113,142	1.5	2.1
IFM	Core Infrastructure	427,128	44	441,256	7.3	8.1
Brunel	Renewable Infrastructure – Cycle 1	70,620	3,196	76,871	1.2	1.4
Brunel	Renewable Infrastructure – Cycle 2	18,632	5,346	24,562	0.3	0.5
Brunel	Private Debt	42,713	19,400	64,267	0.7	1.2
BlackRock	Corporate Bonds	121,987		108,803	2.1	2.0
BlackRock	LDI & Equity Protection	708,640		593,303	12.2	10.9
Record	Currency Hedging*	-10,360	10,000	-73,019	-0.2	-1.3
BlackRock	ETF	105,127		95,672	1.8	1.8
Internal Cash	Cash	93,576	2,198	102,417	1.6	1.9
Total		5,825,924	48,258	5,456,148	100.0	100.0

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

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Current topics

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Current topics

The ESG spotlight turns to natural capital

Protecting natural capital is the next big challenge and an essential component of mitigating climate change

What is biodiversity and natural capital?

- **Biodiversity** is the variety of living things on Earth and includes the variability within and between species, and within and between ecosystems;
- **Natural capital** includes the services the ecosystem provides to society and economies.

Land **Oceans** **Freshwater** **Atmosphere**

- Over half of the world's economic activity is highly or moderately dependent on nature.

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The Taskforce on Nature-related Financial Disclosures (TNFD) is aiming to replicate the success of the TCFD:

TNFD

The TNFD published its beta framework on 15 March 2022 and its second iteration, including draft metrics in June 2022. TNFD is in a consulting phase ahead of producing the final recommendations in September 2023.

- It seeks to understand the interactions between business and natural capital;
- It aims to agree a framework to monitor nature impacts to encourage businesses and investors to minimise negative impacts on nature and maximise positive impacts
- The TNFD will create a toolkit for business leaders and the financial community to allocate capital away from nature-negative and towards nature-positive outcomes

Mercer sits on the TNFD forum and is actively involved in providing feedback and input to the TNFD

What can investors do now?

1 Beliefs — Incorporate natural capital considerations into your investment beliefs.

2 Policy — Make nature-positive statements in sustainable investment policies and stewardship policies.

3 Process — Understand how asset managers are monitoring and measuring natural capital metrics.

4 Portfolio — Understand how asset managers integrate natural capital considerations into the management of your investment portfolio.

Understand your exposure to high risk sectors (e.g. food producers)

Allocate to a thematic fund.

Relevance to the Fund

The Fund has been proactive on ESG considerations, though this is an emerging theme which could come further to the fore in this space.

Current topics

Bear Market 2022 – Inflation, Recession & Investments

The worst start to a year in decades. Very few safe havens.

How did we get here?

Policy response

To fight inflation, central banks have become hawkish, with multiple rate hikes. This aims to tame inflation, at the cost of economic growth.

High inflation

In response to a surge in demand and decline in supply, inflation has risen to multi-decade highs. Price pressures remain more persistent than market expectations.

Supply chain disruption

A spike in demand following lockdown for consumer goods in 2022, after a quiet 2020/2021 has put strain on supply chains. Labor shortages are also a contributor.

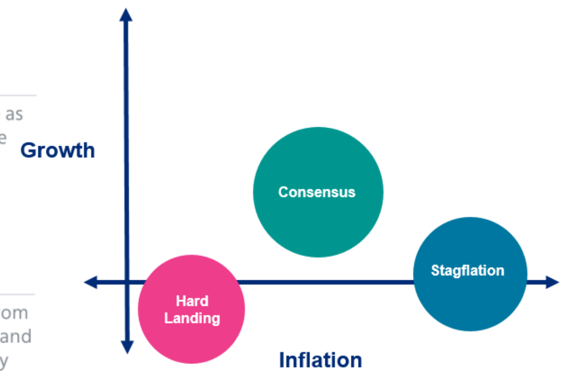
War in Ukraine

The conflict in Ukraine, which came as a surprise to the world, led to severe trade disruption and for the two commodity rich nations.

High commodity prices

Disruption of commodity exports from Russia & Ukraine, sanction activity, and a consistent underinvestment in key sectors such as energy saw most commodity prices soar.

Where are we heading?



For illustrative purposes.

An economic slowdown with sticky inflation is likely the biggest risk for markets

Relevance to the Fund

The Fund has a well-diversified portfolio, including some allocations to the real assets and defensive strategies cited, which have protected value during times of market stress.

Asset classes for consideration

Real Assets

Private Debt
Private debt provides an illiquidity premium above typical bond yields, and is therefore suitable to Schemes with long investment horizons. As a floating rate instrument, it also constitutes an inflation hedge.

Infrastructure Equity
Infrastructure by its nature usually invests in assets with benefit from inflation.

Inflation Linked Bonds
Following the sell of in index-linked gilts some schemes may with low levels of hedging may wish to increase hedges

Real Estate
Rental income holds a high level of inflation linkage, and therefore provides a strong hedge against inflation pressures, alongside consistent positive cashflow.

Commodities
High commodity prices were a key factor in recent inflation. Allocations to commodities via multi asset funds or direct investment can provide a hedge against further price level increases.

Defensive Strategies

Convertible Bonds
Convertible bonds provide upside potential via its equity conversion component, along with downside protection via coupon payments. As such, it is in a position to benefit from a market recovery, with less risk.

Absolute Return Bonds
With the recent increase in credit spreads, ARB strategies have a wide range of investment opportunities. In addition, low risk and minimal duration exposure and ability to go short can provide an element of downside protection.

Low Volatility Equity
Within equity portfolio (which is a real asset), a low volatility approach can help reduce limit the impact of negative equity returns during a recession.

Hedge Funds
Market conditions have been favourable to some Hedge fund strategies (trend, macro) and hedge fund returns have been some of the best returns achieved in over a decade. Further volatility is likely to continue to favour these strategies.

Equity Protection
Further downside across equity markets, in a persistent stagflation environment for example, can be hedged against via the use of equity protection strategies, such as put option.

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Appendix

Q2 2022 equity market review

Equity markets posted deep negative returns over the second quarter.

Global Equities returned -13.3% in local currency terms. Markets were significantly weaker across the globe as financial conditions tightened, input prices rose and recessionary risk increased.

US equities returned -16.6%, whilst European (ex-UK) equities returned -10.4%. Japanese equities returned -3.7%.

Emerging markets equities returned -7.3%. China rallied late in the quarter as lockdowns ended, monetary policy remained supportive and regulators softened their rhetoric. Outside of China, other Asian markets were weak due to supply disruptions and fears of a global slowdown that could have a negative impact on exports.

Global small cap stocks returned -14.4%. Small caps lagged global equities due to their cyclical nature and thus downside susceptibility, should a recession materialise.

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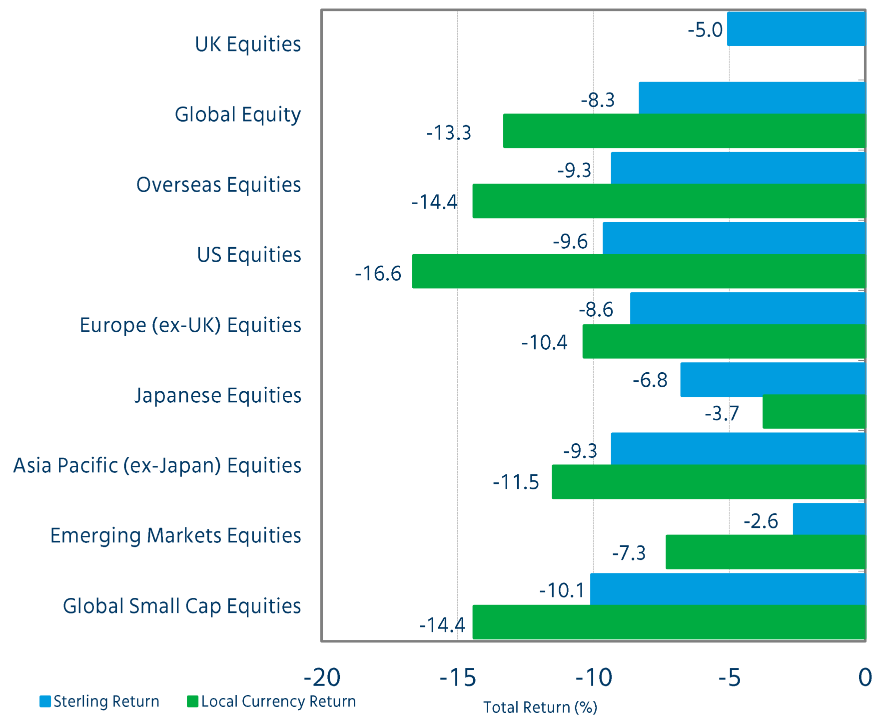
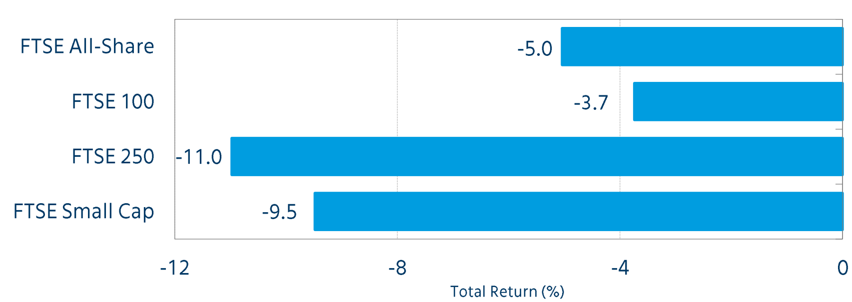
Equity Performance - Three Months to 30 June 2022



The FTSE All Share index returned -5.0% over the quarter with the large cap FTSE 100 index returning -3.7%. The FTSE 100 and FTSE All-Share's large exposure to consumer services and financials was a headwind over the quarter, offset to a degree by its large oil & gas exposure even if momentum for the latter slowed towards quarter end.

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

FTSE Performance by Market Cap - Three Months to 30 June 2022



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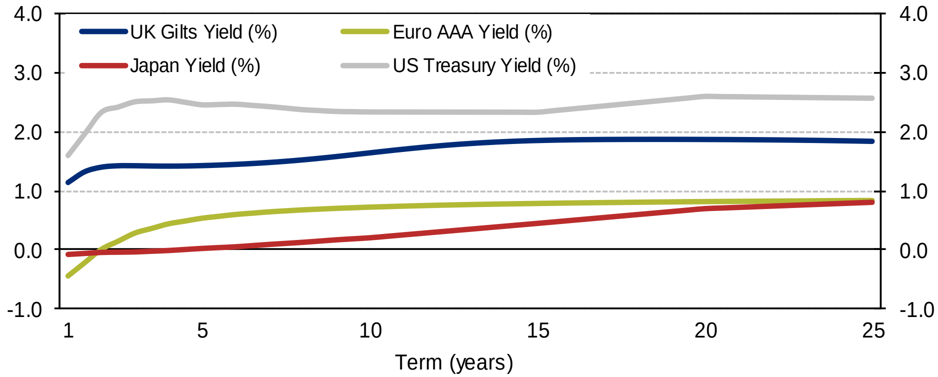
Source: Refinitiv

Q2 2022 bond market review



Source: Mercer and Bloomberg.

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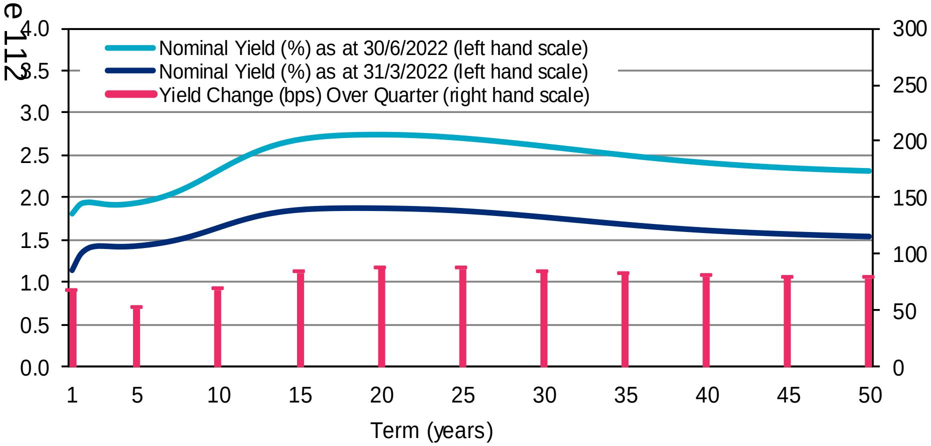

Source: Mercer.

Government Bond Yields

Global government bond yield curves rose over the quarter, as yields at the ultra-short end of the curve reacted to tightening central bank policy and longer dated yields rose as well.

2-year yields in the UK and US rose 48 and 62bps respectively. 10-year gilt yields rose by 61bps while US 10-year treasury yields rose by 67bps.

Both the Federal Reserve and the Bank of England raised interest rates over the quarter several times and are expected to continue to tighten policy throughout the rest of 2022.

