Bath & North East Somerset Council

Improving People's Lives

Pension Board

Date: Wednesday, 12th June, 2024
Time: 10.00am
Venue: Council Chamber - Guildhall, Bath

Board Members: Nick Weaver, Helen Ball (Member Representative), Steve Harman (Employer Representative), Stuart Anstead (Employer Representative) and Alison Wyatt (Member Representative)

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

Pension Board - Wednesday, 12th June, 2024

at 10.00am in the Council Chamber - 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. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC

6. ITEMS FROM MEMBERS

7. MINUTES OF PREVIOUS MEETING: 20TH FEBRUARY 2024 (Pages 5 - 12)

8. INVESTMENT STRATEGY STATEMENT 2024 (Pages 13 - 56)

   The Pension Board are being asked to review the Investment Strategy Statement for compliance with the regulations and statutory guidance and any feedback will be considered by Committee.

9. PENSION FUND ADMINISTRATION - PERFORMANCE REPORT (Pages 57 - 74)

   The purpose of this report is to present the Fund’s administration performance for the three months to 31st March 2024 vs key performance indicators (KPI’s).

10. LEGISLATION UPDATE (Pages 75 - 84)

    The purpose of this report is to update the Pension Board on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration.

11. GOVERNANCE UPDATE (Pages 85 - 100)

    The purpose of this report is to receive regular governance updates as well as Training and Work Plan issues from the Board and request high level training needs from Board Members.

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

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BATH AND NORTH EAST SOMERSET

PENSION BOARD

Tuesday, 20th February, 2024

Present:- Nick Weaver (Chair), Helen Ball, Stuart Anstead and Alison Wyatt

Also in attendance: Nick Dixon (Head of Pensions), Jeff Wring (Director of One West & Avon Pension Fund), Anna Capp (Member Services Manager), Claire Newbery (Pensions Operations Manager), Carolyn Morgan (Governance and Risk Advisor), Yolonda Dean (Employer Services Manager), Claire Moon (Digital Services Manager) and Matt Russell (Data Control Senior Pensions Officer)

29 EMERGENCY EVACUATION PROCEDURE

The Chair welcomed everyone to the meeting and asked the Democratic Services Officer to read out the Emergency Evacuation Procedure.

30 APOLOGIES FOR ABSENCE

The Democratic Services Officer informed the Board that apologies had been received from Tony Whitlock (Employer Representative) and Steve Harman (Employer Representative).

31 DECLARATIONS OF INTEREST

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

33 ITEMS FROM THE PUBLIC

There were none.

34 ITEMS FROM MEMBERS

There were none.

35 MINUTES OF PREVIOUS MEETING: 7TH DECEMBER 2023

The Board approved the minutes of the previous meeting and they were duly signed by the Chair.

36 PENSION FUND ADMINISTRATION - PERFORMANCE REPORT

The Pensions Operations Manager introduced the report and highlighted the following areas from within it.

Pension Increases:

The rectification project has been split into 4 phases with phase 1 due to complete in March 2024 which will rectify c750 members. The fund is continuing to brief the Board and Committee sub-group with key milestones.

She explained that from the original 1,500 suspected cases, the figure had now likely reduced to around 1,200. She added that an actuarial consultant was being used to calculate the exact amounts owed to members (arrears & interest), with the sub-group being consulted for guidance on key decisions.

She stated that, for the c.750 members, payment records were now accurate within the live system and that Aon were supporting officers working on an 'Overs & Under Policy'.

She said that the Fund is confident that phase 1 would work and rectify the identified cases. She added that they were aware of 46 cases of overpayment and that these would be dealt with on a case by case basis.

She said that a controls review would take place during Q2-Q3 2024 and that an interim update to the Board will be made at the next meeting in June.

Alison Wyatt asked if the people affected know about this situation yet.

The Pensions Operations Manager replied that some do, where they have approached the Fund and already been rectified, but that the c. 1,200 outstanding members do not yet know, and will be written to over the next two weeks and recompensed during March.

The plan is to have made all rectifications to the remaining c.450 members by the end of 2024.

Alison Wyatt asked if it was known what sums of money were likely to be involved.

The Pensions Operations Manager replied that the largest individual amount would be around £60,000, but that the majority of cases would be below £5,000. She added that some cases would be going back over ten years and therefore the errors would be cumulative. The Head of Pensions added that total costs are likely to be lower than the Fund's initial estimate of £1.5m.

Alison Wyatt asked if the annual Pensions Increase should be communicated to members of the Fund.

The Member Services Manager replied that this information is always included in payslips to members in both April and May.

The Head of Pensions commented that initially the discrepancies were treated as individual cases until a further analysis revealed that this was a broader issue.

Helen Ball asked how much the use of the consultants mentioned would cost the Fund.

The Pensions Operations Manager replied that the cost of the consultants working on the Pensions Increase arrears was to be £33,000 and that Aon's fee for the policy work would be £12,000. She added that the Fund was still working within its previously agreed budget.

Stuart Anstead asked if officers were working to a timeline of 3 month windows per phase in order to complete the work by the end of the year.

The Pensions Operations Manager replied that an overall timeline for each phase had not been set as there is the possibility that it becomes easier as the process moves on, though it was emphasised that the firm intent is to complete all phases before the end of 2024.

Stuart Anstead asked if those members within the first phase were deemed the easiest to rectify.

The Pensions Operations Manager replied that they were to some extent from the point of view that they are alive and have no GMP (Guaranteed Minimum Pension).

Helen Ball suggested that, once an independent review of operational processes has been completed, the Board are updated with a list of potential risks and mitigations.

The Pensions Operations Manager replied that were seeking to provide an interim report in June followed by a full report in September.

The Head of Pensions said that he foresaw the need to put practical controls in place every quarter and annually to check that risks are being robustly managed.

Alison Wyatt asked if Internal Audit would be guided into making sure that these issues are analysed in their next review.

The Pensions Operations Manager replied that they would and said that a Payroll Audit was due to begin in April and would involve looking at both the Year End process and the Pensions Increase.

People:

- The Fund is still not operating with capacity with ongoing recruitment. In addition internal movement continues across the teams as officers apply for roles internally.
    - Three senior technical payroll officers have been appointed to the team (internal movement) with the Pensions Payroll Manager role now at the advert stage. These appointments have created vacancies within the Member Services team which are also at the advert stage.
    - 7.5 posts have been recruited to in the period and we are now starting to fill additional posts in the new structure.

McCloud:

- Officers have been working with new regulations since 1 October 2023, however due to a bug in the latest software released in December, all retirements with an underpin must be manually checked and calculated taking additional time to process. A fix to the software has now been made.
- Due to outstanding McCloud guidance from the Scheme Advisory Board (SAB) we continue to stockpile transfers in/out, divorce and deferred cases if they are affected by the underpin.
- Planning has begun for the remedy with a regulatory completion deadline of August 2025.

Alison Wyatt asked if there was to be any recourse action towards the software provider.

The Pensions Operations Manager replied that this was not likely as they did respond quickly to put a fix in place.

GMP:

- The fund is in the final stages of reviewing the Closure Report for member reconciliation. 14,066 members have been identified as “stalemate cases” out of a population of 91,369 members. The review will be completed in April and we plan to bring recommendations to the Pension Committee in June.

Helen Ball asked if it were possible for a member to be affected by the Pensions Increase, McCloud and GMP.

The Member Services Manager replied that as part of the phase 1 work on the Pensions Increase they checked members against their HMRC data re: GMP. She added that these members could still be impacted by McCloud, but only result in them receiving additional money in that case.

