

**AVON PENSION FUND COMMITTEE INVESTMENT PANEL**

**Minutes of the Meeting held**

Tuesday, 27th February, 2024, 1.00 pm

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

**Independent Members:** John Finch, Pauline Gordon and Jackie Peel

**Advisors:** Steve Turner (Mercer), Josh Caughey (Mercer) and Nick Page (Mercer)

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

**33 EMERGENCY EVACUATION PROCEDURE**

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

**34 DECLARATIONS OF INTEREST**

There were none.

**35 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Councillor Paul Crossley had sent his apologies to the Panel.

**36 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

There were none.

**38 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**39 MINUTES: 1ST DECEMBER 2023 (PUBLIC & EXEMPT)**

The Panel **RESOLVED** that the minutes of the meeting held on 1<sup>st</sup> December 2023 be confirmed as a correct record and signed by the Chair.

## 40 BRUNEL GLOBAL SUSTAINABLE EQUITY PORTFOLIO

The Investments Manager introduced the report to the Panel. He informed them that the Fund has a 41.5% strategic allocation to equities; 20.5% to passive Paris-aligned equities, 10.5% to global active and 10.5% to GSE.

He added that the Fund seeded the Brunel GSE portfolio in Sept-2020 and that they have a high level of conviction in the strategy.

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 content of the Brunel presentation at Exempt Appendix 1.

## 41 QUARTERLY INVESTMENT PERFORMANCE

The Investments Manager introduced the report to the Panel. He informed them that the Fund's assets were £5,702m on 31 December 2023 and delivered a net investment return of 8.7% over the quarter against a benchmark of just under 6%. He added that the increase in the value of Fund assets over the quarter was driven mainly by the LDI portfolio and equity assets, which delivered positive absolute and relative returns.

Steve Turner, Mercer addressed the Panel and highlighted the following areas from their Performance Report.

- The strong returns on Fund assets over the quarter were driven by the Equity and LDI portfolios. The Multi-Asset portfolios also contributed, whilst the contribution from Alternatives was mixed.
- The Equity Protection detracted (as expected given market movements), whilst the Currency Hedge added to returns due to Sterling strengthening.
- The funding level is estimated to have increased over the quarter to c. 97% as the value of the assets rose by more than the estimated present value of the liabilities.
- No emerging issues over Q4 for the portfolio.
- If interest rates remain stable or fall this will enable a more assured environment for Brunel to work within.

Pauline Gordon asked, in the context of the outlook for interest rates, whether a possible timeframe could be given for when they could expect performance from Brunel to improve.

Steve Turner replied that he would not wish to set a timescale as the interest rate environment would need to be considered. He suggested that this matter be discussed as part of their annual review. He added that he felt that the market had probably priced in too many cuts too soon and that most markets were pricing in a potential cut in interest rates at some point during the year and this would be constructive towards Brunel's performance.

Councillor Chris Dando asked if he had a level of probability that a cut in interest rates would occur.

Steve Turner replied that he felt there was a 70% chance of it happening.

John Finch stated that he believed strongly that interest rates would not go up.

The Panel **RESOLVED** to note the information as set out in the report.

## **42 QUARTERLY UPDATE: RISK MANAGEMENT FRAMEWORK**

The Investments Manager introduced the report to the Panel and informed them that there were no concerns to flag. He stated that the FRMG met on 14<sup>th</sup> February and resolved to reduce the hedge ratio pro rata across the existing 3 counterparties; JPM, Goldman Sachs and Citi.

He said that implementation of the hedge ratio reduction would commence in early March, be staggered across 2 weeks to reduce the impact of timing risk and all trading will be complete prior to the Fund's financial year end.

He highlighted that the collateral buffer is currently >600bps, which is expected to increase marginally post EPS hedge ratio reduction. Guidance from the regulator stipulates a buffer of c. 400bps is appropriate for the type of LDI mandate the Fund employs and Mercer will prepare an analysis of the Fund's liquidity position to determine the best use of any excess collateral.

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 and current collateral position.
- ii) The approach to reducing the EPS hedge ratio as set out in Section 5 of the report.

## 43 LOCAL IMPACT PORTFOLIO

The Head of Pensions introduced this item to the Panel and said that this discussion would set the scene for the workshop that would take place on the conclusion of the meeting.

He explained that the investment strategy recommended by the Panel includes a 3% or c.£170m allocation to 'local impact' and it was envisaged that our local impact investments would be spread over three broad sectors:

- Renewable infrastructure: 40% - 50%
- Affordable Housing: 40% - 50%
- SME funding: 10% - 20%

He stated that they have already completed their first local impact investment – the £50m allocation to Wessex Gardens. £35m has already been drawn by the fund to finance the acquisition of an operational solar portfolio, which in its final state, will comprise 17 solar farms across South West England, made in partnership with 6 other LGPS.

He added that returns were expected to be between 7% - 9% per annum.

He informed the Panel that they now have over 15 potential local impact proposals to assess and would like the Panel to discuss an assessment framework for local impact opportunities.

He explained that the assessment process consists of two stages:

- a) Initial screening: to assess each opportunity objectively, we have developed an assessment matrix based on high level research and preliminary discussions with the investment manager. The matrix uses 12 criteria to capture factors such as the level of local impact, financial attractiveness, and environmental credentials. The scoring system is not designed to be mechanical, rather to help evaluate and rank opportunities, providing a short list for in-depth due diligence.
- b) In-depth due diligence and independent advice: is applied to shortlisted proposals and undertaken by independent consultants or specialist advisers before a firm recommendation is brought to Panel to approve.

Jackie Peel asked if further definition could be given to what is meant by 'Local' -v- 'South West'.

The Head of Pensions replied that it is difficult to correlate between the type of investment and the geographical footprint, but stated that it must be within the UK, regionally would be within the South West and local would be the former Avon area.

He added that the three target sectors for investment would likely be covered as follows:

- Renewable Infrastructure: South West

- Affordable Housing: Avon / South West / UK
- SME funding: UK

Jackie Peel asked if the figure in the report of ‘a preference for investments across South West England of at least at least 15-20% to meet the local test’ would be per sector or as a whole.

The Head of Pensions replied that this would be in aggregate as substantial investment in the solar farms in the South West had already been made.

The Director of One West & APF commented that he felt that it was important, especially in this first round of investment, to have a local focus.

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 proposed assessment framework for local impact opportunities and gave feedback to Officers to inform a final version of the framework.
- ii) Discuss the two investment ideas in closed session, to advise Officers which of the ideas should be explored in more detail, with a view to any firm investment proposal being brought forward for agreement at a subsequent Panel.

#### 44 FORWARD AGENDA

The Investments Manager introduced the report to the Panel. He said that in addition to the reports listed they could expect for the issue of Local Impact investing to form a standing item for the Panel and that the next meeting would include the outcomes of the Mercer liquidity analysis.

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

The meeting ended at 2.52 pm

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services