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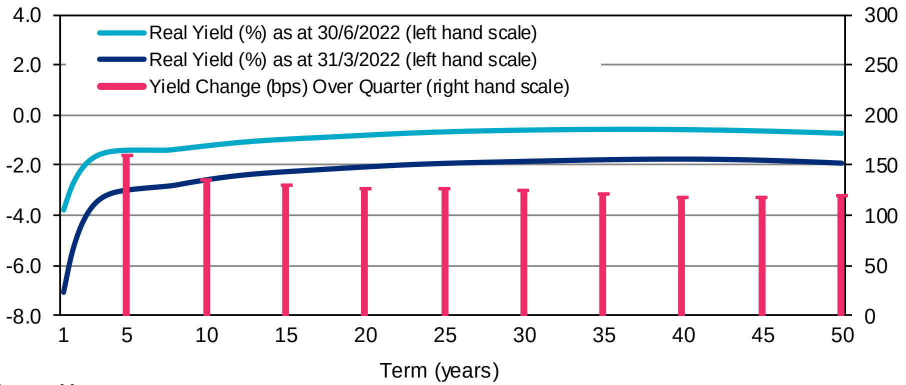
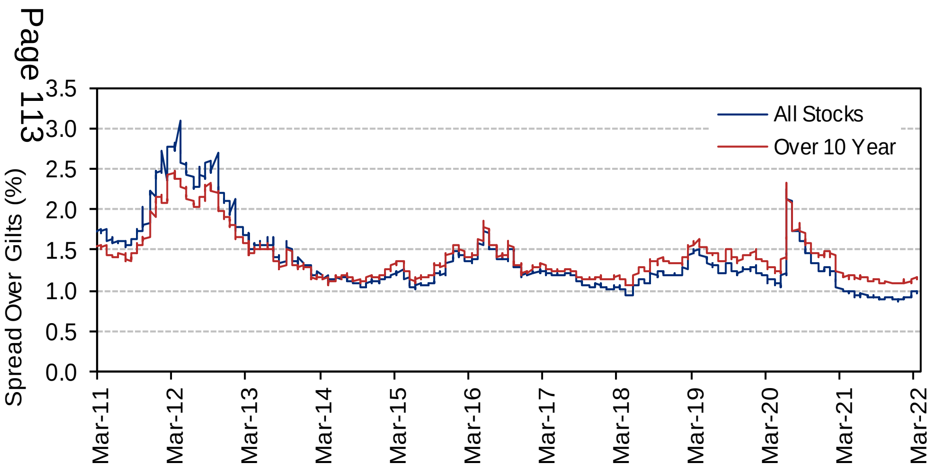
Q2 2022 bond market review



Source: Mercer.



Source: Refinitiv.

UK Index-Linked Gilt Yields

UK real yields rose across the curve. Market based measures of inflation expectations, in the form of breakeven inflation, fell over the quarter. The UK 10-year breakeven rate fell to 3.7%, nearly 65 bps lower than at the end of last quarter. The fall in breakevens offset the increase in nominal yields which led to the increase in real yields.

Corporate bonds

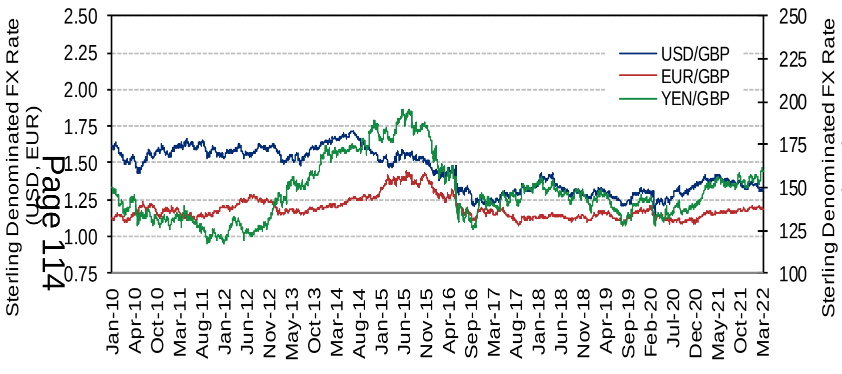
Spreads on UK investment grade credit widened for the quarter as corporate bond yields increased in light of slowing growth concerns.

Q2 2022 currency market review

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

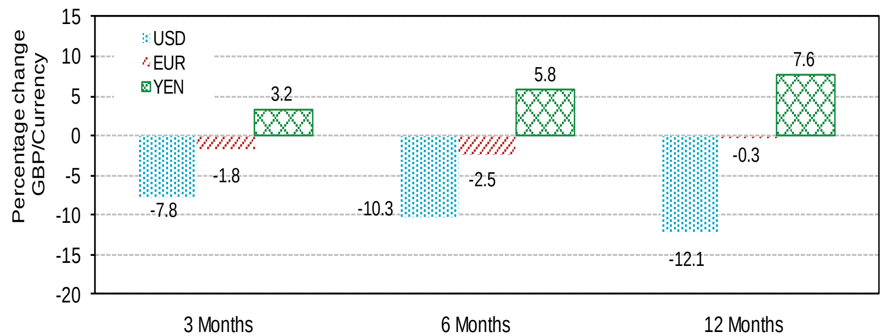
Monetary policy divergence between the regions was one of the drivers. For the year as a whole, Sterling has appreciated versus the Yen as stronger economic growth and the prospect of tighter monetary policy made Sterling more attractive relative to the former. Sterling weakened against US dollar as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

Sterling Denominated FX Rate



Source: Refinitiv.

Change in sterling against foreign currencies



Source: Refinitiv.

Q2 2022 property

UK property as measured by the MSCI Index increased by 3.8% over the quarter to 30 June 2022.

Source: Refinitiv

Summary of mandates

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

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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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BRUNEL
Pension Partnership

AVON
PENSION
FUND

Performance Report for Quarter Ending 30 June 2022

Contents

Brunel News

After a return to the office in the first quarter, the second saw Brunel reaching something like a new normal for hybrid working. As we had hoped, staff are increasingly treating the office as a tool and not a master, and so maximising its benefits for home-work separation, interaction, team building, and meetings (from one-to-one supervisions through to Client Group and Board). Most recently, heat avoidance has been added to the list! Our new approach has not only enabled us to provide greater flexibility as a benefit for our staff – and magnet for future staff. It has also prevented us moving to larger, more expensive premises – staff numbers now far exceed our workstation capacity.

Good workplace practices were also a focus of our engagement through the period. Brunel was one of a coalition of 29 asset owners, led by CCLA, to write to the CEOs of the UK's 100 largest companies calling for improved mental health practices at work. Internally, we instigated a series of wellbeing seminars and sessions at Brunel, as well as launching a wellbeing survey of staff.

Our core values and themes were once again in evidence, as was our desire for full scrutiny of whether we are living up to them, in our 2022 RI & Stewardship Outcomes Report. The report is designed, among other things, to satisfy an extensive list of reporting criteria laid out by the Financial Conduct Authority – which the FCA uses to ensure RI reporting shows sufficient due diligence. In this year's report, published in May, we introduced a new priority theme of biodiversity. "Investors and corporations must recognise that accounting for biodiversity-related impacts is critical," said Laura Chappell, CEO. "Companies must start preparing for the impending reality of nature-related disclosure due in 2023."

Climate investing was no less a focus for it over the period. Our Climate Stocktake had already been initiated in Autumn 2021 but much of the consultation and analysis work picked up in earnest over the quarter. In a studio interview with AssetTV on the subject of the Stocktake Faith Ward, Chief RI Officer at Brunel, pointed to how global events only underline the importance of such a process. "What we have experienced in the last few months – particularly the knock-on effects from the invasion of Ukraine – are a bump from an energy transition perspective," said Ward. "So you need review points."

Speaking on the same topic at a conference hosted by the FT and Pensions Expert, David Vickers, CIO, reeled off some of the key climate metrics that Brunel has targeted in its approach, from decarbonisation by no less than 7% a year to holdings reaching Transition Pathway Initiative level 4 or above. But he also emphasised that limits to data should never become a reason not to act. "Our current policy has five thematic prongs. It's important to assess your progress along the journey – thus our Climate Stocktake," he said. "Science, disclosure levels, ambitions have all changed since we first wrote our Climate Change Policy – progress relies on regularly harnessing these changes to accelerate our progress."

The local RI commitment of client and pool alike was particularly demonstrated in the biggest announcement of the quarter: the launch of the Cornwall Local Impact portfolio. The new portfolio is divided between a 55% allocation to affordable housing in Cornwall, and a 45% allocation split between a UK renewables fund and a Cornwall renewables fund – the latter is called 'Greencoat Cornwall Gardens'.

Executive Summary

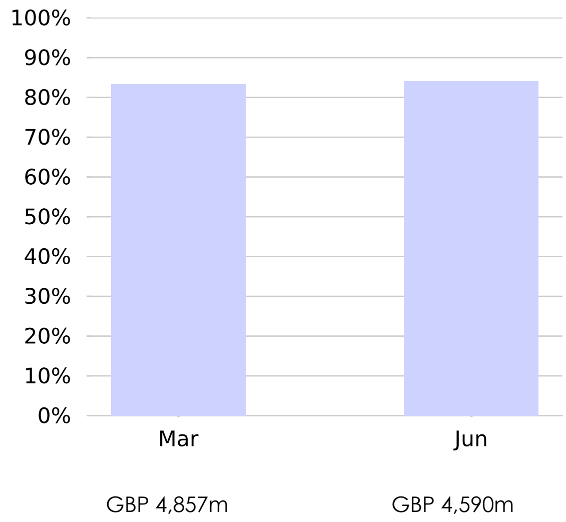
High Level Performance of Pension Fund

• The fund delivered absolute performance of -7.1% over the quarter in GBP terms. This was 1.1% behind the benchmark return of -6.0%.
• Total fund return for the 12 months to end-June 2022 was -2.0%, which was 4.5% behind a benchmark return of 2.5%.

Total Fund Valuation

	Total (GBPm)
31 Mar 2022	5,826
30 Jun 2022	5,456
Net cash inflow (outflow)	49

Assets Transitioned to Brunel



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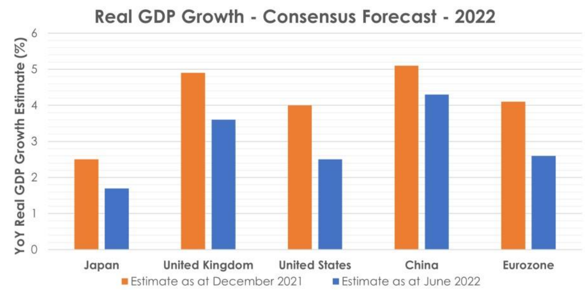
Market Summary – Listed Markets

The second quarter of 2022 saw a continuation of widespread negative sentiment towards risk assets, albeit in smaller magnitude than during the prior quarter. The primary drivers were multi-decade inflation highs, fears of a global recession and continuing geopolitical tensions.

Monetary tightening by central banks has now become commonplace worldwide, with more than 60 central banks increasing interest rates this year to combat runaway inflation. In the US, the Federal Reserve (Fed) used its June meeting to increase interest rates by 75 basis points – the largest single rate hike since 1994 - bringing its policy rate range to 1.5-1.75%. The purpose of the large move was to combat increasing year-on-year headline inflation, which stood at a high of +8.6% in the quarter. The UK was no different, with the Bank of England raising rates twice in the quarter. The base rate is now 1.25%, up from 0.75% at the end of March. Headline inflation in the UK touched 40-year highs of +9.1% at the end of the quarter. The only notable exception to this tightening trend is China, which cut interest rates by 10 basis points to 3.7% at the beginning of 2022. China has seen its economy improve over in recent weeks, following the easing of some COVID restrictions, and a more accommodating stance from the government on corporate regulations, particularly in the technology sector. Whilst this benefitted domestic markets, it did little to stimulate sentiment in other emerging market economies.



Source: FactSet

Recession fears began to grip the world towards the end of the quarter. Several economists slashed second quarter real GDP forecasts in the US to +2.4% after the Fed's more aggressive stance towards rate rises became apparent; forecasts had been close to +4% in January 2022. The situation in the US was aggravated further by the release of a disappointing consumer spending report in June. However, many market participants believe any US recession could be mild, given the low level of unemployment, and lower sensitivity to the events in Ukraine. Europe finds itself in a much tougher position, with large dependence on Russian energy adding to cost of living pressures across the continent. As a result, real incomes are falling quickly and growth in the region's export market is slowing. Consensus among economists increasingly points to a mild recession in Europe in coming quarters.

Source: FactSet

Equity, credit, currency and commodity markets experienced significant mark-to-market volatility against this backdrop of high inflation and slowing growth.

Global developed equities, proxied by MSCI World, fell by approximately 9% in GBP terms, with all but two countries registering a negative return. Emerging Markets – proxied by MSCI Emerging Markets – fared better; the index fell a modest -4% in GBP terms, although this was heavily skewed by China, which appreciated by +12% in GBP terms, following the easing of some COVID restrictions. Almost all countries in emerging markets posted negative returns over the quarter. In terms of styles, the higher interest rate environment proved supportive for Value stocks vs Growth counterparts - as had been the case in Q1 2022. Value stocks outperformed Growth by more than 8%. Unsurprisingly, the most successful style was Low Volatility, which can outperform during equity drawdowns.

Credit experienced one of its worst periods in recent history. A perfect storm of rising rates – driven by inflation and subsequent central bank actions – and widening credit spreads, sparked by growth and recession fears, caused major falls in most bond prices. Government bond yields continued to rise across the globe, particularly in the US, where the 2-year and 10-year yields rose to 2.93% & 2.98% respectively, a rise of over +70 basis points in each case. Government securities and investment grade corporates – proxied by two of the Bloomberg Global Aggregate indices – both fell approximately 9% in local terms in Q2 2022. Large bond duration, a measure of interest rate sensitivity, was the main driver. Sub-investment grade securities had a torrid period, with high yield corporates – proxied by the Bloomberg Global High Yield Corporates Index – falling over 11% in local terms, after recession fears sparked significant spread widening.