Helen Ball said that communications regarding all of these issues needs to be delivered in an organised and timely manner.

Avon Fire Service Exit:

- Considerable resource was deployed to the project team in the lead up to the exit of the scheme from 1st February. The transfer to West Yorkshire Pension Fund has been successfully completed with payroll and data being securely transferred to the new service provider.

Stuart Anstead asked why had the exit occurred.

The Pensions Operations Manager replied that the Fund had given them notice that it was not able to maintain support as it was not cost effective to do so.

The Head of Pensions added that this decision has resulted in enabling 1-2 FTE to now work directly for the Fund.

The Pensions Operations Manager addressed the Board and took them through Appendix 2 of the report, a summary is set out below.

- Aggregate SLA performance is broadly stable – not yet improving.

Stuart Anstead asked if the subject matters with figures of less than 20% were deemed to be less important activities and therefore resources would be placed in more priority areas.

The Pensions Operations Manager replied that the priority for the service remains retirements and deaths. She added that an issue remains whereby if they are awaiting information to be supplied to them from a member or employer the clock remains ticking. She said that they were looking at if it were possible for this issue to be added into the system.

Stuart Anstead suggested that the figures that are less than 20% be highlighted in an additional way to the other 'reds'.

- Outstanding KPI cases have not reduced – with focus on clearing older cases.

- We are also managing multiple 'non-KPI' cases.

- Resolution of non-KPI cases strengthens service foundations.

The Chair commented that he recognised this as a challenge for the service and asked if it was felt that it was clear enough as to where our responsibilities lay with employers.

The Employer Services Manager replied that more could probably be done although regular communications are supplied. She added that it was important that the service is made aware of when any problems occur.

The Pensions Operations Manager added that it would also be helpful to have additional information within I-connect for certain issues. She added that difficult decisions have had to be taken in the past relating to resourcing of the service.

Stuart Anstead asked if there were plans for any of the work to become automated / digitised to enable an improvement to current figures.

The Pensions Operations Manager replied that 96% of employers were now on I-connect so this should lead to a better supply of information. She added that staff recruitment and training was ongoing alongside improvements to their processes.

She said that Heywood have been approached to see if they can resolve the bulk process within I-connect.

She stated that the launch of the new APF website at the end of February was hoped to enable members to view more content and encourage their use of My Pension Online.

The Head of Pensions commented that he saw four key areas for the service to update on as work progresses through the year.

- Annual obligations
- Regulatory work
- Small, highly effective enhancements
- Big transformation projects

He added that, as always, the challenge will be identifying capacity within the service alongside providing the business-as-usual functions.

The Board **RESOLVED** to note the service performance for the period ending 31st December 2023.

37 INVESTMENT UPDATE (VERBAL)

The Head of Pensions addressed the Board and gave the following update on investments.

- At the end of 2023 the asset value of the Fund was £5.7bn which had seen an 8.7% return in Q4.
- Brunel funds performed well during this period.
- The Fund has raised its exposure to gilts in Q3 2023, and their value increased during Q4 2023 as the rate of interest dropped.
- The funding level is now 97% (improvement of 1% since 31 September 2023).
- Decision taken to reduce hedging to 50% of our Equity Portfolio – this is expected to improve our long-term growth potential by 0.4% / 0.5%.
- The Committee has approved a 3% (£170m) allocation to Local Impact Investment across three sleeves.
    - Renewable Infrastructure
    - Affordable Housing
    - Small & Medium Enterprise (SME) Funding
- £50m has been deployed within a consortium, alongside other Local Authorities, into investment in 16 solar farms across the South West.
- Future returns expected to be between 7 – 9%.

The Chair thanked the Head of Pensions for the update on behalf of the Board.

38 RISK MANAGEMENT UPDATE - RISK REGISTER

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas from it.

She explained that as part of the quarterly review the pre mitigation scores have been reviewed and a couple adjusted as follows:

• Risk NR04 – Governance of Fund, the pre mitigation likelihood has been increased from likely to almost certain to reflect the risk of internal controls not being sufficient.

• Risk NR08 – Employers unable to meet financial obligations, the pre mitigation likelihood has been changed from possible to likely to reflect the fact that the underlying risk has increased.

She stated that changes made to the post mitigation scores this quarter were:

• Risk NR18 - Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders. On review the impact has been reduced from high to medium impact to reflect the mitigating actions taken.

• Risk NR08 – Employers unable to meet financial obligations to Fund. The impact has been reduced from high back to medium as there is now more certainty that if a Local Authority fails it will be regulatory to pay employer contributions.

She informed the Board that the most critical risks remain:

• NR01 – Ability to deliver admin service to members and employers within agreed standards.

• NR06 – The likelihood of a cyber attack remains a high risk due to the recent high profile attacks in the public domain. The Fund is currently implementing further audit actions around staff awareness and education and will shortly carry out a review of its business continuity plan.

• NR04 – Governance of Fund not in accordance with APF policies – Controls not adequate. Internal Audit continue to assist in checking of internal controls.

Alison Wyatt asked if the work relating to the Pensions Increase was covered in NR04.

The Governance & Risk Advisor replied that it was.

The Chair asked if the Internal Audit workplan could be shared with the Board.

The Governance & Risk Advisor replied that this would be circulated to the members of the Board.

The Board **RESOLVED** to note the report.

39 PENSION BOARD - TRAINING AND WORK PLAN UPDATE

The Governance & Risk Advisor introduced the report to the Board. She explained that a series of workshops were planned across the year.

May: The Pension Regulator General Code of Practice
November: Interim Valuation - Funding / Employer session
TBC: Pensions Dashboard

She reminded Board members that all online learning modules from Hymans Robertson have to be completed by the 31st March 2024 deadline.

The Board **RESOLVED** to:

i) Note the workplan & training plan for 2024
ii) Note the dates for future meetings.

The meeting ended at 11.22 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**LOCAL PENSION BOARD - AVON PENSION FUND**	
MEETING DATE:	**12 June 2024**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT STRATEGY STATEMENT 2024**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Investment Strategy Statement Appendix 2 – ISS guidance Appendix 3 – ISS Checklist		

1 THE ISSUE

1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), state that the Investment Strategy Statement (ISS) must be kept under review and revised from time to time particularly when there is a material change in risk and reviewed at least every three years.

1.2 The latest ISS was reviewed by the Pensions Committee in March 2024, at the conclusion of the investment strategy review.

1.3 The Pension Board are being asked to review the ISS for compliance with the regulations and statutory guidance and any feedback will be considered by Committee.

1.4 The ISS checklist is included in Appendix 3 to assist the Board.

2 RECOMMENDATION

2.1 **The Board reviews the ISS for compliance with the LGPS Regulations 2016 and guidance and provides any comments to the Pension Committee.**

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications in connection with this report.

4 CONTEXT

4.1 The investment Strategy statement sits alongside the Funding Strategy Statement. The Funding Strategy sets out how the liabilities will be funded through a combination of contributions and the returns from the investment assets. The ISS sets out the how the strategic asset allocation and how the assets are managed which must be consistent with the return assumptions in the FSS. The ISS explains how the investment strategy links to the FSS.

5 STATUTORY BACKGROUND

5.1 The LGPS regulations require each administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

5.2 The ISS required by Regulation 7 must include:

- A requirement to invest money in a wide variety of investments.
- An assessment of the suitability of particular investments and types of investments.
- The approach to risk, including the ways in which risks are to be measured and managed.
- The approach to pooling investments, including the use of collective investment vehicles and shared services.
- The policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- The policy on the exercise of voting rights (including voting rights) attaching to investments.

