

Avon Pension Fund Committee Investment Panel

Date: Friday, 14th July, 2023

Time: 2.00pm

Venue: Kaposvar Room - Guildhall, Bath

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

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

Chief Executive and other appropriate officers
Press and Public



Mark Durnford

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NOTES:

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

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

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

3. Recording at Meetings:-

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

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

4. Public Speaking at Meetings

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

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

Further details of the scheme can be found at:

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

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

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

Avon Pension Fund Committee Investment Panel - Friday, 14th July, 2023

at 2.00pm in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

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 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 4.4 Appendix 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: 25TH NOVEMBER 2022 & 8TH MARCH 2023 (INFORMAL) (Pages 7 - 32)

8. LOCAL IMPACT PORTFOLIO PROPOSAL (Pages 33 - 68)

9. RISK MANAGEMENT FRAMEWORK REVIEW (Pages 69 - 192)

10. FORWARD AGENDA (Pages 193 - 194)

This report sets out the forward agenda for the Panel for 2023. 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

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Friday, 25th November, 2022

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

Co-opted Voting Members: Pauline Gordon and Jackie Peel

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

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

24 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the Emergency Evacuation Procedure.

25 DECLARATIONS OF INTEREST

There were no declarations of interest.

26 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

27 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

29 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

30 MINUTES: 30TH SEPTEMBER 2022 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting on 30th September 2022 be confirmed as a correct record and signed by the Chair.

31 BRUNEL PRESENTATION - CLIMATE SOLUTIONS AND SUSTAINABLE INFRASTRUCTURE

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She explained that the Cycle 3 infrastructure portfolio will target a broad range of assets intended to aid decarbonisation, the energy transition and mitigation across sectors. She said that this is an appropriate approach and consistent with the Fund's strategic climate objectives given the lower forward-looking returns from traditional renewables i.e., wind/solar assets.

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

The Panel **RESOLVED** to note the presentation from Brunel.

32 STRATEGIC INVESTMENT REVIEW

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She informed them that the objective of the review is to:

- Determine the optimal asset allocation to deliver the return required in the funding plan to maintain stable and affordable contributions.
- Ensure the Risk Management Strategies remain appropriate and add value to the overall strategy given the change in the market environment.
- Consider if new investment opportunities including Social/Local investing could be built into the strategy.
- Consider whether the net zero ambition can be accelerated, and the climate related targets brought forward, without detracting from the overriding return objective.

Steve Turner, Mercer addressed the Panel and highlighted areas from within Appendix 1.

Key areas of focus for the review:

Review of the Fund's core investment beliefs and principles: How this influences the design of the investment strategy and its implementation, taking into account key investment and ESG objectives and any potential constraints. We acknowledge that the Fund's investment beliefs may evolve as a result of the investment strategy review, which we would look to capture.

Overriding objective: The investment strategy needs to have a minimum expected return that supports achieving the discount rate of CPI +2.4% p.a. (margin above CPI is subject to change as part of the valuation), with a desired level of probability and acceptable level of downside risk.

Other principles and goals: Achieving the Fund's climate targets (e.g. net zero carbon emissions by 2050 and interim reduction targets) and broader Environmental Social and Governance (ESG) commitments/ambitions. We will consider the impact of asset allocation decisions on the ability to meet targets, and whether potentially strengthening climate targets (e.g. considering net zero by 2045) would constrain the asset allocation in any way.

Asset allocation: is the portfolio fit for purpose?

Review of underlying asset classes and their roles, and revisiting the rationale for their inclusion in the strategy in light of current markets and long term prospects.

Pauline Gordon asked if the allocation to Private Markets had gone up in terms of the proportion of assets within the scheme as a result of falls in most other asset classes and should the illiquid Private Market assets be pulled down.

Steve Turner replied that this had not been as much of a dramatic impact on the Fund because it is not as heavily exposed to hedging assets. He said that adding a Local Social Impact portfolio at around 1 – 2% initially was being considered and that if agreed small amounts would be allocated to it at a time.

The Head of Pensions commented that from a risk management perspective it would be interesting to include in the review whether asset allocation without LDI could achieve CPI +2.4% with similar risk.

Pauline Gordon commented that they would be assessing a different set of figures now, versus if the review had taken place 12 months ago.

Steve Turner replied that there had been a big shift in numbers over the past six months and had seen total returns on asset classes increased.

Jackie Peel commented that she liked the clean sheet approach being taken and said that the target -v- risk factors have to be balanced. She added that the decision needs to be clear as to why we include what we will do in the asset allocation and if possible she would welcome a guide to the Investment Strategy.

The Group Manager for Funding, Investment & Risk replied that they would discuss whether an appendix to the Investment Strategy statement could be produced.

The Director, One West acknowledged that the timescales involved in the review were quite tight with the Committee meeting expected to take place on 17th March 2023. He said that if the review was not complete by this date that it would be allowed to continue. He added that he wanted to enable all stakeholders to have an active voice in the review.

The Panel **RESOLVED** to note the report from Mercer and specifically sections 4.3 and 4.7 of the officer's report.

33 CASHFLOW AND LIQUIDITY ANALYSIS

The Group Manager for Funding, Investment & Risk introduced the report to the Panel. She said that each valuation a revised cashflow profile is generated for the Fund and that this profile shows the net cashflow of contributions paid in less benefits paid out. She added that it is determined by the benefits structure, membership data and actuarial assumptions.

She stated that Mercer have analysed the cashflow profile of the Fund using the 2022 valuation data and that this analysis will be used in the strategic investment review due in 1Q23.