Many commodities finally ran out of steam, as recession worries began to trump the supply squeeze following the invasion of Ukraine. Both precious and industrial metals suffered heavy losses in Q2 2022. Notable examples included nickel and copper, which saw spot prices fall by 25% and 34% respectively (in GBP terms). Oil was a notable exception to this trend, with the WTI benchmark rising over 14% in GBP terms.

Recession concerns and tight monetary policy drove more investors to the US dollar, which is typical during times of market stress. The DXY Index – a measure of US dollar strength relative to a basket of foreign currencies – rose another 6.5% over the quarter, taking its year-to-date appreciation to over 9%. This has become particularly prevalent vs the Japanese yen, which depreciated due to the Bank of Japan's continued stance on yield curve control. The US dollar appreciated approximately 11% vs the yen in the second quarter alone.

Looking forward, there are still several key questions for investors to ponder. It is still very unclear how the slowing growth and high inflation themes will play out or how much is priced into markets.

Market Summary – Head of Private Markets

Overview
Equities and bonds struggled through Q2 as investors priced in further interest rate hikes and heightened risks of recession. Inflation reached multi-decade highs across many major economies. The Bank of England and the US Federal Reserve both raised rates, with guidance of more increases to come, with even the European Central Bank signalling a first rate increase in July. Energy prices soared, exacerbated by rising demand and supply constraints caused by the conflict in Ukraine.

The inflationary shock, low consumer confidence, and ongoing supply chain disruptions have led economists to reduce their growth expectations for many countries.

Infrastructure
Preqin Q2 2022 report showed Infrastructure Funds raised $50bn in 14 funds in the quarter, second only to the record $70bn raised in Q1.

Among them, Brookfield's Global Transition Fund managed to close a record $15bn, double the initial target size, and a sign of the increasing interest for the energy transition theme within infrastructure. Brookfield's fund is also significative in that, as opposed to other smaller Energy transition funds focusing on new clean energy technologies, it aims to invest and transform "carbon-intensive industries". Investors commit to gain exposure to "dirty companies" such as coal fired Australia's AGL Energy, with the promise to decarbonise over time.

While the war in Ukraine has continued to reinforce the market interest in renewables, energy security has gained prominence in the agenda, and the EU admitted both gas and nuclear in their "green taxonomy".

Inflation and inflation protected was another of the prevalent themes. While infrastructure remains popular for its higher linkage to inflation, infrastructure players have noted that in a high inflation scenario, returns may grow in nominal terms, but may need to be moderated in real terms to maintain their "social license to operate" by not passing full inflation to final users (contract versus reality).

Private Equity
Following the record-breaking year in 2021, private equity activity slowed down in the first half of 2022. Deal volume continued to decline in Q2 2022 compared to Q1 with the current uncertainty that clouds the overall economic environment. Inflation, rising interest rates, and the effects of the war in Ukraine continue to strain market activity. The US Fed's hawkish stance to tackle inflation is further increasing the

risk of recession, which ultimately led to both valuations and deal volume declining. In addition, it is unlikely that companies will be able to pass on the full effect of rising costs, due to inflation, to the end consumer and consequently generate lower earnings. Although exits and PE-backed IPOs remain low relative to prior quarters, GPs are still expected to remain active and deploy capital as well as support existing portfolio companies. Interest rate hikes and recession fears remain the key issues that the market is monitoring and private equity firms are assessing the effects on deal activity and portfolio performance in which certain sectors (e.g. consumer) will be impacted more. In addition, the Investment pace GPs invested their funds is likely to slow down compared to 2021. The fund-raising market is strong, with major mega-funds expected to continue to raise in 2022 (e.g Permira has just closed €16bn for its most recent Flagship Buyout Fund). However, the fundraising period is expected to be longer to accommodate LPs. In addition, GPs are indicating a shorter investment period to deploy capital. Asset valuations are likely to be affected by rate hikes and investors are being cautious with Tech companies with limited cash and are opting for more B2B and enterprise solution tech/software. PE firms have further increased their focus on ESG and ways to embed it in their processes to drive value within their portfolio investments. In addition, GPs are raising Impact-focused funds and this will be a key theme in the new investment cycle.

Overall, the private equity industry is experiencing the effects of the macro environment but is still in a strong position to continue to perform and will capitalise on the adjustments in valuations to generate returns.

Private Debt

Central banks turned more hawkish in the face of persistently high inflation. The Sterling Overnight Index Average (SONIA), the overnight interest rate paid by banks in the UK, increased over the quarter from 0.7% to 1.2%. In the US, the Federal Reserve's rate increases meant Secured Overnight Finance Rate (SOFR), the overnight interest rate paid by banks in the US, increased over the quarter from 0.3% to 1.5%. Corporate bond yields increased markedly over the quarter, a combination of increasing credit spreads and increasing reference rates. Similarly, US high bond index spreads increased significantly over the Quarter.

Given the expectation for economic headwinds (driven principally by inflation) managers are anecdotally reporting a modest slow-down in deal activity by P.E sponsors as they adopt a 'wait & see' approach in light of an anticipated repricing of acquisition multiples. Given the sustained volume of dry powder held by P.E. sponsors there is an expectation that deal flow should remain strong through 2022 (albeit with a compensatory uptick towards the end of the year).

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Direct lenders with a focus on senior loans have responded to the inflationary environment with a heighted focus on what they perceive to be relatively defensive sectors. These managers are reporting modest increases in their agreed spreads with borrowers (new loan origination at rates of c.6%+ in excess of underlying reference rates). Overall senior direct lenders remain confident (but cautious) that the loan books they have assembled should remain resilient however they continue to exercise discipline in both their underwriting and monitoring of loans.

Property

Despite rising inflation and interest rates, unlisted property markets are yet to see a pricing impact. Industrial leasing remained buoyant in Q2, particularly for purpose-built warehouses, with lettings often agreed ahead of building completion. While transaction levels in Industrial and Logistics were below those witnessed in 2021, they reflected firm pricing and yield compression, particularly in the regions. Demand for offices remained steady with availability falling, resulting in positive performance. Retail performance was led by Retail Warehouses and consumer spending held up in Q2, as customers returned to the high street. With consumer confidence now at a record low, it is unlikely this recovery will continue.

A large UK transaction took place in the Alternatives space, with the sale of Oxford Technology Park to a Life Sciences REIT. Secondary markets were less active in Q2, with the approach of the summer months. While most trading activity within UK core funds reflected investors lightening positions, discounts to NAV pricing pre-end of June remained minimal for most balanced funds.

Global real estate markets started to adjust to the higher interest rate regime, with yields and cap rates moving in line; an upward shift of 25-50bps has been common in core products. New government policy in Europe, especially towards ESG-compatible assets, has had further impact on pricing. Despite significant capital expenditure, these assets now produce visible rental premiums.

Activity remains strong, with high interest sustained in the industrial sector. Retail and hotels, already repriced, have seen a slight bounce-back. Offices, meanwhile, remain popular in APAC and Europe, but have recorded all-time low investment activity in North America.

COP26 - progress on key announcements

Key outcomes for the finance sector from COP26 included;

• Creation of the International Sustainability Standards Board (ISSB). The ISSB standard on climate will build on – but eventually supersede – the Taskforce on Climate-related Financial Disclosure (TCFD)

• Glasgow Financial Alliance for Net Zero will continue its work

• UK Government reiterated its commitment to the UK hosting the first Net Zero financial system, and announced the publication of climate transition plans would be mandatory

All three announcements have been followed by consultations on new draft standards or a new approach. Brunel has been active in participating in webinars, workshops and direct drafting of responses, including those being developed by the IIGCC, UNPRI and A4S.

Key messages include;

• Ensure standards provide sufficient detail on what is expected without becoming excessively prescriptive. For companies, this means more on capital expenditure, corporate lobbying and the Just Transition.

• Include disclosures on the impacts companies have on the wider economy, rather than just looking at ESG issues as they affect individual companies' enterprise value.

• Include or increase guidance relating to physical and adaptation risks

Paris Alignment – setting Net Zero targets

The Paris Aligned Investment Initiative (PAII) was established in May 2019 by the Institutional Investors Group on Climate Change (IIGCC). 118 investors representing $34 trillion in assets engaged in the development of the Net Zero Investment Framework (NZIF) through the Paris Aligned Investment Initiative. PAII has published additional modules or consultations to add to the NZIF on private equity, infrastructure, derivatives, and hedge funds.

Initial target disclosures for both asset owners and asset managers have been published by the PAII (June 2022 update) and the Net Zero Asset Managers Initiative (May 2022) respectively.

Paris Aligned Asset Owners: Initial Target Disclosures
(www.parisalignedinvestment.org/media/2022/07/PAAO-Disclosures-010722.pdf)

The Net Zero Asset Managers initiative report (www.netzeroassetmanagers.org/media/2022/07/NZAM-Initial-Target-Disclosure-Report-May-2022.pdf)

Social issues
Mental health: As part of a £5.8 trillion investor coalition led by CCLA Asset Management, Brunel wrote to the chief executives of 100 of the UK's listed companies urging them to make better mental health disclosures. The letters asked companies to take "immediate and concerted steps" to develop and implement effective management systems and processes on workplace mental health. Steps include moves by the Board and senior management to promote mental health in the workplace and to publish a commitment to workplace mental health in a policy statement, as well as the establishment of governance and management processes to ensure the policy is implemented and monitored. For more information on this investor coalition please see https://www.ccla.co.uk/mental-health

Real living wage: The Good Work Coalition (https://shareaction.org/investor-initiatives/good-work-coalition) is a collaborative engagement initiative led by ShareAction. It currently has 39 members, including LGIM, NEST, Aviva, Rathbone, Jupiter, Hermes, Newton and Brunel. Since 2020, the coalition has been sending letters and meeting with companies to discuss the real living wage. In that time, the focus has been on supermarkets but work has also been done on such companies as BP, Hargreaves Lansdown and Royal Mail.

Nearly 10,000 employers have been accredited by the Living Wage Foundation, nearly half of whom signed up since March 2020. Over half the companies in the FTSE 100 are accredited. Despite improvements in other sectors, and ongoing engagement, no companies within the supermarket sector are yet accredited. The largest holding across the coalition was Sainsbury's. The coalition therefore decided to escalate engagement by filing a shareholder resolution at Sainsbury's.

Brunel has been involved in ongoing engagement with the supermarket following the filing of the living wage shareholder resolution. This led to Sainsbury's announcing an additional pay rise for their London staff in April, which resulted in all directly employed staff earning the real living wage. An estimated 19,000 workers benefited as a result. Engagement continued to seek accreditation and coverage of third-party contractors. However, Sainsbury's was not supportive and so the resolution went to the AGM. The resolution, the first of its kind in the UK, received 17% support.

Summary of Pension Fund Performance

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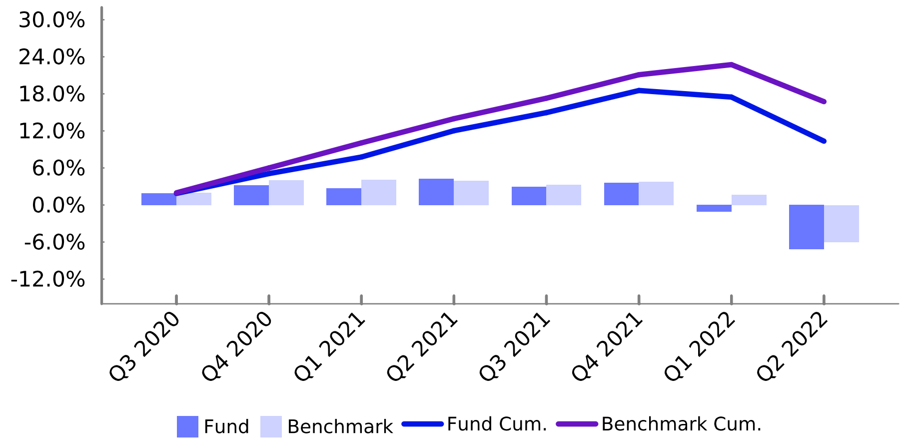
Performance of Fund Against Benchmark (Annualised Performance)

Period	Fund	Strategic BM	Excess
3 Month	-7.1%	-6.0%	-1.1%
Fiscal YTD	-7.1%	-6.0%	-1.1%
1 Year	-2.0%	2.5%	-4.5%
3 Years	3.0%	7.5%	-4.5%
5 Years	4.0%	7.1%	-3.1%
10 Years	7.1%	8.9%	-1.8%
Since Inception	8.0%		

Rolling Quarter Total Fund (Net of Manager Fees)



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Key drivers of performance

Portfolio performance of note in the quarter:

- Global High Alpha and Global Sustainable Equities both returned -10.3%, which was 1.3% and 1.9%, respectively, behind benchmark
- DRF was 3.9% behind its benchmark, returning -3.0% and Multi Asset Credit trailed its benchmark by 9.8%, returning -8.6%