5.3 The Regulations enable the Secretary of State to issue a Direction if an administering authority fails to act in accordance with the guidance.

5.4 The current guidance was issued in 2017. Since then LGPS funds have been required to include more information about pooling, ESG and climate strategies in their Annual Reports or via new disclosures such as the Taskforce on Climate-related Financial Disclosure report. Therefore the ISS primarily sets out policy and approach with detail on implementation and progress in other disclosures.

5.5 The current ISS attached as Appendix 1. The statutory guidance is Appendix 2, and the checklist is Appendix 3.

5.6 The Pension Board must consider whether the Administering Authority has complied with the LGPS Regulations 2016 and guidance when drafting the ISS.

6 THE INVESTMENT STRATEGY STATEMENT

6.1 The ISS sets out the investment strategy in detail, including asset allocation, climate targets, how financial and non -financial risks are managed as well as the decision-making process. It is used mainly by the Fund’s advisors and managers as well as regulators to ensure that any instruction from the Fund is in line with the investment strategy. It is not a user-friendly document for scheme members given the level of technical detail that is required. We are developing a simpler, concise version for members and other stakeholders which will be available on our website.

6.2 The main changes to the investment strategy are as follows:

(1) Revised climate targets to support the assets aligning with Net Zero by 2045 – including short to medium targets to reduce emissions and divest (by 2030) from companies that are not aligning with the Paris Agreement.

(2) Initial 3% allocation for a Local Impact Portfolio – this will focus on the South West, initially on infrastructure and affordable housing opportunities.

(3) Reduction in the Equity Protection Strategy hedge ratio from 100% to 50% - to provide significant downside protect but participate more in rising markets (to reduce the drag on equity returns over the long term).

(4) Reinstatement of the Liability Driven Investing trigger framework – so that the Fund can increase the hedging of its liabilities by locking in higher bond yields.

6.3 Mercer have advised the Fund on its investment strategy throughout the investment review undertaken in 2023. The ISS is consistent with the return and risk assumptions used in the Funding Strategy Statement and 2022 valuation.

6.4 Two committee workshops were held to discuss the most financially material aspects of the investment strategy, in 1Q23 to consider asset allocations and in 4Q23 to consider net zero targets. In addition during 2023 the Investment Panel reviewed the Equity Protection strategy and LDI trigger framework in detail.

6.5 There was significant stakeholder engagement during the 2023 investment review focusing on our Net Zero targets and the level of risk within the strategy overall.

7 RISK MANAGEMENT

7.1 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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

8 EQUALITIES

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

9 CLIMATE CHANGE

9.1 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 Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

10 CONSULTATION

10.1 The report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Systems, Assurance & Pensions representing the administering authority.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing ISS)
Please contact the report author if you need to access this report in an alternative format	

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Avon Pension Fund

Your pension, your future

Investment Strategy Statement 2024

Avon Pension Fund

Contents

1. Introduction

1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement (‘ISS’). This ISS has been prepared by the Avon Pension Fund (APF) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the ‘Regulations’) and associated guidance. This statement updates and replaces the 2023 ISS.

1.2 The purpose of the ISS is to set out:

- The governance arrangements for investments
- APF’s investment objectives
- APF’s investment beliefs
- How APF will manage investment related risks
- How APF incorporates responsible investment
- The strategic asset allocation benchmark and ranges to provide flexibility.

1.3 As stated above, the ISS outlines APF’s approach to Responsible Investment (RI), how RI is integrated into the investment decision making process and how APF fulfils its role as a responsible steward of its assets. Particular attention is given to APF’s short-, medium- and long-term ambitions around climate change. The strategy acknowledges the need to address the impact of climate change on its investment assets and capture new sources of return that will arise from the transition to a low carbon economy. The policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a lower carbon world. It has set clear climate objectives with milestones that will be delivered through its relationship with Brunel Pension Partnership to ensure that the investment portfolio is aligned with the Paris Agreement within a realistic timeframe.

1.4 The ISS is consistent with the Funding Strategy Statement (FSS) as well as a broader framework of investment policies, most notably those relating to Risk Management and Responsible Investment. An integrated approach ensures the investment strategy supports APF in meeting its regulatory requirements.

1.5 The ISS is subject to a review at least every three years and from time to time on any material changes to any aspects of APF which are judged to have a bearing on the stated investment strategy. Ongoing quarterly and annual monitoring of the strategy enables the APF Committee (the Committee) to take advice as to whether a review is needed at any time.

1.6 In preparing the ISS, the Committee has taken advice from Fund Officers and APF’s appointed investment consultant. APF’s Pension Board reviews the Investment Strategy Statement for compliance with the regulations.

Investment Governance Framework

1.7 APF is administered by Bath & North East Somerset Council, which is legally responsible for APF. The Council delegates its administration responsibility to the **Avon Pension Fund Committee**, which is its formal decision-making body. Members of the Committee represent a cross section of APF's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.

1.8 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of APF in greater detail. Although the Panel has delegated powers to take decisions on specific issues and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to Officers.

1.9 The **Funding & Risk Management Group** (FRMG) provides a robust and efficient governance framework for the Risk Management Strategies. This Group comprises Fund Officers, Investment and Risk advisors. FRMG has delegated authority for:

(i) agreeing the operational structures required to meet the strategic objectives determined by the Committee and
(ii) implementation of the Risk Management Strategies.

FRMG also monitors the strategies on a monthly basis and reports to the Panel on a quarterly basis.

1.10 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of APF's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.

1.11 Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure APF is aware and can respond effectively to stakeholder concerns.

1.12 APF actively engages with its stakeholders about the investment strategy, providing the opportunity for a wider range of stakeholders to give input as the Committee assesses key strategic considerations.

2. Approach to Pooling

2.1 APF participates with nine other administering authorities to pool its investment assets through the Brunel Pension Partnership. Brunel Pension Partnership Limited (Brunel) is authorised by the Financial Conduct Authority to manage the assets within the pool and is owned equally by the ten administering authorities that participate in the pool. These pooling arrangements meet the requirements of the Regulations and Government guidance.

2.2 APF retains responsibility for setting its strategic asset allocation and allocating assets to the portfolios provided by Brunel. Brunel is responsible for implementing the asset allocations of the participating funds (the 'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it selects the external managers or pooled funds which meet the investment objective of each portfolio. Brunel creates collective investment vehicles for liquid assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.

2.3 As a client of Brunel, APF has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of APF as a client. It includes a duty of care of Brunel to act in its clients' interests.

2.4 The pool has established governance arrangements. The Brunel Oversight Board comprises representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. It oversees the pool, with responsibility for ensuring that Brunel delivers the services required to achieve pooling and deliver each client's investment strategy. Subject to its terms of reference it considers relevant matters on behalf of the administering authorities but does not have power to take decisions requiring shareholder approval; these are remitted back to each administering authority individually. The shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

2.5 Brunel Oversight Board is supported by the Client Group which comprises investment officers from each of the clients but also draws on finance and legal officers as required. It has the primary role in managing the relationship with Brunel, providing practical support to the Brunel Oversight Board and monitoring Brunel's performance and service delivery. The APF Committee and Investment Panel receive regular reports covering investment performance and Brunel's service delivery.

