AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Friday, 1st December, 2023, 10.00 am

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

Advisors: Steve Turner (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Nathan Rollinson (Investments Manager) and Jeff Wring (Director of One West & Avon Pension Fund)

22 EMERGENCY EVACUATION PROCEDURE

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

23 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Paul Crossley informed the Panel that Councillor Shaun Stephenson-McGall would join the meeting virtually initially before being present in person later in the morning. He explained that he would therefore be acting as Chair for the duration of the meeting.

24 DECLARATIONS OF INTEREST

There were none.

25 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

27 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

28 MINUTES: 15TH SEPTEMBER 2023 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 15th September 2023 be confirmed as a correct record and signed by the Chair.

29 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2023

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

- The Fund's assets were £5,268m on 30 September 2023 and delivered a net investment return of -2.9% over the quarter. The decline in the value of Fund assets over the quarter was driven mainly by the LDI portfolio and equity assets. Overseas property and secured income portfolios also detracted.

- Quarter 3 saw a decided change in tone and outlook. Although interest rates are no longer rising rapidly, the expectation is that they will now remain at higher levels for longer. This weighed on both global equity and bond markets. Brunel's portfolios were mixed during the quarter, with a number rising in absolute terms, whilst others fell. The Global High Alpha portfolio returned -0.6% during the quarter, underperforming the benchmark by 1.2%. The underweight to the energy sector combined with slower than expected revenue growth from stocks in IT, healthcare and financials weighed on performance.

- The Global Sustainable Equity portfolio delivered a return of -4.1% over the quarter, underperforming its benchmark by 4.7%. Many sustainable strategies struggled to outperform during the period due to the inherent 'growth' investment style of these funds. We believe the long-term proposition for sustainable stocks remains intact.

The Investments Manager said that Brunel were aware of this underperformance and expected them to be invited to attend either the February 2024 or June 2024 Panel meeting. He added that the reversal in the rates environment, from rising to falling, should, in isolation, be positive for these funds.

Jackie Peel referred to page 30 and asked for an explanation of the graph entitled 'Weighted Average Carbon Intensity relative to benchmark'.

The Investments Manager replied that the graph shows the carbon footprint of these 3 equity mandates relative to the global market-capitalisation benchmark. He added that the PAB Passive Global Equities was the best of these three in these terms and explained that Global High Alpha has a significant underweight to the Energy Sector, while the Global Sustainable Fund exhibited a higher carbon intensity due to the energy transition nature of some of the underlying holdings.

The Head of Pensions said that Holcim, a Swiss cement manufacturer was a good example of this as a company that is currently high for carbon intensity, but has a credible plan to decarbonise.

Steve Turner added that Brunel remains on track to deliver their net-zero portfolio by 2050 and that companies contained within that would all be at different stages. He said that it was possible to have a company that was currently showing as performing badly in this area, but on a good trajectory to meet the intended target.

Jackie Peel asked why some figures would be getting worse.

Steve Turner replied that they could have agreed an allocation to a different model. He added that carbon intensity has risen and that the price of oil was on a rising trajectory. He proposed whether the Panel should have a future session with Brunel regarding the Sustainable Fund.

John Finch commented that over the last quarter the S&P 500 had risen by 19%, but that this was due predominantly to the 'Magnificent 7' stocks as without them the rise would have only been around 4%.

Steve Turner said that he felt they were within a period of such dramatic change and noted that historically the months of September and October are not great for investing. He added that the end of October saw a big reversal in some markets whilst a strong rally in equity took place during November.

He added that it would be interesting to see the end of year position and informed the Panel that the Actuary was in the process of updating the discount rate.

He stated that the USA accounts for around 60% of the global market and that there were concerns over the impact of the 'Magnificent 7' and that the impact of AI had increased this.

Jackie Peel referred to page 73 and asked if the impact on cashflow was expected to be negative or positive.

Steve Turner replied that they were expecting it to be negative.

The Head of Pensions added that it was currently positive, but they were expecting it to move to negative.

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:

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

30 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 SEPTEMBER 2023

The Investments Manager introduced the report to the Panel and highlighted the following sections.

The underlying equity benchmark fell over the quarter, with the equity protection strategy (EPS) performing in line with expectations, increasing the net equity performance by 0.15% as markets moved toward the protection levels. Since inception the EPS has detracted c. 2.0% annually from equity returns and reduced volatility by c. 25%.

Following the reinstatement of the interest and inflation trigger framework in October 2023, several interest rate triggers were hit leading BlackRock to trade up to the 40% cap on the aggregate interest rate hedge ratio. The inflation hedge ratio was around 22% at the same date. To facilitate the new triggers being switched on, £200m of equities were transferred from the Brunel passive Paris-aligned strategy into the synthetic Paris-aligned strategy managed by BlackRock. As a result there was no impact on the strategic target allocation to equities and the collateral could withstand a 4.7% increase in yields at period end.

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 performance of each of the underlying RMF strategies and current collateral position.

31 RISK MANAGEMENT FRAMEWORK: DYNAMIC EQUITY PROTECTION REVIEW

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.

32 FORWARD AGENDA

The Investments Manager introduced this item to the Panel. He said that in addition to the items listed in the report that they would be inviting Brunel to attend a future meeting and that officers were likely to give an update on the Local Impact Portfolio to the February 2024 meeting.

John Finch asked if there were any current implications following the Government's response to the feedback on the 'LGPS Consultation: Next steps on investments'.

Steve Turner replied that there were no immediate impacts. He said that the Fund was on track re: 5% Levelling Up investment, but that the 10% in Private Equity could be difficult to achieve.

The Head of Pensions informed the Panel that they had around 15 / 16 Local Impact proposals to consider currently and would seek to narrow that down to around 3 and bring to them a framework for them to consider and focus upon.

Councillor Paul Crossley informed the Panel that the Annual Report of the Avon Pension Fund Committee had been presented to the Council the previous evening and that one political group was challenging the ethics of some of the assumptions within the report.

He stated that he was keen for the Local Impact Portfolio to come to fruition and to be concentrated within the West of England as much as possible.

He explained that a number of groups / individuals were using information supplied by a lecturer from the University College of London to challenge their assumptions.

Steve Turner added that a report by Professor Steve Keen had been published by Carbon Tracker in July 2023 challenging all advisors and consultants with regard to their climate scenario modelling.

He explained that representatives from Mercer have met with Professor Keen to discuss these issues and we maintain our views based on our current data.

He said that the physical risks of climate change were impossible to model and gave an example of if became too hot to live in Southern Spain, how would a mass migration play out.

He stated that they plan to have a further meeting if Professor Keen is agreeable.

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

The meeting ended at 12.28 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services