Asset Allocation of Pension Fund

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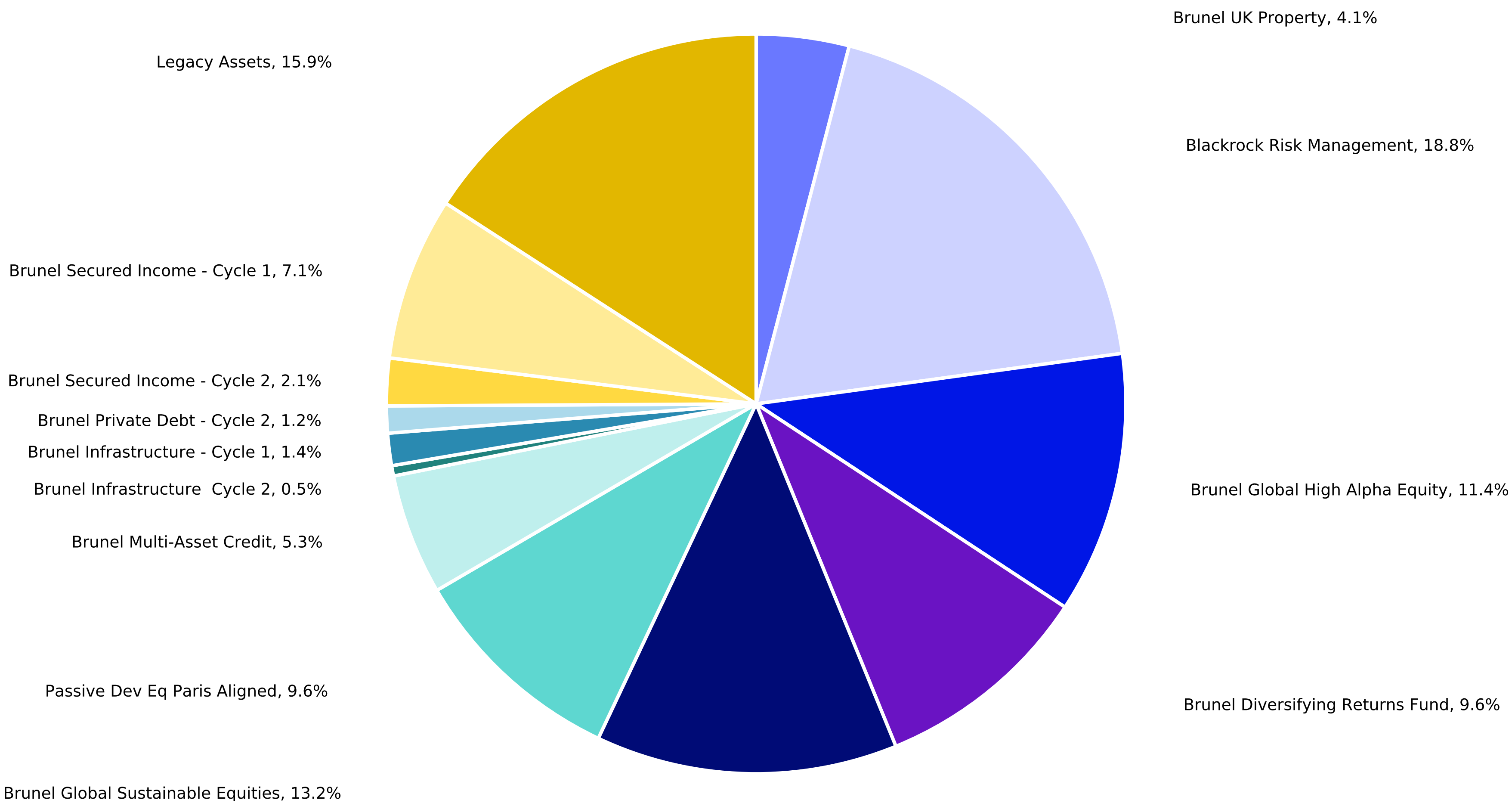
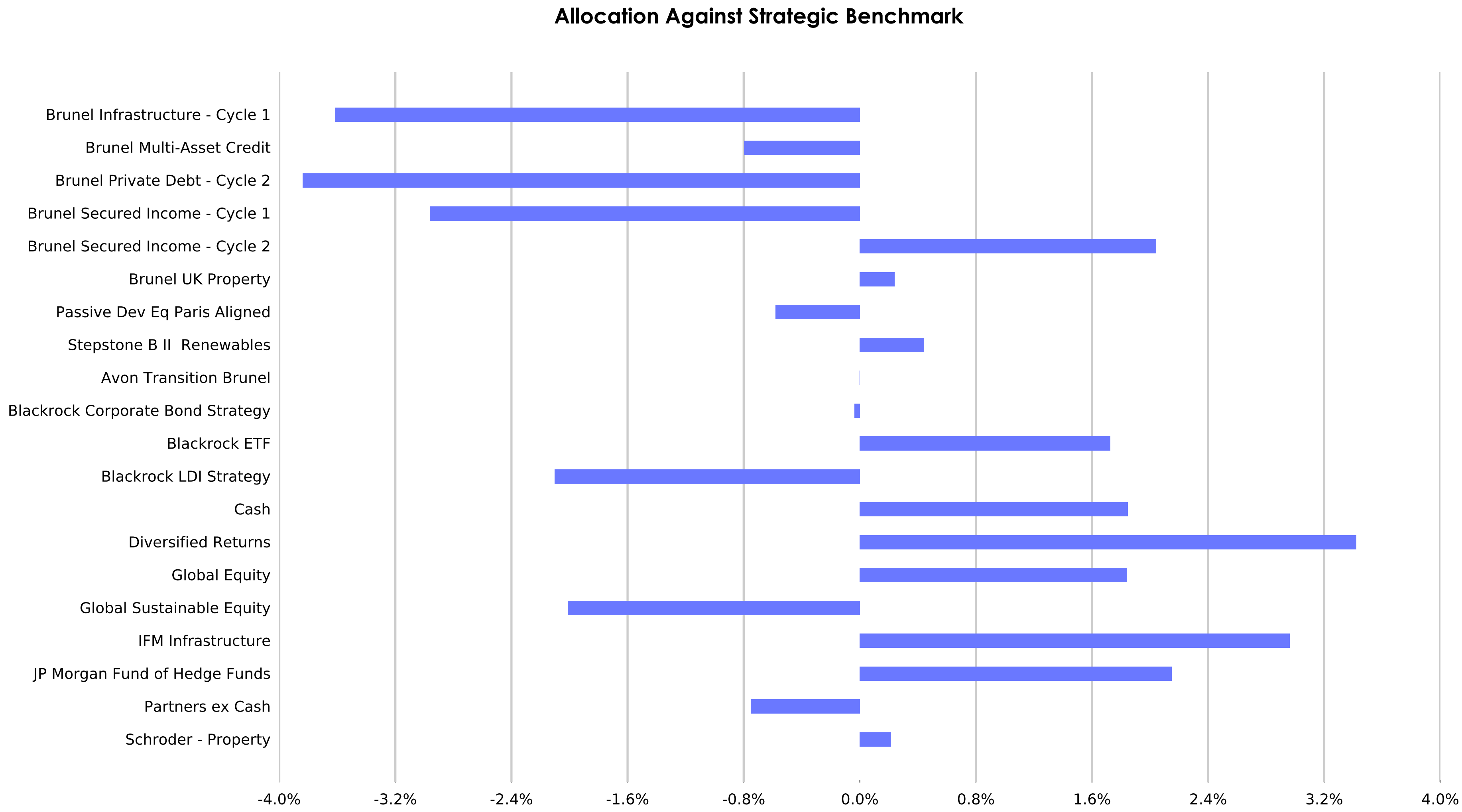
Pension Partnership

Asset Allocation Split



Asset Allocation of Pension Fund



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Brunel Portfolios Overview

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SII*	Excess SII*	Initial Investment
Brunel Global High Alpha Equity	MSCI World TR Gross	624	-10.3%	-1.3%	-10.8%	-8.7%					10.8%	1.8%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	720	-10.3%	-1.9%	-10.5%	-6.8%					3.6%	-5.5%	30 Sep 2020
Brunel Diversifying Returns Fund	SONIA +3% Benchmark	522	-3.0%	-3.9%	-1.5%	-4.9%					2.2%	-0.9%	27 Jul 2020
Brunel Multi-Asset Credit	SONIA + 4%	288	-8.6%	-9.8%	-10.1%	-14.5%					-9.3%	-13.7%	02 Jun 2021
Passive Dev Eq Paris Aligned	FTSE Developed Paris-Aligned (PAB) Net Index	522	-9.1%	-0.0%							-9.2%	-0.1%	29 Oct 2021

*Since Initial Investment

Performance based on tradeable NAV

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

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

Brunel Global High Alpha Equity

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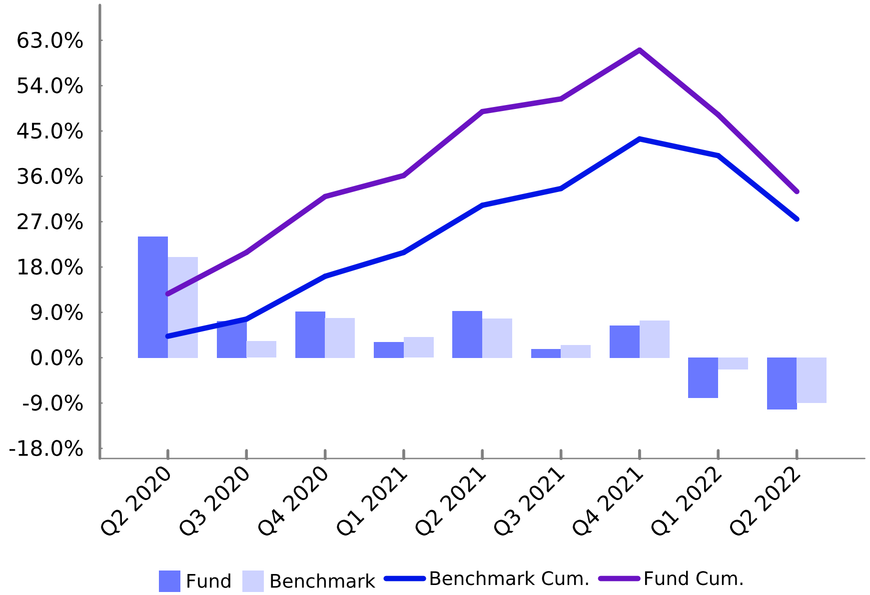
Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	High conviction, concentrated portfolios with strong style/factor biases invested in a unconstrained manner.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets.
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5-6% tracking error.
Total Fund Value:	£3,578,953,404

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-10.3%	-9.0%	-1.3%
Fiscal YTD	-10.3%	-9.0%	-1.3%
1 Year	-10.7%	-2.1%	-8.6%
3 Years			
5 Years			
10 Years			
Since Inception	11.7%	9.9%	1.8%

Rolling Performance*



* Partial returns shown in first quarter

Global developed equities (as proxied by the MSCI World index) fell significantly over the quarter, returning -9% in GBP terms. Concerns about rising inflation continued. As central bank action to address inflation became more apparent, fears about the negative impact of rising interest rates on future economic growth came to the fore.

Performance was weak across most sectors except for Energy. Some of the worst-performing sectors (Consumer Discretionary, Information Technology and Communications Services) were impacted by concerns about consumption, whilst those less harmed by rising fuel prices and slowing growth sufferd more muted falls (e.g. Consumer Staples, Health and Utilities).

Another theme was the somewhat indiscriminate nature of falls in company value. There were multiple examples where company valuations were hit despite that company reporting robust operational performance, in line with expectations. An environment where company fundamentals are not the main driver of equity market returns is challenging, given the fundamental approaches taken by the underlying managers on the portfolio.

Brunel Global High Alpha Equity

The portfolio returned -10.2% over the quarter, underperforming the benchmark by 1.2%.
• Sector attribution analysis showed sector allocation as the main driver of relative performance whilst the impact of stock selection was broadly neutral. In a repeat of the previous quarter, the portfolio's largest active sector positions both worked against the portfolio. Energy was the largest underweight in the portfolio and was the best-performing sector, whilst Consumer Discretionary was the worst-performing sector and the largest sector overweight. Sector positioning is a result of stock selection by managers and largely an outcome of the ESG integration and Growth/Quality styles tilt of the portfolio.
• Although more muted than the previous quarter's extremes, it was no surprise that performance amongst the underlying managers again varied considerably, grouped according to their investment style. Those managers with a value focus generated a small outperformance. Harris in particular performed strongly in the first couple of months but then largely gave up those gains in June as recessionary fears rose. Both Growth managers underperformed again. However, in a reversal of last quarter, Fiera outperformed as its focus on Quality proved to have defensive characteristics favoured by the market.

Despite recent underperformance, from inception to quarter-end the portfolio had outperformed the benchmark by 2.3% per annum, in line with the performance target.

During the quarter, a small change was made to the underlying manager allocations. The revised target allocation reflected a change in conviction levels in managers, most notably an increase in conviction in RLAM. The change also reduced the size of the active tilt towards Growth and away from Value within the the portfolio, whilst maintaining the majority of risk and positioning characteristics.

There were three client trades during the quarter resulting in a net inflow of c.£608m. These included two large subscriptions, which were used to align underlying manager allocations to the new target allocations. This trading exercise was managed by Macquarie.