2.6 Brunel manages all APF's listed assets, pooled funds and UK property funds as well as all new private market allocations with the intention that all assets will be invested through Brunel portfolios in time. There are legacy commitments to illiquid private market portfolios which will be transitioned to Brunel as they are liquidated and capital is returned. The formulation, implementation and ongoing monitoring of APF's risk management strategies (e.g. Liability Driven Investing and Equity Protection) remain the responsibility of APF and its specialist advisors. Brunel appointed the Risk Management manager, under a broad commercial agreement covering the manager's key terms.

3. Investment Beliefs

3.1 APF has the following investment beliefs which underpin the investment strategy and guide decision making around investment of APF's assets.

They are framed so that APF can meet the pension promises to members and maintain affordability for scheme employers.

- We believe in a long-term investment horizon. This enables a strategic approach to investment risk and capital allocation which will ultimately drive attractive investment returns.
- We believe diversification is core to managing risk, enabling a broad spectrum of investments with different risk profiles.
- We believe investing responsibly to make a positive contribution in the real economy will promote sustainable returns. We invest with 2045 net zero objectives and work with like-minded investors to engage and encourage positive change.
- We believe lower costs drive higher net investment returns. We use collective scale with Brunel to drive innovation and efficiencies to reduce costs.

4. Investment Objective

4.1 APF's investment objective is to achieve a return on assets consistent with an acceptable level of risk that will enable APF to fund its pension payments over time, that is, to achieve 100% funding in line with the Funding Strategy. The investment strategy must generate returns to stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating returns consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

4.2 At the 2022 actuarial valuation the best estimate average expected return was CPI+2.5% per annum based on the investment strategy. When setting the funding strategy a margin for prudence is taken on this return expectation; implementation of the risk management strategies (see Section 7) to reduce the volatility of returns within the investment strategy supports a lower margin for prudence. To achieve 100% funding for the 2022 valuation, a minimum investment return of CPI+1.50% per annum over 12 years was assumed in the Funding Strategy and for future benefit accruals, CPI+2.00% per annum was assumed. In the 2022/23 investment review the actuarial assumptions and best estimate returns used for modelling were updated for expected returns reflecting market prices at that time.

4.3 APF adopts a more prudent lower risk investment strategy for those liabilities where the employer has ceased to participate in APF or for certain admission bodies where there is no guarantee underpinning the liabilities. These assets are invested in a portfolio of corporate bonds that is designed to better match the risk profile of the employers' liabilities and reduce volatility in employer contributions.

5. Investment strategy

5.1 The investment strategy was reviewed in 2022/23 to ensure it is still meeting its strategic objectives. The strategic asset allocation is as follows:

5.2 Significant stakeholder engagement supported the 2022/23 strategic review. Views were sought as to the acceptable level of risk/return within the investment portfolio and whether to raise the level of ambition for reaching Net Zero. Feedback from the engagement sessions and member surveys were fed into the review's conclusions.

5.3 The current risk return profile is consistent with the funding objective to provide as stable as possible contribution for employers.

5.4 The strategic allocation between equities, liquid and illiquid growth assets, and fixed income achieves the appropriate balance of risk and return to provide stability of contributions.

5.5 The allocation to less liquid assets is 32.5%. A higher allocation does not improve the risk and return profile sufficiently to offset the illiquidity risk. The initial 3% allocation to Local/Social Impact investments, is funded from the existing 32.5% allocation to illiquid assets. This portfolio will focus on the South West as restricting to the Avon area could be too narrow to have sufficient impact through a diversified portfolio. National opportunities will also be considered to allow greater flexibility to meet the investment objectives.

Where local impact investments cannot be invested via Brunel portfolios they will be managed by external managers to manage conflicts of interest and ensure there is appropriate expertise in constructing the portfolio.

5.6 APF's Net zero target is 2045, underpinned by the following targets for action in the period 2024-2030:

- By 2030 the Fund will divest from all developed market equity holdings in high impact sectors1[1] that are not achieving net zero or aligning to achieve net zero by 2050.
- The Fund will reduce the carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).
- By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).
- 70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027[2].

5.7 Within the equity allocation, 50% is managed actively, and 50% passively. This is consistent with APF's risk/return and climate change objectives and serves to reduce the aggregate annual fee paid to investment managers.

5.8 Hedging is an integral part of the investment strategy to mitigate unrewarded risks (such as foreign exchange hedging) and to increase liability / cash flow matching (interest rate and inflation hedging).

5.9 The long-term asset allocation along with an overview of the role each asset plays, is set out in Appendix 1.

6. Suitability of Investments

6.1 Private markets allocations exploit alternative sources of return and generate more income to improve cash flow to provide greater stability in contribution rates. Secure Income and some infrastructure assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.

6.2 Climate change scenario modelling indicates that allocating to sustainable and transitioned aligned equities can capture a low carbon transition 'premium' under various climate change scenarios and displays no materially greater level of downside risk versus broader equity allocations.

6.3 APF believes that low carbon and transition aligned strategies that significantly reduce financial exposure to fossil fuel reserves and carbon emissions across

[1] Currently in scope are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with the Transition pathway Initiative sectors; alignment assessment based on IIGCC NZIF framework.
[2] Applied across all Brunel listed equity portfolios.

all companies, combined with robust engagement with companies regarding their climate strategies, is currently the most effective approach to meeting APF's climate objectives as well as maximising real world impact.

6.4 The portfolios offered by Brunel will typically consist of a number of underlying managers that will have complementary investment styles and approaches to investing. This results in highly diverse portfolios, carefully structured to manage stock specific risk as well as underlying manager, investment style and other financial risks.

6.5 Currently Brunel directly manages 68% of APF's assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 20% of assets relating to APF's risk management strategies are governed by Brunel legal agreements.

6.6 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's approach is consistent with APF's Responsible Investment principles including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.

6.7 Details of the current investment management structure can be found in Appendix 2.

7. Risk Measurement and Management

7.1 The primary risk to APF is that its assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates and affordability.

7.2 The graph below provides an indication of the main sources of investment risk to the funding position, as measured using three-year Value-at-Risk (VaR) based on the funding position and asset allocation as at 31 December 2023. This estimates how much the funding deficit could increase over a three-year period with a 1-in-20 probability.

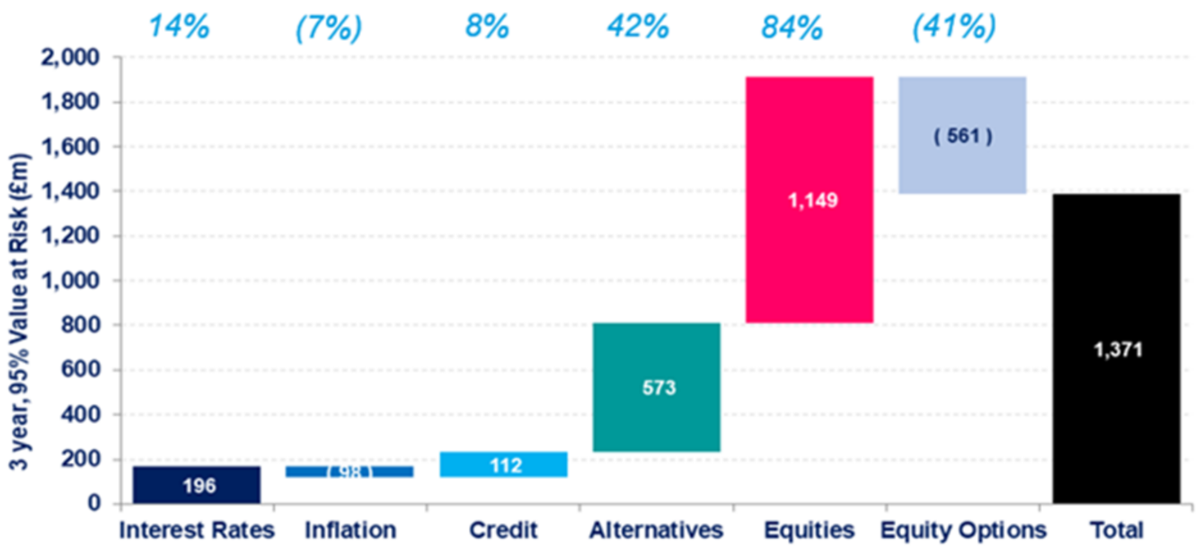

Figure 1: Source Mercer

7.3 The graph shows that if a 1-in-20 downside event occurred, in three years' time the deficit would be expected to increase by at least an additional £1,371m on top of the expected deficit at that time.

