BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Tuesday, 26th November, 2024

Present:- Councillors Shaun Stephenson-McGall (Chair), Paul Crossley, Chris Dando, Gordon and Peel

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

26 EMERGENCY EVACUATION PROCEDURE

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

27 DECLARATIONS OF INTEREST

There were none.

28 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

John Finch (Independent Member) had given his apologies to the Panel.

29 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

31 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

32 MINUTES: 5TH SEPTEMBER 2024 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 5th September 2024 be confirmed as a correct record and signed by the Chair.

33 LOCAL IMPACT PORTFOLIO - SME FUNDING MANAGER APPOINTMENT

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.

34 NATURAL CAPITAL - INVESTMENT PANEL TRAINING

The Investments Manager introduced the report to the Panel. He explained that the Panel have expressed an interest in investing in restorative type strategies given their high degree of positive impact.

He said that it is expected that implementation of the Fund's Natural Capital allocation will be via a dedicated Brunel portfolio and that there are a number of underlying Brunel partner funds interested in making an allocation.

He stated that the views of the Panel will be fed directly into the Brunel scoping process to help shape the natural capital portfolio specification and that once the Brunel specification has been refined the Panel will make a recommendation to the Committee to invest the proposed 2% allocation.

He added that this recommendation is expected to go to Committee in the first half of 2025 once the portfolio specification is more developed.

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 contained in the training materials in Exempt Appendix 1.
ii) Recommend to the Committee that the Fund allocates 2% to Natural Capital, subject to the finalisation of the Brunel portfolio specification.

35 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2024

The Senior Investments Officer introduced the report to the Panel and noted the following points from within it.

- The Fund's assets were £6,034m on 30 September 2024 and delivered a net investment return of 3.5% over the quarter which was 2.2% ahead of its strategic benchmark.

- Over 1 year to the end of September the Fund returned 14.8% in absolute terms and +2.7% in relative terms.

- The estimated funding level stood at 104% at 30 September 2024 (c. £220m surplus).

- In Brunel's listed market portfolios, returns were mixed, however these were offset by strong performances from Multi Asset Credit as well as the private market portfolios.

- The Global High Alpha Equity portfolio returned -0.5% over the quarter, underperforming the benchmark (MSCI World) by 0.9%. This was largely driven by the portfolio's tilt to growth and quality, which significantly underperformed value over the quarter.

- The Global Sustainable Equity portfolio was flat over the quarter with a net return of 0.0%, marginally underperforming its benchmark (MSCI ACWI) by 0.6%.

- The PAB Passive Global Equity portfolio returned 0.4% over the quarter, in line with the market capitalisation parent benchmark. The portfolio benefited from limited exposure to the energy sector which was positive for returns. The divergence in performance of the so-called Magnificent Seven stocks had implications for portfolio returns with Apple and Meta making positive contributions, whilst Microsoft, Amazon and Alphabet were the biggest detractors.

Steve Turner addressed the Panel and highlighted the following points to them.

- The funding level is estimated to have increased over the quarter to c. 104% as the value of the assets increased by more than the estimated present value of the liabilities.

- Brunel are not alone with issues relating to their equity portfolios – other funds are seeing similar problems.

- A portfolio construction assessment was due to be carried out.

The Group Manager for Funding, Investment & Risk added that they have been discussing this matter already with Brunel.

Steve Turner said that there were three elements to focus on, construction of portfolio, managers and risk management.

The Head of Pensions queried whether the US market was over-valued and would this therefore be the correct time to make any changes. He said that he was not convinced that this would be the right decision.

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

36 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 SEPTEMBER 2024

The Investments Manager introduced the report to the Panel and said that the Risk Management Framework was performing as intended and highlighted the following points.

- The synthetic equities were used to rebalance the overweight due to ease of implementation and the fact the Fund will pay a lower ongoing financing cost for the synthetic equity holdings (c. £1.2m p.a). Post period-end steps were taken to reduce the synthetic Paris-aligned equity exposure by £300m, reducing the overall synthetic exposure from c. £1,000m to c. £800m.

- The excess collateral position is central to the RMF annual health check, which the Panel consider before taking recommendations to full Committee in December.

- The Mercer paper outlines options for how to use excess collateral, such as reinstating the interest rate trigger framework and switching synthetic Paris-aligned equities into the physical Brunel Paris-aligned fund.

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) Recommend to the Committee that the options set out in Exempt Appendix 1 are considered as part of the 2025 Strategic Investment Review and that no immediate action is taken before then.
ii) Note the reduction in the synthetic equity exposure to bring aggregate equity exposure to within the tolerance range set out in the Investment Strategy Statement.
iii) Note the performance of each of the underlying RMF strategies and current collateral position as set out in Exempt Appendix 1.

37 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced the report to the Panel and added that an Investment Review would be carried out in 2025.

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

The meeting ended at 4.45 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services