Brunel Global High Alpha Equity – Region & Sector Exposure

BRUNEL Pension Partnership

Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	189,967,982
ALPHABET INC-CL A	124,357,961
AMAZON.COM INC	111,402,183
MASTERCARD INC - A	91,787,277
UNITEDHEALTH GROUP INC	70,286,425
NESTLE SA-REG	68,303,548
TAIWAN SEMICONDUCTOR-SP ADR	57,927,283
MOODY'S CORP	55,384,843
ASML HOLDING NV	47,352,371
AUTOZONE INC	47,079,520
HDFC BANK LTD-ADR	45,094,426
JOHNSON & JOHNSON	44,192,919
RELIANCE STEEL & ALUMINUM	44,082,500
SCHWAB (CHARLES) CORP	43,639,058
PROGRESSIVE CORP	42,993,731
TJX COMPANIES INC	42,208,534
META PLATFORMS INC-CLASS A	39,982,944
NIKE INC -CL B	39,926,468
AUTOMATIC DATA PROCESSING	39,108,979
SUNCOR ENERGY INC	37,866,516

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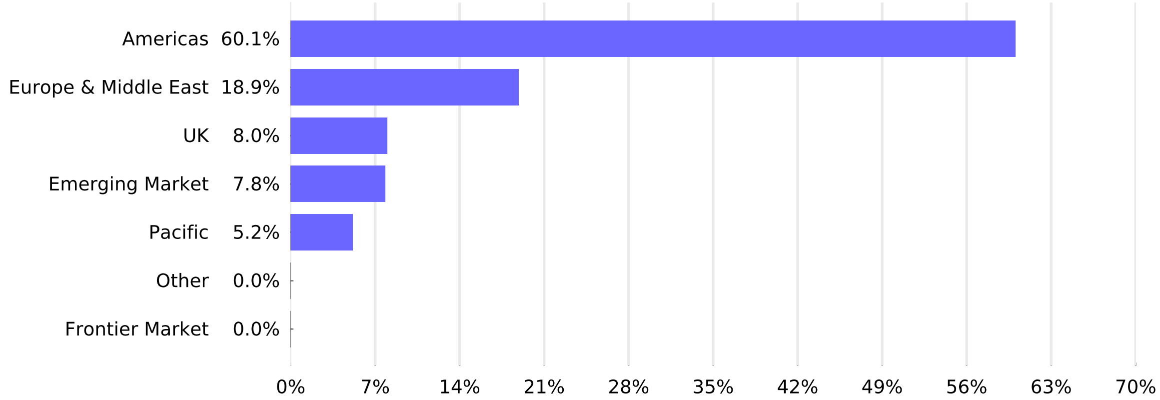
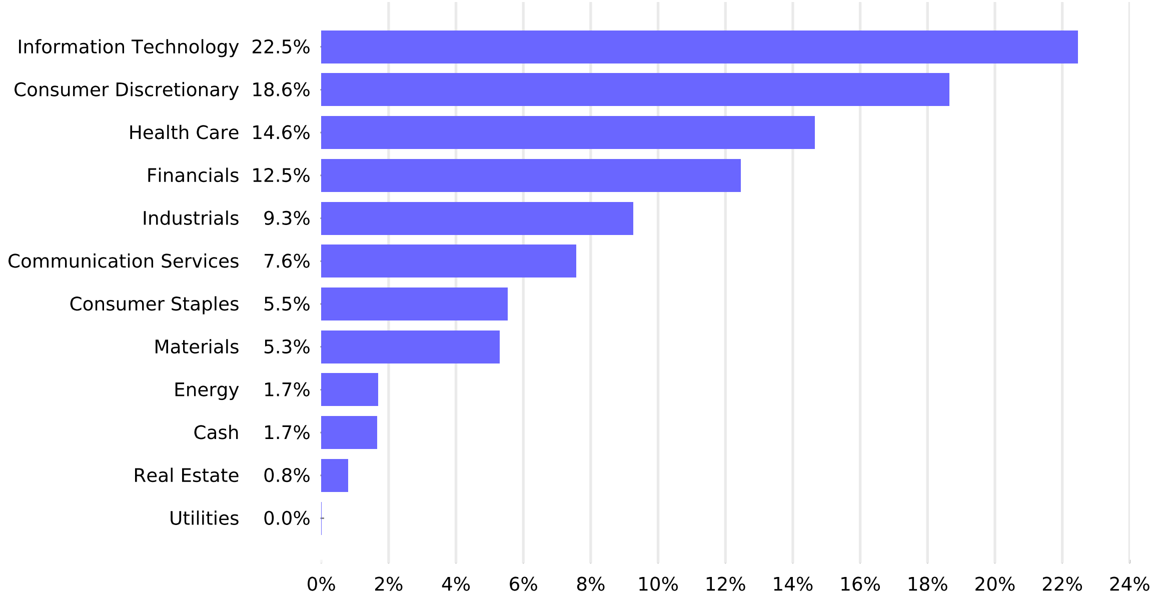
Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. CONSTELLATION SOFTWARE INC/CANADA	68.3	85.2
2. ADMIRAL GROUP PLC	78.8	77.0
3. TAIWAN SEMICONDUCTOR MANUFACTURIN	60.9	66.4
4. NESTLE SA	59.3	50.0
5. ASML HOLDING NV	60.9	24.0
6. RECRUIT HOLDINGS CO LTD	67.7	66.6
7. SAP SE	65.0	71.0
8. CAPGEMINI SE	63.6	63.9
9. COMPASS GROUP PLC	65.2	75.5
10. EATON CORP PLC	67.5	42.4

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MICROSOFT CORP	46.4	37.2
2. ALPHABET INC	46.3	50.0
3. TJX COS INC/THE	35.0	40.9
4. JOHNSON & JOHNSON	36.5	20.5
5. PROGRESSIVE CORP/THE	40.2	18.5
6. AUTOZONE INC	43.7	53.9
7. META PLATFORMS INC	42.2	46.3
8. AMAZON.COM INC	50.5	50.0
9. BECTON DICKINSON AND CO	40.2	28.7
10. LITHIA MOTORS INC	45.1	13.3

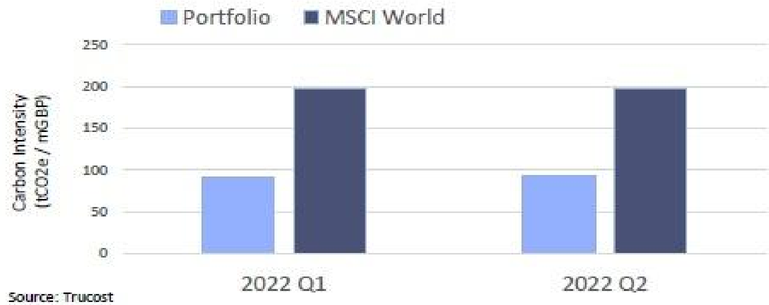
* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average ESG Score	2022 Q1	2022 Q2
Portfolio	54.2	54.6
MSCI World	54.5	54.7

Truvalue Labs & SASB

Weighted Average Carbon Intensity (WACI)



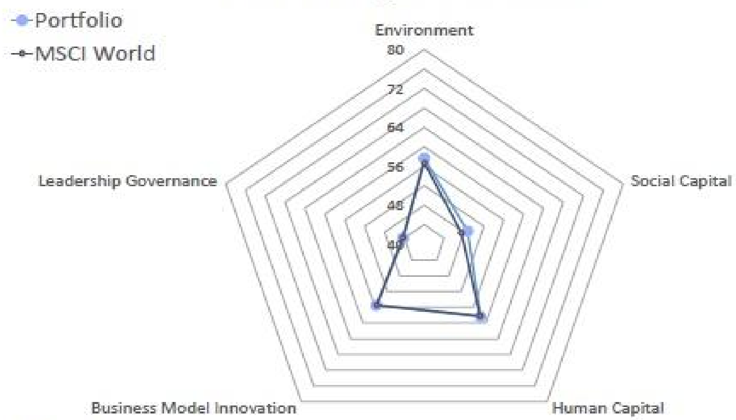
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q1	Q2	Q1	Q2
Portfolio	0.6	0.9	2.0	3.1
MSCI World	2.6	2.7	6.5	7.0

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

Absolute Weighted ESG Scores



Truvalue Labs & SASB

Brunel Assessment:

- Johnson and Johnson (Pharmaceuticals) settled claims that it helped fuel an opiod addiction crisis in the state. The company has now been ordered to pay $302 million in penalties for deceptively marketing pelvic mesh implants.
- Capgemini (Software services) signs two new contracts with Eneco to support a sustainable energy transition and growth strategy. As part of a 10-year agreement, Capgemini will support Eneco's transition towards sustainable energy and help meet its ambition of becoming carbon-neutral by 2035.
- Microsoft (Technology) has been affected by a zero-day vulnerability in Office 365 which has been exploited by a host of malicious actors. The CMA has also announced a formal investigation into the $68.7 billion Activision Blizzard acquisition.
- Nestle SA (Food & Beverage) will start paying cocoa farmers cash incentives to fight child labour based on criteria ranging from school enrolment to improved agricultural practices. The program plans to spend $1.4 billion by 2030.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The portfolio continues to have a carbon intensity significantly lower than its benchmark. Revenues from extractive activity and the extractives value of holdings are less than half that of its benchmark.

Brunel Global Sustainable Equities

Overview

	Description
Portfolio Objective:	To provide exposure to global sustainable equities markets, including excess returns from manager skill and ESG considerations.
Investment Strategy & Key Drivers:	Actively managed, diversified by sector and geography. Consideration for a companies Environmental & Social sustainability.
Liquidity:	Managed Liquidity.
Risk/Volatility:	High, representing an equity portfolio.
Total Fund Value:	£3,050,086,508

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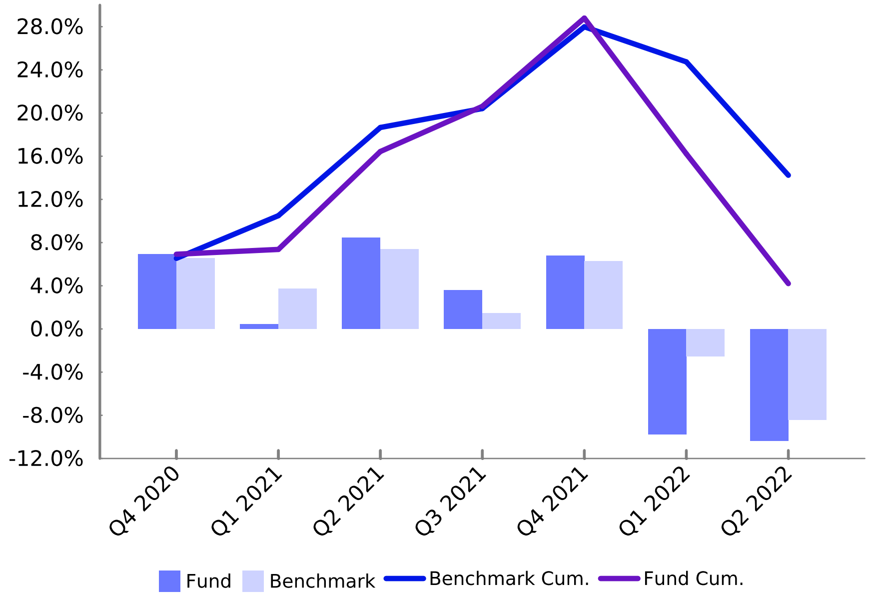
Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-10.3%	-8.4%	-1.9%
Fiscal YTD	-10.3%	-8.4%	-1.9%
1 Year	-10.5%	-3.7%	-6.8%
3 Years			
5 Years			
10 Years			
Since Inception	2.5%	8.2%	-5.7%

Rolling Performance*



* Partial returns shown in first quarter

As we discussed in the listed markets commentary, the global economic backdrop can be characterised by rising inflation, recessionary fears and monetary tightening by the central banks. Increasing interest rates had a negative effect on market sentiment as the present value of future cash flows were reduced due to the increasing discount rate. This has a disproportional effect on the Growth style relative to the Value style, as Growth companies have a greater proportion of their cash flows in the future. There were also a number of fundamental factors to consider: the constraint on Oil and Gas supplies continued through Q2. Whilst constraints were not as pronounced as during Q1, the sector nevertheless continued to see increasing profits and investment momentum (+3% in Q2). In aggregate, the Sustainable Equities portfolio has a natural bias away from deep Value companies as well as an underexposure to the Oil & Gas sectors.

Global equities (as proxied by the MSCI All Countries World Index) returned -8.4% this quarter. The Sustainable Equity fund returned -10.3%, underperforming the benchmark by 1.9% (MSCI All Countries World Index).

- Much of the quarter's underperformance (-1.1%) could be attributed to positions in the Health Care sector. If we think about the health care sector itself, it can be split into quite broad sub-categories. The pharmaceuticals sub sector (7% Q2 return) has traditionally been linked to defensive equity, but other sub sectors include Life Sciences (-7%) and Health Care Equipment (-12%), which are more exposed to future development and research. Whilst the fund does have a degree of exposure to some pharmaceutical companies, such as Eli Lily, it is underweight the larger names, such as Johnson & Johnson, and underweight the sub-sector overall. The fund is, however, overweight those sectors that are more aligned to future sustainability, such as Life Sciences, which incorporate innovative technology companies such as Illumina.

• If we split the attribution by country, the majority of the underperformance is due to the overweight positioning to the US, and notably the underweight position in China, as noted in the listed markets commentary. China returned +12% over the quarter as Covid restrictions eased, while its central bank was contrarian to the rest of world in lowering interest rates. The fund has greater exposure to Growth companies in the US, rather than Value companies. Using dividend yield as a proxy for Value, the top Value quintile in the US returned 4.1% whilst the top Growth quintile returned -20.9%

• Two of the five managers outperformed the index over the quarter: Jupiter and Nordea. Nordea is a thematic manager that has an emphasis on solution-based businesses and has greater exposure to sectors such as Utilities, which performed well. Jupiter is a risk-aware broad sustainable manager, which was seeded in February 2022 and has provided relative defensiveness when measured against other sustainable managers. Mirova and RBC are also Broad Sustainable managers. they narrowly underperformed the benchmark, returning 8.5% and 9.2% respectively. Ownership, however, is a high conviction Growth manager ,and returned -16.6% over the quarter.