7.4 Equities remain the largest source of risk. APF's equity protection strategy (discussed later in this section) reduces the three-year VaR number by approximately 9% (estimated by Mercer).

7.5 Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal risks affecting APF and the actions to mitigate those risks are set out below.

Financial Risks	Management / Control
Investment Risk - Assets do not deliver the return required to meet the cost of benefits payable by APF; potential drivers: • Investment market performance/volatility • Manager underperformance • The actual return generated fails to meet APF's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected	Diversification - A diverse range of asset classes and approaches to investing designed to achieve returns in a variety of market environments. By holding a range of assets that are not overly concentrated in any one area, APF expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns. Scenario testing - used in strategic investment reviews to set strategic benchmarks. Allocation 'ranges' enable tactical positions to be implemented to reflect shorter-term market outlook. Regular monitoring of manager performance - Each manager is monitored against a three-year performance target designed to highlight any inappropriate risk-taking behaviour and address factors that may impact the ability of that manager to achieve their performance target. A number of risk metrics are monitored at the portfolio level including tracking error and active risk positions. Mitigates inflation risk by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and monitoring. At APF level Value at Risk and correlation between asset returns are monitored. Management of strategic risks such as inflation and equity market volatility are addressed through a dedicated risk management framework. See Section 7 for further information.
Asset Risk - **Liquidity risk:** The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash. **Exchange Rate risk**: Foreign currency exposure is expected to be an unrewarded risk over the longer term. **Collateral management risk:** Collateral is required to support the risk management strategy and protects all parties to a transaction from the risk of default.	Investing across a range of liquid assets recognises the need for access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate APF's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so. Liquidity budgeting informs how much APF can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements. Foreign exchange hedging protects the sterling value of overseas investments and serves to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure of the developed equity holdings and a 100% hedge of currency risk for infrastructure, global property and hedge fund investments. In periods of sterling weakness the investment return will be lower than if the assets were unhedged. A robust and pro-active collateral monitoring process with prescribed minimum thresholds protect APF from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call.

Responsible Investment: **Environmental, Social & Governance** (ESG) issues may have a material financial impact if not given due consideration. **Climate change risk**	Actively addresses ESG risks throughout its investment strategy. Considers ESG risks as part of Strategic Investment Reviews. Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly. Details of APF's approach to managing ESG risks are set out in Section 8 of this document.
Longevity Risk - the risk Members of APF live longer than assumed in the actuarial valuation model.	Captured within the funding strategy which is monitored by the Committee on at least a three-yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term
Employer Covenant Risk - Employers within APF lack the financial capacity to make good their outstanding liabilities.	Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in APF and the analysis is considered when setting the Funding Strategy. A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities.

Operational / Other Risks	Management / Control
Investment Pooling - Expected benefits and cost savings do not emerge over the long-term.	The Service Agreement sets out the duties and responsibilities of the Pool and the rights of APF as a client. A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met. Ongoing monitoring of performance, service delivery, costs and savings arising from pooling. Details of APF's Pooling arrangement are set out in Section 2 of this document.

Regulatory and Political Risk - The potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty.	Ongoing horizon scanning and consideration on APF Risk Register. Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy. Ongoing review of the investment strategy and specific investment portfolios.
Governance Risk - Committee Members do not have sufficient expertise to evaluate and challenge the advice they receive. Committee members are to possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duty.	Periodic Member self-assessment. Training policy in place based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds. Expert advice commissioned to support strategic and implementation decisions.
Cash Flow Risk - Payments to pensioner members exceed contributions.	Investment strategy structured to generate investment income to help manage negative cash flow profile. Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.
Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.	Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records.
Counterparty risk - The possibility of default of a counterparty in meeting its obligations.	Counterparty exposure restrictions as relates to the risk management framework and treasury management policy. Internal controls reporting and compliance monitoring.

Risk Management Strategy

7.6 The Risk Management Framework (RMF) encompasses three bespoke risk management strategies and assets held for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the 'Lower Risk' strategy (which includes a Buy-and-Maintain Corporate Bond Portfolio) are designed to hedge interest rate and inflation risks arising from the liabilities, whereas the Equity Protection Strategy (EPS) protects APF from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk APF by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the funding position.

7.7 The strategies are reviewed annually to assess whether a material change in market conditions requires an adjustment to any of the strategies to ensure they still meet the strategic objectives. This review also considers the ongoing collateral requirements. Operational aspects as they relate to the RMF (e.g., routine monitoring of collateral, performance and counterparties and implementation of any strategic changes) are delegated to the Funding and Risk Management Group. The Investment Panel receives a quarterly status update on the RMF where any concerns are flagged. Strategic changes to the RMF are required to be approved by Committee.

Liability Driven Investment Strategy (LDI)

7.8 APF is not in a position to reduce its exposure to higher return growth assets (e.g. equities) and use the proceeds to purchase lower return, 'liability matching' assets (e.g. Index-Linked Gilts), as the expected future return on the assets held would fall short of the assumptions built into the funding plan. The LDI strategy, therefore, allows APF to retain its allocation to growth assets and simultaneously increase its exposure to 'matching' assets by using a range of financial instruments that employ leverage, either directly through borrowing or implicitly through the use of derivatives.

7.9 In order to meet the assumed investment return in the funding strategy, the LDI strategy uses a framework where exposure to 'matching' assets is only increased when they pay a sufficiently high yield to meet APF's requirements. APF operates a trigger framework for interest rates and inflation rates.

Lower Risk Investment Strategy

7.10 The liabilities relating to this strategy are valued using the discount rate linked to the yields on the corporate bonds held within the portfolio. The strategy benefits from the inflation hedging undertaken within the LDI portfolio, resulting in greater stability of any funding deficit and therefore contributions for employers.

Equity Protection Strategy (EPS)

7.11 The EPS is underpinned by the funding level and protects against significant falls in developed equity markets. The EPS is structured to evolve with market conditions over time which serves to dampen volatility and minimise risk. In order to finance the downside protection, APF participates in equity market gains up to a predetermined level or 'cap', beyond which gains are foregone. The 'cap' is set at a level that optimises the risk/return pay-off of the strategy and in a way that does not compromise the assumed investment return in the funding strategy.

7.12 The Equity Protection hedge ratio is 50% (of developed market equities). Compared to a 100% hedge this helps mitigate the drag on equity returns, reduce costs, improve the collateral position overall and retains sufficient downside protection.

Role of Collateral in Risk Management Framework

7.13 The risk management strategies are held in a Qualified Alternative Investor Fund (QAIF), bespoke to APF, enabling collateral management to be delegated to the investment manager. The LDI and EPS both use derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis. This protects all parties to a transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.