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

The Panel **RESOLVED** to note the implications of the Cashflow analysis for the Strategic Investment Review.

34 RISK MANAGEMENT FRAMEWORK: PARIS-ALIGNED EQUITY SOLUTION

This entire report and the supporting appendix had been classified as exempt.

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.

35 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2022

The Investments Manager introduced this report to the Panel. He informed them that the Fund's assets decreased by £91m in the quarter (-1.2% net investment return) ending September 2022 giving a value for the Fund of £5,365m. He added that the fall in the value of Fund assets over the quarter was driven mainly by the currency hedge as sterling weakened, although this was partially offset by positive returns from overseas exposure. He said over 1 year the Fund returned - 6.0% driven by negative returns from equities, LDI and currency hedging. He added that the Fund underperformed its strategic benchmark by 6.6% over this time horizon and the main detractors were the active equity portfolios, MAC and DRF.

Steve Turner, Mercer addressed the Panel. He said that it had been a very challenging period to invest and generate a positive return as very few asset classes

are actually up over the year. He added for example that the Dollar was up over this period alongside Commodities, Energy and Property.

He stated that the total Fund level was down around 6% overall over the 12-month period. He felt that overall this was a modest reduction given the context of what had been happening on the whole and said that they were now seeing the genuine benefits of the diversification within the portfolio.

He explained that Brunel's style of climate aware investing had struggled because of their underweight to Commodities and Energy. He added that alternative investments and the Equity Protection Strategy had cushioned losses.

He stated that another positive feature of the strategy was the performance of illiquid assets such as Property, Secured Income, Infrastructure and Private Debt which have performed well, both in absolute terms and relative to their benchmarks.

Pauline Gordon asked if any comment could be given as to how the portfolio has performed under the Dynamic Equity Protection Strategy as opposed to the Static.

Nick Page replied that it was hard to say whether it was better or worse because we have recently seen some big market movements and the strategy has moved in line with that. He added that a key differentiator of the dynamic approach- that has worked to the Fund's advantage was the premium generated by selling upside in addition to the downside protection achieved.

Steve Turner referred to a chart on page 159 that illustrated the direct impact of the equity protection on the total Fund portfolio, by comparing the estimated total asset valuation with and without the strategy in place. He added it shows that the protection strategy has led to c. £68.7m of upside impact over the period since inception.

Jackie Peel asked what level on ongoing dialogue there was with Brunel in respect of portfolio performance and other issues.

The Group Manager for Funding, Investment & Risk replied that officers meet with them every quarter to talk about the portfolios in general and certain themes. She added that officers also meet with a senior manager to discuss matters in more detail.

Steve Turner commented that Brunel's performance is on par with other Funds that invest with a similar philosophy.

The Panel **RESOLVED** to:

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

36 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 SEPTEMBER 2022

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

He explained that the FRMG are reviewing the current collateral adequacy framework with the manager who has indicated a greater level of collateral may be required in future to ensure resilience against market shocks of the same magnitude as those seen in September.

He confirmed as previously mentioned that since the inception of the dynamic Equity Protection Strategy that it has added value (c. £64.2m in net gains at 30 Sept 2022).

He said that the LDI the trigger framework was currently suspended and reactivation of it would be considered as part of the forthcoming investment strategy review. He added the mandate had performed as expected over the quarter and the investment manager was within agreed guidelines.

Pauline Gordon noted that it was positive for risk levels that the inflation and interest rate hedge were aligned.

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

The Panel **RESOLVED** to note:

- i) The performance of each of the underlying RMF strategies
- ii) That the FRMG are currently considering the appropriate time to reinstate the trigger framework following the pause it implemented in September
- iii) Whether the interest rate trigger framework should be adjusted higher to reflect current market conditions so that the Fund continues to hedge at attractive levels.

37 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She explained that agenda items had only been listed for the March meeting as following the Local Elections in May there is the possibility of there being new Panel and Committee members.

She said that following the Investment Review they will have a clearer idea of the strategic items that need to come forward to be discussed.

The Panel **RESOLVED** to note the forward agenda.

The meeting ended at 3.52 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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of the Local Government Act 1972.

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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1415252
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 14 th July 2023
Author: Nathan Rollinson
Exempt report Title: Local Impact Portfolio Proposal
List of attachments to this report: Exempt Appendix 1 – Local Impact Portfolio Specification Exempt Appendix 2 – Schrodgers Greencoat Local Impact Proposal

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

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

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

PUBLIC INTEREST TEST

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

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

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

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

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

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

The Council considers that the public interest 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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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1403732
Meeting / Decision: Avon Pension Fund Investment Panel
Date: 14 th July 2023
Author: Liz Woodyard
<p>Exempt Report Title: Review of Risk Management Framework</p> <p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Risk Management Framework Review (shortened version)</p> <p>Exempt Appendix 2 – Risk Management Framework Review (Detailed version)</p>

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 Report and 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.

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The exempt report and 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.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	14 July 2023	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 2023. 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
15 September 2023	<p>Strategic:</p> <ul style="list-style-type: none"> • Local Impact Portfolio – Governance Framework <p>Routine:</p> <ul style="list-style-type: none"> • Quarterly Investment Performance • Risk Management Framework Monitoring
01 December 2023	<p>Strategic:</p> <ul style="list-style-type: none"> • Responsible Investment Disclosures: TCFD Statement <p>Routine:</p> <ul style="list-style-type: none"> • Quarterly Investment Performance • Risk Management Framework Monitoring

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	