• In terms of positioning going forward, all managers integrate the quality of the business into their analysis, rather than just sustainability. The fund has overweight exposure to low-leverage businesses, which have strong margins and have been able to demonstrate consistent and attractive return on equity (ROE) historically. Over the longer term, these characteristics should theoretically offer some relative protection from increasing inflationary costs and decreasing economic activity, as well as any costs associated with debt restructuring in a higher interest rate environment. A general trend in the first half of 2022 was that highly leveraged companies (high D/E) outperformed lower leveraged companies: -9% for the top leveraged decile vs vs -20% for the lowest leveraged decile. The MSCI quality factor returned -10.5% over the quarter, a factor that the fund has positive exposure to.

• The Sustainalytics and TruValue Labs scores for the fund remain superior to that of the MSCI ACWI benchmark and we continued to see a carbon intensity and extractive exposure reduction in comparison to the benchmark.

Brunel Global Sustainable Equities – Region & Sector Exposure

BRUNEL Pension Partnership

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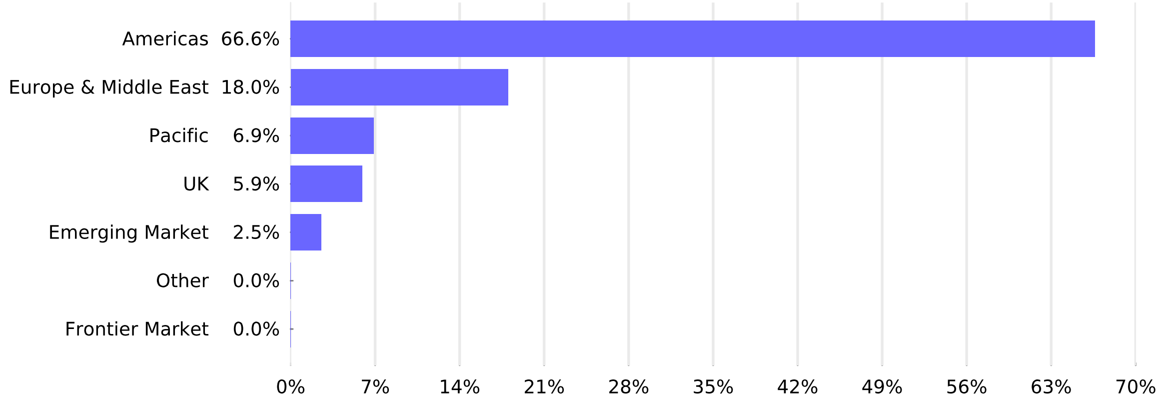
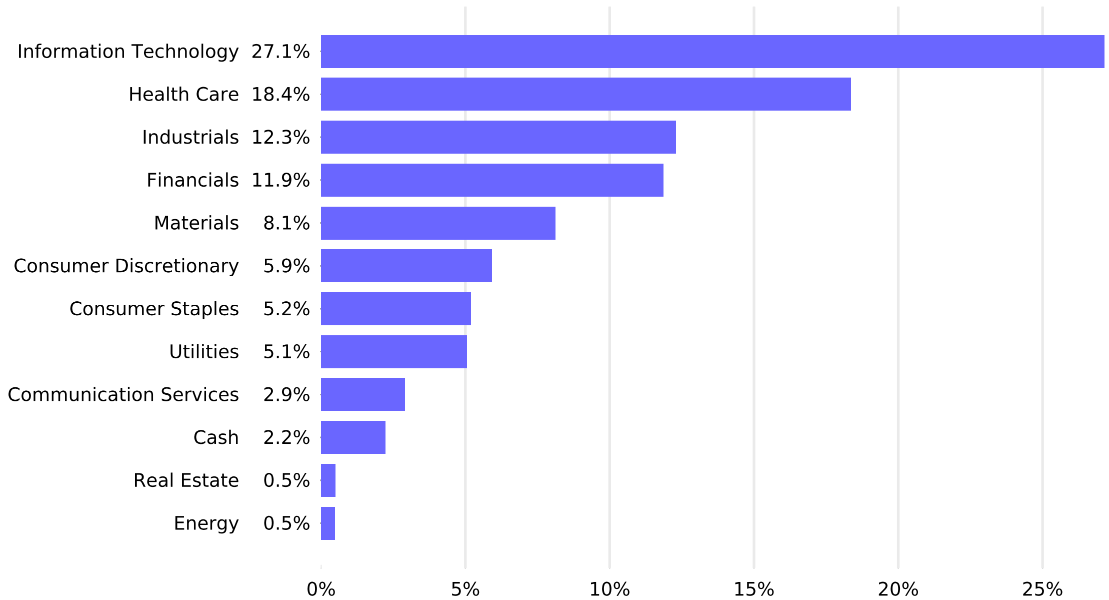
Top 20 Holdings

	Mkt. Val.(GBP)
MASTERCARD INC - A	83,688,403
MICROSOFT CORP	74,436,733
DANAHER CORP	59,326,572
ADYEN NV	58,597,461
UNITEDHEALTH GROUP INC	54,692,668
INTUIT INC	52,903,344
ANSYS INC	52,172,965
MARKETAXESS HOLDINGS INC	50,326,554
EDWARDS LIFESCIENCES CORP	49,555,632
AIA GROUP LTD	48,398,354
TRADEWEB MARKETS INC-CLASS A	46,799,153
ALPHABET INC-CL A	45,857,455
SYNOPSYS INC	42,796,265
ROCHE HOLDING AG-GENUSSCHEIN	42,507,663
TAIWAN SEMICONDUCTOR-SP ADR	40,651,979
PEPSICO INC	40,261,021
RESMED INC	39,243,335
REPUBLIC SERVICES INC	38,506,975
ECOLAB INC	38,246,781
TYLER TECHNOLOGIES INC	38,167,940

Regional Exposure



Sector Exposure



Brunel Global Sustainable Equities – Responsible Investment

BRUNEL
Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. ANSYS INC	68.8	80.0
2. ABIOMED INC	79.3	84.6
3. WORKDAY INC	71.5	80.8
4. ECOLAB INC	68.5	29.0
5. ORSTED AS	73.5	62.1
6. FORTIVE CORP	69.9	66.7
7. FORTIS INC/CANADA	68.6	29.7
8. ZEBRA TECHNOLOGIES CORP	77.6	78.1
9. LINDE PLC	66.8	69.2
10. KERRY GROUP PLC	66.7	32.0

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MICROSOFT CORP	46.4	37.2
2. MARKETAXESS HOLDINGS INC	47.2	15.2
3. ALPHABET INC	46.3	50.0
4. INTUIT INC	49.9	47.6
5. T-MOBILE US INC	45.6	26.3
6. AUTOZONE INC	43.7	53.9
7. UNITEDHEALTH GROUP INC	51.6	31.0
8. DANAHER CORP	52.7	42.7
9. ADOBE INC	44.7	18.1
10. ILLUMINA INC	45.8	23.7

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average ESG Score	2022 Q1	2022 Q2
Portfolio	58.9	58.6
MSCI ACWI	54.8	55.1

TruValue Labs & SASB

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Weighted Average Carbon Intensity (WACI)

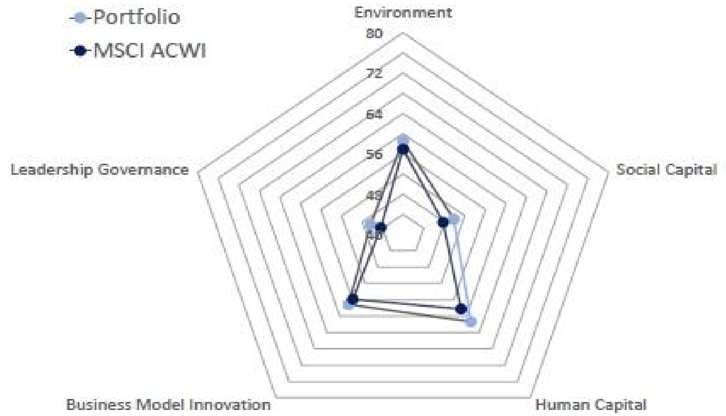
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q1	Q2	Q1	Q2
Portfolio	2.5	2.5	3.1	3.3
MSCI ACWI	2.6	2.7	6.6	7.0

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

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Assessment:

- T Mobile (Technology) allegedly used a third party to try and buy leaked data from a hacker forum for $200 thousand. The stolen information was still up for sale long after the payment as T-Mobile tried to limit the spread of stolen data.
- **Linde** (Chemicals) will collaborate with Airbus in order to supply miner Freeport Indonesia with high-purity industrial gases. This will significantly improve energy efficiency.
- **Microsoft** (Technology) has been affected by a zero-day vulnerability in Office 365 which has been exploited by a host of malicious actors. The CMA has also announced a formal investigation into the $68.7 billion Activision Blizzard acquisition.
- **Abiomed** (Healthcare) has successfully developed and treated over 5000 patients with a micro heart pump that is expected to strengthen their position in the coronary business.

80% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
As expected from this Sustainable Portfolio, the carbon intensity and exposure to extractive industries are significantly below benchmark. The Portfolio has considerably higher ESG scores compared to its Benchmark across Environment, Social and Human Capital categories.

Brunel Diversifying Returns Fund

BRUNEL Pension Partnership

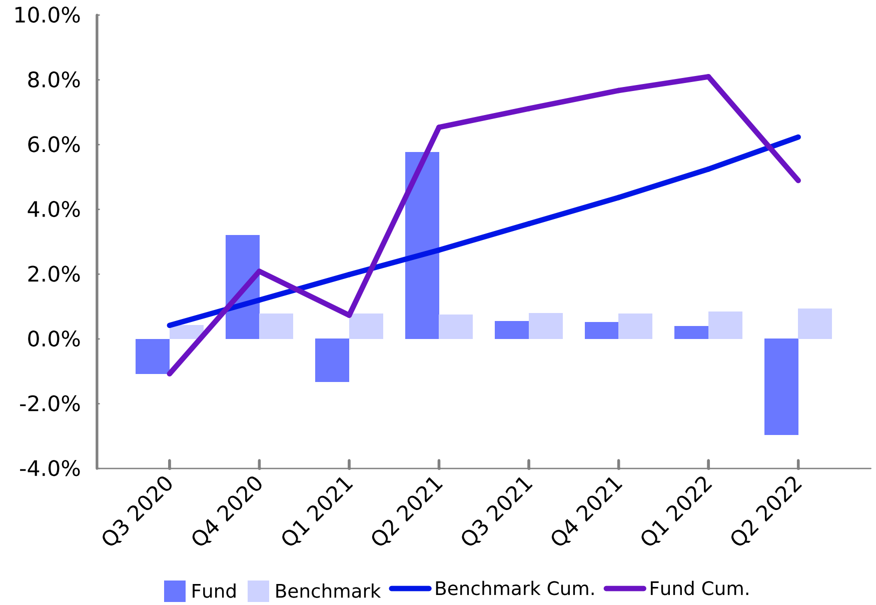
Overview

	Description
Portfolio Objective:	Provide exposure to a range of alternative return drivers and a degree of downside protection from equity risk.
Investment Strategy & Key Drivers:	Actively managed to achieve growth at moderate absolute risk, diversified between asset classes and by geography.
Liquidity:	Managed Liquidity.
Risk/Volatility:	Moderate absolute risk against cash.
Total Fund Value:	£1,712,586,713

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-3.0%	0.9%	-3.9%
Fiscal YTD	-3.0%	0.9%	-3.9%
1 Year	-1.5%	3.4%	-4.9%
3 Years			
5 Years			
10 Years			
Since Inception	2.6%	3.3%	-0.7%

Rolling Performance*



* Partial returns shown in first quarter

The Diversifying Returns Fund returned -3.0% over the second quarter of 2022. The benchmark return was 0.9%. The portfolio returned -1.5% for the year ending 30 June 2022, underperforming the benchmark, which returned 3.4%. The fund has fared better than a sterling-hedged 50/50 equity/bond index, which returned -11.3% over the quarter and -14.7% over the year.

During the quarter, the portfolio was restructured to remove the allocation to William Blair, who closed the fund held in the DRF portfolio.

• JPM returned 4.9% for the quarter. The largest positive contributions to return again came from the equity Value and fixed income trend signals. Equity trend, Quality and relative Value Momentum signals also delivered positive performance. Fixed income carry and credit carry were the biggest detractors from performance.

• Lombard Odier was down 3.3% over the quarter. All beta exposures performed negatively but carry and trend signals made a positive contribution to returns. The largest negative contributions to return came from sovereign bonds and developed market equities.

Brunel Diversifying Returns Fund

• UBS returned -13.7% in Q2. The largest contributor to negative performance was the short position in USD, as the Federal Reserve indicated a willingness to aggressively raise interest rates. The long JPY position also made a large negative contribution, with Japanese inflation lagging the US & Europe, and the Japanese central bank re-iterating its intention to maintain accommodative monetary policy. The largest positive contribution to returns came from a short position in NZD, while long Latam exposures were mixed. COP, MXN and BRL appreciated but CLP fell in value.

• William Blair recorded a return of -5.3% for the second quarter though it should be noted that, as the fund was closed prior to the end of the quarter, this did not represent a full quarter's performance. The negative performance of equities and fixed income both detracted from William Blair's returns.