7.14 Collateral adequacy is managed in line with guidance from The Pensions Regulator and the Central Bank of Ireland, the regulator of the QAIF vehicle in which the risk management strategies reside. Predetermined notification points allow the Fund time to source collateral from elsewhere in the investments portfolio should the need arise.

Risk Management Strategy under Pooling

7.15 APF retains responsibility for strategic and operational aspects attached to its risk management strategies and seeks advice from its investment advisors on the suitability of the risk management strategies. The pooling arrangement allows APF to determine a bespoke strategy for LDI, EPS and the low-risk investment portfolio to meet its risk management objectives. Brunel does not advise on the suitability of investments made for the express purposes of efficient portfolio risk management.

7.16 Brunel contracts with the investment manager to set out the basis on which the manager will offer its services to client funds within the pool. This enables Brunel to access information so they can monitor the manager and delivery of services to clients. Clients also benefit from increased economies of scale and negotiated fee structures arising from the Brunel agreement.

8. Responsible Investment (RI)

RI Principles

8.1 APF invests in line with its Responsible Investing (RI) principles where it defines RI as the integration of Environmental, Social and Corporate Governance (ESG) issues into its investment processes and ownership practices in the belief this can positively impact financial performance. These principles support the wider investment strategy and seeks to understand and manage ESG and reputational risks to which APF is exposed.

8.2 APF's approach to Responsible investing is based on the following principles:

- As a long-term investor it seeks to deliver long-term sustainable returns
- Management of ESG risks is consistent with APF's fiduciary duty to members
- That Climate Change poses an existential threat to long-term investments as well as to the planet
- We believe in investing responsibly to make a real world impact
- There is increasing convergence between financial returns and climate aware investments
- Working with like-minded investors to collectively engage companies and policymakers can drive positive change
- APF has a duty to exercise its stewardship responsibilities as an owner
- APF aims to be transparent and accountable

8.3 APF's approach is to integrate RI across its investment decision-making process for the entire portfolio. When setting the investment strategy and objectives the analysis includes the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value.

8.4 APF does not have a blanket exclusion policy to divest from specific assets or sectors but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. APF expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is APF's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to report to APF on their engagement activities and other ESG initiatives regularly.

8.5 However by 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050. High impact companies held in the portfolios will be monitored annually and divested before 2030 if they fail to demonstrate alignment.

8.6 APF will consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to

APF and where it can reasonably conclude that members would support the decision.

Climate Change

8.7 APF recognises that Climate change presents an immediate systemic and material financial risk to APF, as well as society more broadly. It is a strategic investment priority for APF and as well as developing proprietary climate change objectives, APF has supported Brunel in the development of its comprehensive and market leading Climate Change Policy, which sets out how they manage these risks across all of their activities. The full policy is available at https://www.brunelpensionpartnership.org/.

8.8 In addition to the climate targets set out in Section 5, APF endorses and supports collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies to drive positive change.

8.9 APF uses it's power as a shareholder to encourage corporate change. Financial markets and companies urgently need to adapt their activities to support the transition to a low carbon economy. Collaboration as part of Brunel Pension Partnership makes our influence more powerful as they manage a £30bn pool of assets. In addition, APF independently supports investor led initiatives such as ClimateAction100+ and Institutional Investors Group on Climate Change to increase pressure on companies and governments to align with the Paris goals.

8.10 APF monitors and discloses its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives.

RI and Pooling

8.11 The scale and resources arising from pooling enables improved implementation of responsible investment and stewardship across all APF's assets. Brunel's Investment Principles clearly articulate its commitment and that of each client in the pool, to be responsible investors and as such recognises that ESG considerations are an integral part of portfolio construction, the selection, non-selection, retention and realisation of assets. Every Brunel portfolio explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives.

8.12 Brunel is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and accommodate APF's wider RI objectives and long-term asset allocation decisions. Proprietary Brunel policies covering ESG factors such as climate change, voting and stewardship have been developed in conjunction with its clients to ensure the needs of the respective client funds are adequately met in respect of RI. APF monitors the portfolios managed by Brunel to ensure they continue to deliver against strategy.

8.13 Under its policy framework Brunel publishes position statements, engagement plans, voting records and an Annual Responsible Investment and Outcomes Report. More information can be found on the Brunel website https://www.brunelpensionpartnership.org/investing-responsibly/responsible-investment/.

Policy of the exercise of rights (including voting rights)

8.14 APF supports and applies the FRC UK Stewardship Code 2020 (the Code) definition of stewardship: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society".

8.15 APF believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to Brunel and its agents as all the equity assets are invested in Brunel's portfolios. APF monitors how Brunel and its agents undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, they are required to vote in all markets and vote at all company meetings on behalf of APF.

8.16 Brunel has a single voting policy for all assets under its management held in segregated accounts. In addition, Brunel will actively attend and vote at company meetings (AGM/ EGMs). Brunel has the right to recall stock that has been lent out in its portfolios to enable voting.

8.17 Brunel's voting and engagement service provider, Federated Hermes EOS, enables APF to gain access to specialist expertise and participate in a broad range of engagement themes.

8.18 Brunel will publish its voting policy and provide online voting records no less than twice a year.

8.19 APF recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, APF is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.

8.20 APF publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity across the portfolios.

Social/Local Investments

8.21 Investments that deliver social impact as well as a financial return are often described as “social investments” which cover a wide spectrum of investment opportunities. APF applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy. APF allocates 3% of assets to a Local/Social Impact portfolio and the portfolio will vest gradually over a number of years as opportunities arise.

Avon Pension Fund

March 2024

Appendix 1 – Strategic Asset Allocation

Asset Class	Target %	Permitted Range	Role within Strategy
Equity Portfolio	**41.5%**	**36.5-46.5%**	
Global Equity	10.5%	5.5-15.5%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies' / income seeking, large and small market capitalisation. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets.
Global Sustainable Equity	10.5%	5.5-15.5%	Seeks to maximise exposure to positive pursuit companies which provide solutions to sustainability whilst maintaining financial return. Sustainable equity portfolios comprise long-term forward-looking investment approaches which integrate ESG metrics throughout the investment process and for this reason comply with APF's climate change objectives and wider RI principles.
Paris Aligned Global Equities	20.5%	12.5-28.5%	Provides exposure to global equity returns with lower exposure to carbon emissions and fossil fuels, while still low cost and liquid, and aligning to the Paris Agreement. This portfolio seeks to mitigate climate risk by investing in accordance with a Paris Aligned Benchmark approach which, compared to its market cap equivalent, aims to: • Reduce exposure to carbon reserves and operational emissions by a minimum of 50% and a further 7% year on year from 2020 • 100% Increase Green revenue exposures • Increase exposure to companies with good climate governance (those companies with a plan to align to the Paris Agreement) • Increase exposure to companies that are demonstrating their ability to be Paris aligned

Liquid Growth Assets	**12.0%**	**7.0-17.0%**	
Diversified Return Funds	6.0%	3.0-9.0%	Builds exposure to alternative sources of return including dynamic tactical allocation and alternative risk premia derived from factors such as value, momentum, size and quality. Provides a degree of downside protection from equity risk by actively adjusting equity market beta.
Multi Asset Credit	6.0%	3.0-9.0%	Provides exposure to a diversified range of credit opportunities such as high yield, leveraged and emerging market debt with limited exposure to interest rate risk.
Illiquid Growth & Income Assets	**32.5%**	**n/a**	
Core Property	7.0%		Provides diversification within the Growth portfolio. Includes both UK and overseas real estate as well as private markets exposure where returns are less correlated with listed markets, and where APF is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium- to long-term.
Secured Income	9.0%		Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These assets generate contractually secure income streams that provide greater stability of returns, explicit inflation linkage and generate cash flows over time.
Core Infrastructure	4.0%		Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered.