Brunel Diversifying Returns Fund – Region & Sector Exposure

BRUNEL
Pension Partnership

Top 20 Holdings

	Mkt. Val.(GBP)
LO FUNDS ALL ROADS LO FDS ALL ROADS X1SHGBPIA	865,967,833
JPM DIVERSIFIED RISK -X GBP	558,800,664
UBS CURR ALLO RET STR-GBPUBA	287,350,357

Brunel Multi-Asset Credit

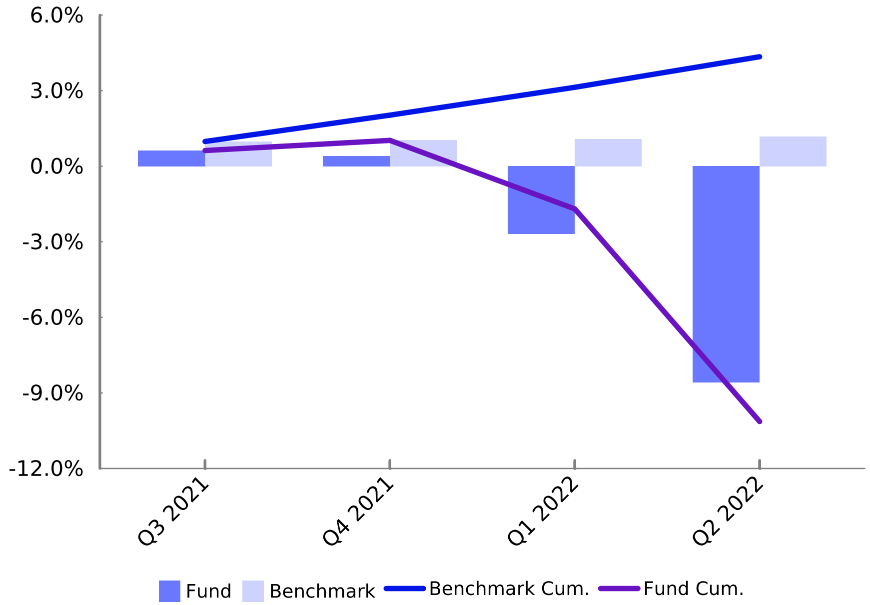
Overview

	Description
Portfolio Objective:	To gain exposure to a diversified portfolio of enhanced credit opportunities with modest exposure to interest rate risk.
Investment Strategy & Key Drivers:	Exposure to specialised, higher yielding bond sectors which provide diversified credit driven returns.
Liquidity:	Managed liquidity
Risk/Volatility:	Moderate absolute and relative risk with high relative risk vs cash.
Total Fund Value:	£2,352,940,113

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-8.6%	1.2%	-9.8%
Fiscal YTD	-8.6%	1.2%	-9.8%
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	-10.1%	4.3%	-14.5%

Rolling Performance*



* Partial returns shown in first quarter

The portfolio returned -8.59% on a net-of-fees basis, whereas the SONIA +4% primary benchmark returned +1.2%. The outcome was to be expected, given the inhospitable environment for credit prices. The secondary benchmark, a 50-50 split of the Bloomberg Global High Yield and S&P/LSTA US Leveraged Loan 100 indices, returned -8.23% over the same period, close to the portfolio return.

Credit registered one its worst quarterly returns in recent years. A perfect storm of rising interest rates and increased recession risk caused yields and spreads to rise simultaneously, impacting the entire credit spectrum. No areas within credit were immune from these movements, resulting in widespread falls in bond prices. Rising interest rates were a direct consequence of central bank activity across the globe.

US yields had another volatile quarter, ultimately rising once again because of runaway inflation and subsequent central bank tightening. The US 10-year benchmark bond ended the period at 2.98%, an increase of 66 basis points. This was as high as 3.4% in June; however, yields quickly pulled back as investors became concerned about a global recession. The curve remained very flat over the quarter, with 2-year, 5-year and 10-year yields trading in close proximity. The curve remains partially inverted, with the 5-year yielding slightly more than the 10-year. The 10-2 Year Treasury Yield Spread ended the period at zero, having widened to over 40 basis points during the quarter. The United Kingdom also saw large increases in government yields, with the 10-year benchmark bond rising to 2.31% at the end of the quarter, significantly higher than the March 2022 yield of 1.63%. The UK yield curve is not as flat as the US, with the 10-2 Year Treasury Yield Spread at 39 basis points at quarter-end, an increase of 12 basis points over the period.

Spreads widened in every asset class over the quarter, as a direct result of slowing growth and recession fears. High yield corporate spreads – proxied by Bloomberg Global High Yield Index – almost doubled to 618 basis points (from 374 basis points). Hard currency emerging market corporates, proxied by Bloomberg EM USD Corporates, rose by almost 100 basis points to 462 basis points at quarter-end.

Floating rate assets were once again the best place to be from an asset class perspective within sub-investment grade credit. The lower duration element protected investors from rate-driven capital losses. Bank loans, a floating rate asset approximated by the S&P/LSTA US Leveraged Loan 100 Index, fell by 5.43% in GBP hedged terms. The asset class still fell due to recession fears, which caused spreads to rise. Whilst disappointing, this was comfortably ahead of fixed rate assets like high yield bonds. The Bloomberg Global High Yield Index fell over 11% in GBP-hedged terms over the same period. Specialist asset classes such as convertible bonds and contingent capital fell in line with fixed rate credits and offered limited return protection given the environment. The Thomson Reuters Global Convertible Index fell 12% in local terms, whilst ICE BoA Contingent Capital fell almost 9% over the same period.

Results were once again mixed at manager level. Neuberger Berman - which represents 60% of the portfolio – fell by 9.2%, driven by a higher weighting to fixed rate bonds, which was over 60% heading into Q2 2022. Oaktree and CQS –each representing 20% of the portfolio - performed relatively better, both returning -7.8%. The primary driver for the better performance across these managers was twofold – (1) No exposure to investment grade bonds, which fell significantly due to higher duration, and (2) Much lower fixed rate exposures - less than 40% for both.

Since-inception portfolio return is now -10.2% on a net-of-fees basis, which is behind the primary benchmark return of +4.3% over the same period. Whilst disappointing in absolute terms, the portfolio remained ahead of the secondary credit-focussed benchmark comprised of loans and high yield. The secondary benchmark returned -10.5% from portfolio launch to quarter-end, 35 basis points behind the portfolio.

Managers have been increasing the level of quality in their portfolios, given that defaults are expected to rise in a recession environment. Managers feel cautiously optimistic about prospects, as they believe current portfolio yields – almost 10% on a yield-to-worst basis with a duration of around 2 years – more than compensate investors for default risk. However, managers remain cautious in the near term and expect more mark-to-market volatility, given the unknowns surrounding global growth and inflation in the months to come.

Brunel Multi-Asset Credit – Region & Sector Exposure

Top 20 Holdings

	Mkt. Val.(GBP)
NEUBERGER BERMAN BRUNEL MULTI NEUER BEN BREL MU AD I2AGBPA	1,480,711,399
CQS GLOBAL FUNDS MUTUAL FUND	502,087,221
OAKTREE (LUX) III SA SICAV MUTUAL FUND	497,052,233

Passive Dev Eq Paris Aligned

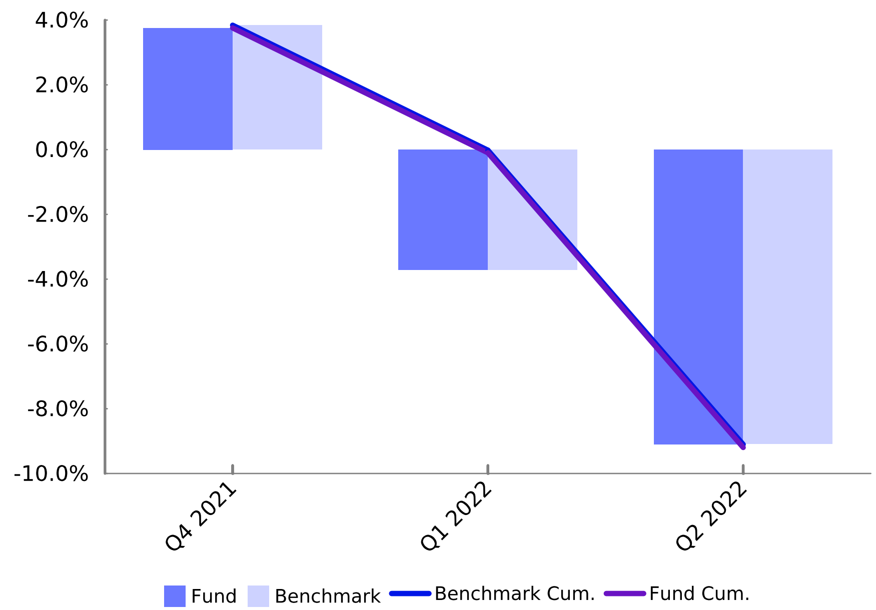
Overview

	Description
Portfolio Objective:	Provide global equity market exposure, reduce carbon exposure and align to the Paris Agreement.
Investment Strategy & Key Drivers:	Portfolio is invested in global equities in accordance with FTSE Global Developed PAB Index.
Liquidity:	High
Risk/Volatility:	Volatility: high. Relative/active risk: very low.
Total Fund Value:	£1,982,140,020

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-9.1%	-9.1%	0.0%
Fiscal YTD	-9.1%	-9.1%	0.0%
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	-9.2%	-9.1%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

• As the significant macroeconomic risks posed in Q1 spilt over into Q2 2022, the FTSE Developed Paris Aligned (PAB) benchmark performed negatively in absolute terms – like many global indices. The benchmark returned -9.1% to the end of the quarter. From the November 1 inception date, the benchmark performance stood at -9.2% to quarter-end. The Passive Paris Aligned Developed Equities fund closely replicated the benchmark performance over both periods.

• Continuing from Q1 2022, sterling depreciated relative to several other global currencies, down by 7.4% against the US dollar and by 2.2% against the euro. The hedged portfolio consequently underperformed the unhedged portfolio over the quarter, returning -14.5%.

• Consumer Discretionary and IT were the most significant underperformers over the quarter, whilst some of the more defensive sectors offered resilience to the general downward trend. In this context, Consumer Staples and Health care were the only positive performers, whilst the Utilities sector was flat.

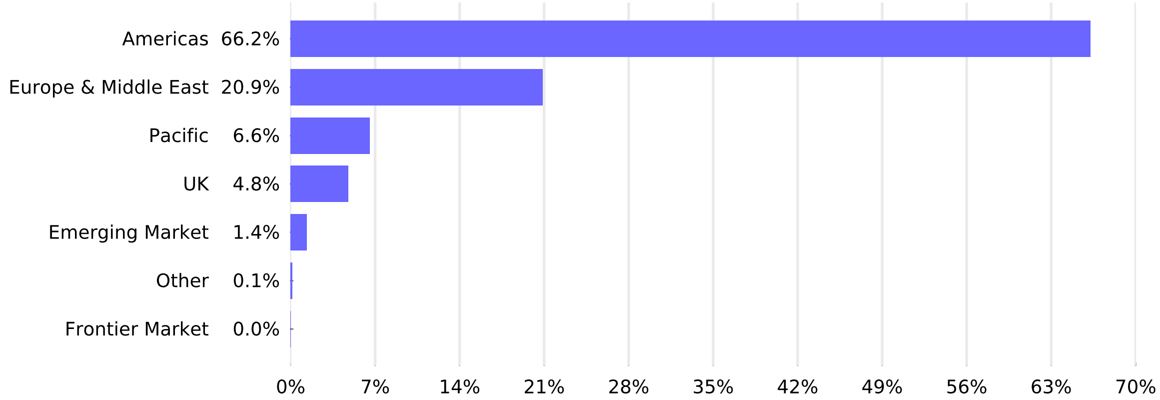
Passive Dev Eq Paris Aligned – Region & Sector Exposure

BRUNEL
Pension Partnership

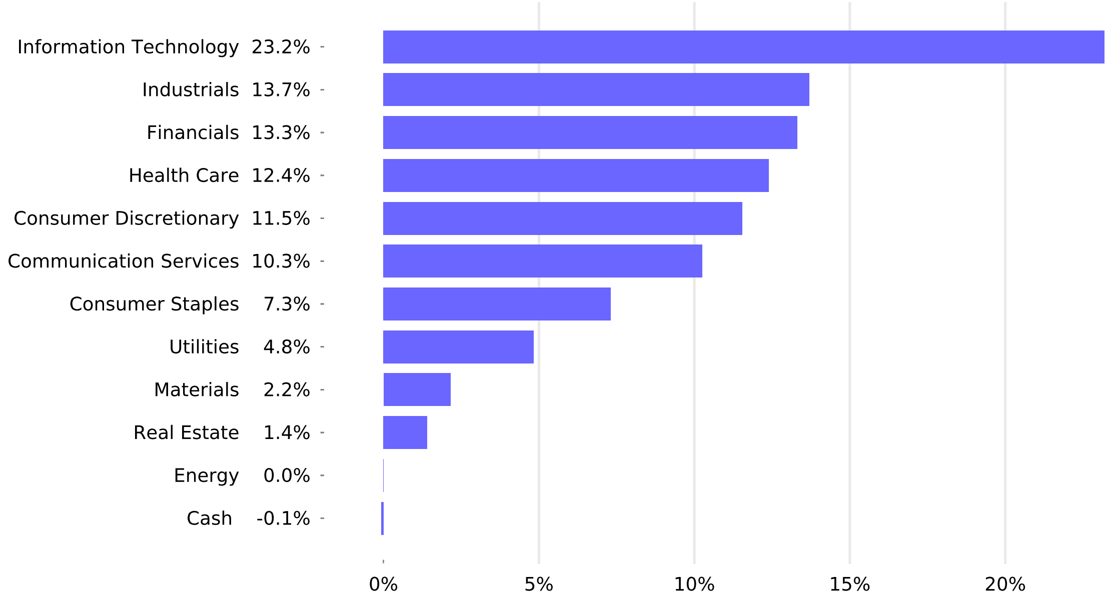
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	132,316,872
MICROSOFT CORP	125,376,797
AMAZON.COM INC	87,867,626
ALPHABET INC-CL A	58,229,341
ALPHABET INC-CL C	54,528,507
HONEYWELL INTERNATIONAL INC	50,127,759
UNILEVER PLC	38,856,674
NESTLE SA-REG	33,019,156
UNITEDHEALTH GROUP INC	32,300,664
TESLA INC	31,774,070
SCHNEIDER ELECTRIC SE	29,737,674
THERMO FISHER SCIENTIFIC INC	29,515,596
VERIZON COMMUNICATIONS INC	26,413,831
INTL BUSINESS MACHINES CORP	21,602,988
LVMH MOET HENNESSY LOUIS VUI	19,289,056
MASTERCARD INC - A	18,936,563
CHUBB LTD	16,713,366
SAP SE	16,567,769
AT&T INC	16,532,979
JPMORGAN CHASE & CO	16,178,765

Regional Exposure



Sector Exposure



Passive Dev Eq Paris Aligned – Responsible Investment

BRUNEL
Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. HONEYWELL INTERNATIONAL INC	69.0	74.0
2. SCHNEIDER ELECTRIC SE	71.2	47.5
3. SAP SE	65.0	71.0
4. TEXAS INSTRUMENTS INC	65.2	50.0
5. UNILEVER PLC	59.3	44.5
6. SIEMENS AG	67.1	67.1
7. ORSTED AS	73.5	62.1
8. IBERDROLA SA	65.9	27.8
9. ENGIE SA	68.9	61.9
10. CONSOLIDATED EDISON INC	65.6	70.2

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. MICROSOFT CORP	46.4	37.2
2. ALPHABET INC	46.3	50.0
3. APPLE INC	48.5	63.6
4. AMAZON.COM INC	50.5	50.0
5. CHUBB LTD	35.7	57.7
6. ABBVIE INC	34.6	16.6
7. TESLA INC	51.0	26.3
8. AT&T INC	47.5	71.2
9. UNITEDHEALTH GROUP INC	51.6	31.0
10. PFIZER INC	46.6	42.5

* Position 1 is the top contributor/detractor.

0 50 100

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Weighted Average ESG Score	2022 Q1	2022 Q2
Portfolio	55.4	55.5
FTSE Dev. World	54.5	54.8

TruValue Labs & SASB

Weighted Average Carbon Intensity (WACI)

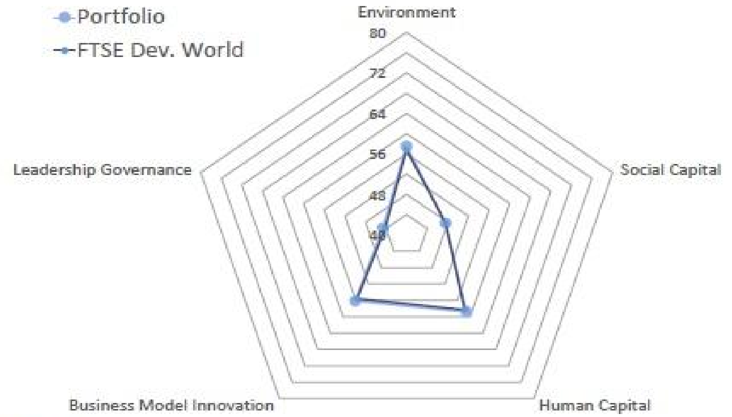
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q1	Q2	Q1	Q2
Portfolio	1.0	1.0	1.6	1.6
FTSE Dev. World	2.6	2.6	6.4	6.9

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

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Assessment:

- **Abbvie** (Healthcare) has been found of shielding profits from US taxes. The maker of the popular arthritis drug Humira, generated 75% of its sales in the United States - but only reported 1% of that income for U.S. tax purposes.
- **Engie** (Electric utilities) agrees to 15 year LNG deal with NextDecade US facility. More than half of the supply from the project's first phase is now covered under long-term agreements that are either firm or preliminary. NextDecade said it aims to reduce CO2 emissions from its facility by more than 90%.
- **Microsoft** (Technology) has been affected by a zero-day vulnerability in Office 365 which has been exploited by a host of malicious actors. The CMA has also announced a formal investigation into the $68.7 billion Activision Blizzard acquisition.
- **Schneider Electric** (Resource Transformation) will acquire AutoGrid a Climate-AI Pioneer to support renewable energy and distributed energy expansion around the world.

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

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Dorset County Pension Fund
administered by Dorset Council
Environment Agency Pension Fund
Gloucestershire County Council
Buckinghamshire Council
Buckinghamshire Pension Fund
BRUNEL
Pension Partnership
SOMERSET County Council
Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions
AVON PENSION FUND
Wiltshire Pension Fund
Cornwall Pension Fund
Devon County Council

Brunel Portfolios Q222				
Mandate	**Performance 'RAG' Rating**	**Comments**	**ESG and/or Operational Rating**	**Comments**
Passive Paris Aligned Developed Equities (Nov-21)		• Technology sector is the largest sector exposure, making up 25.7% of the product. The US is the largest regional exposure, representing 67.6% of the product		• Extractive Revenue, Extractive Industries and ESG Scores are considerably better than the market cap weighted product
Global High Alpha Equities (Dec-19)		• Rebalance of underlying managers to address growth tilt in portfolio.		None.
Global Sustainable Equities (Oct-20)		None.		None.
Multi Asset Credit (Jul-21)		• Since inception portfolio return is -10.2% on a net of fees basis. • Portfolio remains ahead of the secondary credit focussed benchmark, which has fallen -10.5% since inception		• Amber as underlying managers currently developing metrics to align with Brunel climate benchmark. In progress.
Diversified Returns Fund (Aug-20)		• William Blair (26.5% of portfolio) to close strategy after key person departure. Brunel to reallocate funds to existing 3 mgrs and undertake selection process for new mgr in due course.		None.
Secured Income 2018-20 £345m 2020-22 £120m		• Cycle 1 100% called • Cycle 2 86% called		None.
Renewable Infrastructure 2018-20 £115m 2020-22 £120m		• Cycle 1 64% called • Cycle 2 21% called		• Concerns around pace of deployment in Cycle 2 renewables sleeve now abated. Strong pipeline of primary and tactical opportunities to complete commitment of Cycle 2.
Private Debt 2020-22 £245m		• Cycle 1 n/a • Cycle 2 26% called (~50% called based on credit facility)		None.
UK Property Jan-2021 2021: £210m		None.		None.
Risk Management Strategies		None.		• Integration of ESG in risk management strategies under review.
Legacy Portfolios Q222				
Core Infrastructure		• Currently 2% overweight due to significant outperformance. The Fund's preference is to rebalance this mandate rather than exit on advice from Mercer.		• In March 2022, IGM General Infra Fund (GIF) announced that it had committed capital to IFM's Net Zero Infrastructure Fund (NZIF). In June GIF made its first capital injection to NZIF.
Hedge Funds		Mandate winding down	n/a	
UK Property	n/a	Fully redeemed	n/a	
International Property		Underlying funds to be held to expiry		

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**9 SEPTEMBER 2022**
TITLE:	**Risk Management Framework Review for Periods Ending 30 June 2022**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 30 June 2022**	

1. THE ISSUE

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

1.2. This quarter Exempt Appendix 1 contains details relating to the Fund's annual health check of the RMF. All strategies are rated green and continue to perform in line with expectation. There has been no material change in the Fund's collateral position, which remains comfortably above the 'early warning test'.

1.3. Further details relating to the annual health check are contained in Exempt Appendix 1 which Mercer will present at the meeting. A summary of the FRMG discussion is included in Section 5 of this report.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to note:

2.1. **The performance of each of the underlying RMF strategies**

2.2. **The decision by FRMG to adjust the inflation trigger framework to reflect the RPI/CPI difference**

2.3. **The ongoing FRMG consideration regarding the hedge ratio of the LDI portfolio**

2.4. **That the FRMG may consider adjusting the interest rate trigger framework to reflect current market conditions so that the Fund hedges at attractive levels.**

3. FINANCIAL IMPLICATIONS

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

4. UPDATE ON RISK MANAGEMENT STRATEGIES AND FUNDING LEVEL

Strategy/Objective	**Commentary**	**RAG**	**Trend**
Funding Level	• 92% (£462m deficit) • Behind existing recovery plan by c.3%		⇩
LDI	• Quarterly return of -8.2% due to rise in gilt yields • No inflation or interest rate triggers breached over Q • Interest rate hedge ratio 11% • Inflation hedge ratio 38% • Mandate performed as expected. Manager in compliance with investment guidelines		⇔
Equity Protection	• EPS adds 3.6% over the Q to deliver a net equity return of -11.5% • Since inception the dynamic EPS has added value (c. £60.8m in net gains at 30 June 2022) as markets have broadly fallen over the first half of 2022		⇧
Low Risk Corporate Bonds	• Level of cashflow matching has declined since inception due to the rise in inflation which impacts the liability cashflows but not the corporate bonds cashflows. Ongoing monitoring by FRMG		⇔
Collateral Position	• At 30 June 2022 collateral pool could sustain a 4.8% rise in interest rates, a 0.6% fall in inflation or an 8% decline in the value of the EPS before triggering the ‘early warning test’		⇔

5. RMF ANNUAL HEALTH CHECK

5.1. FRMG considered increasing the interest rate hedge ratio outside of the current trigger framework as a result of the increase in yields. The group looked at the implications of increasing the hedge by 10%, 20% and 30% and concluded that an increase beyond 10% was not viable due to the impact on collateral. Whilst interest rates are currently attractive relative to recent history they are still below the current trigger levels and therefore the Fund would be better off if interest rates continued to rise and additional hedging was implemented at cheaper rates. **Given the current market environment, the view was that there was a high probability of further interest rate rises to come (but not guaranteed) and that interest rates could rise faster than the market is expecting. In this scenario, the Fund would be better to wait given the interest triggers in place.**

5.2. FRMG will continue to monitor interest rates to consider whether the current interest rate trigger levels could be widened given the current market conditions. The trigger framework needs to achieve a balance between locking in at attractive levels and not missing opportunities to hedge.

5.3. Under delegated authority the FRMG resolved to change the inflation triggers to account for the reduction in the structural gap between RPI and CPI which will materialise as we progress toward 2030 given the reform of RPI to CPI from that date. This means all inflation triggers will be re-struck at 0.2% lower than current levels, equivalent to a move in the structural gap from 0.5% to 0.3%, which is in line with the 2022 actuarial valuation assumptions. The structural gap will be kept under review and adjusted downwards as necessary as we approach 2030.

Further, FRMG agreed to widen the spread between the inflation trigger levels from 0.05% to 0.1% to compensate for increased volatility in inflation over recent months and to avoid the risk of breaching several triggers at once which could present issues from a collateral perspective. Widening the spread between triggers is an implementation decision and does not alter the target real return over CPI.

5.4. The cashflows attached to the liabilities hedged as part of the low-risk funding strategy have increased since the strategy was incepted due to the rise in inflation. This increase has not been matched by the corporate bond assets held as part of this strategy, resulting in a decline in the overall level of cashflow matching. Currently, the low-risk bond strategy draws on the inflation hedge of the main fund to fully hedge the inflation sensitivity of the liability cashflows. As the low-risk liabilities grow the current approach will lead to a degradation in the inflation hedge of the main fund (at the current size of the LRFS the impact on the inflation hedge of the main fund is immaterial). FRMG considered the cost-benefit of introducing a standalone LDI portfolio for this subset of liabilities and concluded that such an approach did not represent good value at this stage given the size of the strategy but would be kept under review. Meanwhile Officers will work with Mercer and the LDI manager to model a corporate bond portfolio that provides a good cashflow match of the liability profile under the existing approach once data from the 2022 actuarial valuation is available.

5.5. Given the significant upward pressure on interest rates since the valuation date, discussions will be needed about the positive impact this had had on long-term forward-looking return expectations and how much the Fund should allow upfront. Allowing for some of the higher interest rates (and therefore expected return) within the discount rate post-valuation is projected to lead to a c.2-3% improvement in the current reported funding level. Although this market impact will not result in a change to the discount rate used as part of the March 2022 valuation, FRMG will need to consider the impact on the funding plan and the return assumptions given the impact this would have on the 2022/23 investment strategy review. Panel will be notified of any strategic issues or concerns arising from this discussion in due course.

6. RISK MANAGEMENT

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

7. EQUALITIES

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

8. CLIMATE CHANGE

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

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

10.1. The Director – One West has had the opportunity to input to this report and has cleared it for publication.

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

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1009928

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 9th September 2022

Author: Nathan Rollinson
Report Title: Risk Management Framework Review for Periods Ending 30 June 2022 **List of attachments to this report:** **Exempt Appendix 1** – Mercer Report: Risk Management Framework Review to 30 June 2022

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

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

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

<u>PUBLIC INTEREST TEST</u>

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

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

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

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

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

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

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**09 SEPTEMBER 2022**	**AGENDA ITEM NUMBER**
TITLE:	**Forward Agenda**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 This report sets out the forward agenda for the Panel for 2022/23. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 FORWARD AGENDA

4.1 The provisional agenda is as follows:

Date	Proposed agenda
25 Nov 2022	**Strategic** • Update on 2022 Stocktake project • Cashflow / Liquidity Analysis - to determine how much can be invested in less liquid portfolios e.g. local/impact • QIF Equity Fund options – to consider options to align passive equity fund held as collateral to align with climate targets **Monitoring** • Investment performance • Risk Management Framework
Feb 2023 (TBC)	**Strategic** • Update on Brunel’s revised Climate Policy **Monitoring** • Investment performance • Risk Management Framework

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The 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 Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

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

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

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

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