Renewable Infrastructure	5.0%		Provides a source of contractual income from an opportunity set that benefits from the drive toward alternative energy sources. Displays lower levels of correlation with traditional assets than other infrastructure sub-sectors. Allocation consistent with APF's climate change objectives.
Private Debt	4.5%		Provides a source of contractual income with minimal interest rate sensitivity, high return potential through active management and diversification away from listed public market performance. Credit risk is managed via a well-diversified portfolio with a high number of individual credits.
Local /Social Impact	3.0%		Provides an impact in the local /regional area or within a social sector of the economy. Expect portfolio to achieve the overall return target of APF. Return and Risk within the portfolio will vary between the sub assets classes.
Protection Strategies	**14.0%**	**n/a**	
Corporate Bonds	2.0%		Expected to generate returns commensurate with credit risk. Held to broadly match a specific portion of the liabilities.
LDI	12.0%		A risk reduction tool designed to provide more certainty of real investment returns vs inflation with the ultimate aim of stabilising employer contribution rates. The primary 'matching' instruments used in this strategy include physical instruments such as fixed interest and index-linked Government bonds (financed through "repurchase" agreements) and derivative instruments such as interest-rate and inflation swaps.
Equity Protection	Overlay on 50% of equity portfolio		Protects against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability in employer deficit contributions in the event of a significant equity market fall.

Currency Hedging	Overlay on 50% overseas equities and 100% of alternatives		Currency hedging is employed on assets that are traded in overseas markets, in order to reduce the risk of adverse currency movements eroding returns. Asset classes where a significant portion of the return is linked to currency (e.g. emerging markets) are not hedged.
Cash	**0.0%**	**0.0-5.0%**	Cash is exposed to credit risk and is generally a very low yielding asset. APF aims to be fully invested where possible. To efficiently manage cash APF uses a combination of money market funds with daily liquidity and a basket of highly liquid ETFs that are structured to replicate the return of APF's benchmark asset allocation.
Total	**100%**		

Appendix 2 – Investment Portfolio Structure as at 31 December 2023

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Brunel Pension Partnership	Paris Aligned Global Equities	Passive	FTSE Developed World PAB Index	7.5%	Nov 21
Brunel Pension Partnership	Global Sustainable Equities	Active	MSCI ACWI +2% p.a.	10.7%	Sep-20
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	11.5%	Dec-19
Brunel Pension Partnership	Secured Income	Active	CPI+2% p.a.	10.1%	Apr-18
Brunel Pension Partnership	Renewable Infrastructure	Active	CPI+4% p.a.	3.5%	Apr-18
Brunel Pension Partnership	Diversified Returns Fund	Active	GBP SONIA +3-5% p.a.	6.3%	Jul-20
Brunel Pension Partnership	Multi Asset Credit	Active	GBP SONIA +4-5% p.a.	5.7%	Jun-21
Brunel Pension Partnership	UK Property Portfolio	Active	MSCI/AREF UK Q'ty Property Fund Index +0.5% p.a.	3.2%	Jan-21
Brunel Pension Partnership	Private Debt	Active	GBP SONIA+4% p.a.	3.6%	May-20
BlackRock	Corporate Bonds	Bespoke	In line with customised benchmark	3.2%	Apr-19
BlackRock	Liability Driven Investments & Equity Protection Strategy	Bespoke	In line with customised benchmark	22.9%	Jul-17

BlackRock	Paris Aligned Global Equities	Passive	MSCI PAB Index	17.7%	Nov-17
BlackRock	Liquidity Management Strategy	Passive	In line with customised benchmark	0.4%	Feb-19
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of Cash+3%, or 6% p.a.	0.4%	Jul-15
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	0.0%	Feb-09
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	2.2%	Sep-09
IFM	Infrastructure	Active	10% p.a. over the long-term	4.1%	Sep-14
Record Currency Management	Currency hedge (equity exposure)	Passive	N/A	1.3%	Jul-11
Local Impact (Multi manager)	Local Impact – multi asset	Active	6-8% p.a. over 10+ years, net of fees	--	Jan-24
Cash (Internal)	Cash	Passive	N/A	1.9%	N/A
Synthetic Equity Offset[3]	n/a	n/a	n/a	-16.6%	n/a

Totals may not sum due to rounding.

[3] BlackRock Paris aligned is synthetic exposure via the BlackRock QAIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark-to-market value of the holding.

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Department for Communities and Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment Strategy Statement

July 2017

Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulationsto be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Govenrment Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority’s duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

a) A requirement to invest money in a wide variety of investments;
b) The authority’s assessment of the suitability of particular investments and types of investments;
c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

a) To require an administering authority to make changes to its investment strategy in a given timescale;
b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**
- **Must set out clearly the balance between different types of investments**

- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation 58 of the 2013 Regulations to have regard to the "Guidance on Preparing and Maintaining a Funding Strategy Statement" published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

Appendix 3

ISS Checklist 2024

The Investment Strategy Statement required by Regulation 7 must include:-

Requirements	**Complied**	**Comments and reference to ISS section**
a) A requirement to invest money in a wide variety of investments	✓	Section 5 & 6
b) The authority's assessment of the suitability of particular investments and types of investments	✓	Section 6
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	✓	Section 7
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	✓	Section 2. In addition, aspects of pooling are referred to later in the statement where appropriate
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments	✓	Section 8
f) The authority's policy on the exercise of rights	✓	Section 8

More Specifically	**Complied**	**Comments and reference to ISS section**
7 (2) (a) Wide variety of investments • Must take proper advice	✓	Section 1.6
• Must set out clearly the balance between different types of investments	✓	Section 5 & 6 discusses in general; asset allocation set out in Appendix 1.
• Must identify the risks associated with their overall investment strategy	✓	Section 7.1-7.4 sets risk at Fund level; section 7 discusses all risks more fully
• Must periodically review their policy to mitigate against any such risks	✓	Section 1.5 explains monitoring and review policy

7 (2) (b) Suitability of Investments • Must take proper advice	✓	Section 1.6
• Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target	✓	Section 4 links ISS and FSS
• Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy	✓	Section 1.5 explains monitoring and review policy
7 (2) (c) Approach to Risk • Must take proper advice	✓	Section 1.6
• Should clearly state their appetite for risk	✓	Section 4, 5.3-5.5, 7.1
• Should be aware of the risks that may impact on their overall funding and investment strategies	✓	Section 7 identifies all risks and how managed
• Should take measures to counter those risks	✓	Section 7 identifies all risks and how managed
• Should periodically review the assumptions on which their investment strategy is based	✓	Section 1.5 explains monitoring and review policy
• Should formulate contingency plans to limit the impact of risks that might materialise	✓	Section 7 explains where strategies are in place. See Appendix 1 for ranges around allocations which allow tactical deviation to take place
7 (2) (d) Approach to pooling • Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance	✓	Section 2, 2.1 for government approval
• Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria	✓	n/a
• Set out the proportion of assets that will be invested through pooling	✓	Section 2.7, 6.5 and Appendix 2

• Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account	✓	Section 2
• Set out the services that will be shared or jointly procured	✓	2.2
• Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money.	✓	2.6 All assets will be managed within pool. Legacy private market assets will be invested as the current investments mature.
• Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money	✓	It will be a requirement to explain why not pooling assets in our Annual Report from 2025.
• Submit an annual report on the progress of asset transfers to the Scheme Advisory Board	✓	Now have to include data in Annual Report which SAB collates information from
7 (2) (e) ESG • Must take proper advice	✓	Section 1.6
• Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors	✓	Section 8 sets out Responsible Investing approach in more detail. Compliant as stakeholders are represented on Committee. In 2023 significant stakeholder engagement fed into the strategic review, including the Pension Board. The Fund considers non-financial factors in detail when determining strategy in line with its RI principles.
• Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments	✓	Section 8 sets out approach to such matters at both strategic and portfolio/manager level
• Should explain their approach to social investments	✓	Section 8.21 – there is an allocation of Local Impact assets

7 (2) (f) Voting • Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments	✓	Section 8.14-8.20
• Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code	✓	Section 8.14
• Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)	✓	Section 8.15-8.18
• May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority	✓	Section 8.17 - Brunel appointed Federated Hermes EOS for its portfolios
• Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations	✓	Section 8.20 Annual reporting

Bath & North East Somerset Council	
MEETING:	**Avon Pension Fund – Local Pension Board**
MEETING DATE:	**12 June 2024**
TITLE:	**PENSION FUND ADMINISTRATION Performance Report**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Performance against SLA & Workload Appendix 2 – TPR Data Improvement Plan Appendix 3 – Pensions Increase Project Update	

1 THE ISSUE

1.1 The purpose of this report is to present the Fund's administration performance for the three months to 31st March 2024 vs key performance indicators (KPI's).

2 RECOMMENDATION

The Committee:

2.1 Notes the service performance for the period ending 31st March 2024.

3 PERFORMANCE –

3.1 Appendix 1 summarises service performance vs SLAs[1] to 31st March 2024. The Fund is operating materially below its target of >90% for the majority of case types (Annex 1) and Annex 2 illustrates cases completed within/outside of the SLA. Service levels remain stable, and no deterioration has occurred, though service levels remain below where they need to be. An up-to-date position as at 30th May 2024 will be shared with the board at the meeting. Annex 5 illustrates the quarterly workflow of all KPI and non-KPI cases.

3.2 The following are key updates to be shared with the board that impact the service and performance.

People:

- We continue to recruit to our existing structure and have appointed 10 new staff to date in 2024.

[1] *service level agreements*

- We have 4 open vacancies in the current structure including key recruitment for the Employer Services Manager and Member Service Manager.
- 2 of the 3 officers on long term sick have returned to work and are being supported with a phased return.
- From 30th May 2024 APF enter a consultation period with all staff for an organisational re-structure, taking effect from 1st August. The new structure will increase overall FTE's from 83 to 94. A verbal update on the re-structure will be given at the meeting.

McCloud:

- We are still awaiting guidance from the Scheme Advisory Board (SAB) with respect to the application of the McCloud remedy. This is now expected in June 2024, once receive we will plan and implement the remedy project.
- Work is no longer being stockpiled due to McCloud as guidance for Club transfers has now been published.
- Due to the 2023 bug in Altair we continue to review our member data, however early reporting suggests the fund has c1,000 members that will require remedy.
- Further statistics will be presented to the board at the meeting on the application of the remedy. This will be in respect of retirements since 1st October 2023 when regulations came into force.

GMP

- The fund is in the final stages of reviewing the Mercer closure report for member reconciliation. 5,150 remain outstanding as "stalemate cases" out of a population of 91,369 members, (a reduction of 8,916 previously reported to the Board in February 2024). The review will aim to be completed in July and we plan to bring recommendations to Board & Committee in September as the project progresses.

Pension Increases:

- A presentation will be given to the Board on progress with Phase 1 project and planned future phases.
- PI was successfully processed for 2024 and paid in the April payroll run. The error report identified new errors that were rectified at the provisional stage to ensure PI ran in live without issue.
- Due to an error with the software, supplementary PI was not run, this error effects all Heywood payroll clients. The fix is due in the next software update and subject to testing in June, we plan to pay supplementary PI in July.

Payroll:

- The 46 cases overpaid short to long term pensions and 3 ill health cases have been reviewed and remedied. Ongoing pensions have been corrected and any overpayments have been reviewed and the fund has agreed not to pursue any overpayments.

Process Controls:

-The fund is working with an external consultancy company to carry out a piece of work to map and review existing processes and relevant controls. The initial project will review the top 15 processes based on risk. The review is due to complete at the end of June and a full report will be brought to Board in September with a verbal update in June.

Procurement

- The fund in in the process of procuring an ISP (integrated service provider) for the pensions dashboard via the LGPS Framework.
- We are currently taking procurement advice from central BANES for the planned procurement of our core software product, plus additional elements including employer data and payroll. Procurement for this is planned Q1&2 of 2025.

4 YEAR END & VALUATION

4.1 2024-year end is ongoing with data being validated from employers.

4.2 The fund is on track to complete it's annual benefit statement obligations for 2024.

5 SUMMARY OF FUND MEMBERSHIP DATA QUALITY

5.1 The Fund maintains a Common Data score above 95%. The TPR[2] report summarises an annual view of outstanding cases for the last 12 months, please refer to Appendix 2**.**

5.2 The missing Care Pay cases continue to be reviewed and the overall case workload is reducing.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund, with 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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

7 EQUALITIES STATEMENT

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

8 CLIMATE

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

[2] *The Pensions Regulator*

with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses 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 report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Systems, Assurance & Pensions, representing the administering authority.

Contact person	Claire Newbery Pensions Operations Manager 01225 395247
Background papers	Various statistical documents
Please contact the report author if you need to access this report in an alternative format.	

Fund Performance against SLA - KPI's As at 31 March 2024 **Appendix 1**

Annex 1 Overall Performance by Case Type

		Cases Last Quarter Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Death Notification	**5 Days**	150	69	46.0%	57	84.0%
Death - Act/Def/Pen - Payment	**10 Days**	99	79	79.8%	6	85.9%
Retirement (Active) - Quote	**15 Days**	494	142	28.7%	53	39.5%
Retirement (Active) - Actual	**15 Days**	248	201	81.0%	17	87.9%
Retirement (Deferred) - Quote	**30 Days**	578	132	22.8%	61	33.4%
Retirement (Deferred) - Actual	**15 Days**	400	221	55.3%	33	63.5%
Divorce - Quote	**45 Days**	67	39	58.2%	7	68.7%
Divorce - Actual	**15 Days**	1	1	100.0%	0	100.0%
Refund - Quotes	**10 Days**	888	409	46.1%	49	51.6%
Refund - Actual	**10 Days**	374	41	11.0%	45	23.0%
Deferred Benefits	**30 Days**	603	167	27.7%	89	42.5%
Transfer In (Active) - Quote	**10 Days**	79	18	22.8%	3	26.6%
Transfer In (Active) - Actual	**10 Days**	29	10	34.5%	2	41.4%
Transfer Out (Active/Deferred) - Quote	**10 Days**	140	12	8.6%	4	11.4%
Transfer Out (Active/Deferred) - Actual	**10 Days**	18	18	100.0%	0	100.0%
Employer Estimate - Quote	**15 Days**	50	42	84.0%	4	92.0%
Member Estimate - Quote	**15 Days**	219	188	85.8%	12	91.3%
Joiner	**40 Days**	3079	3007	97.7%	4	97.8%

RAG Key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2

Case No's vs Target

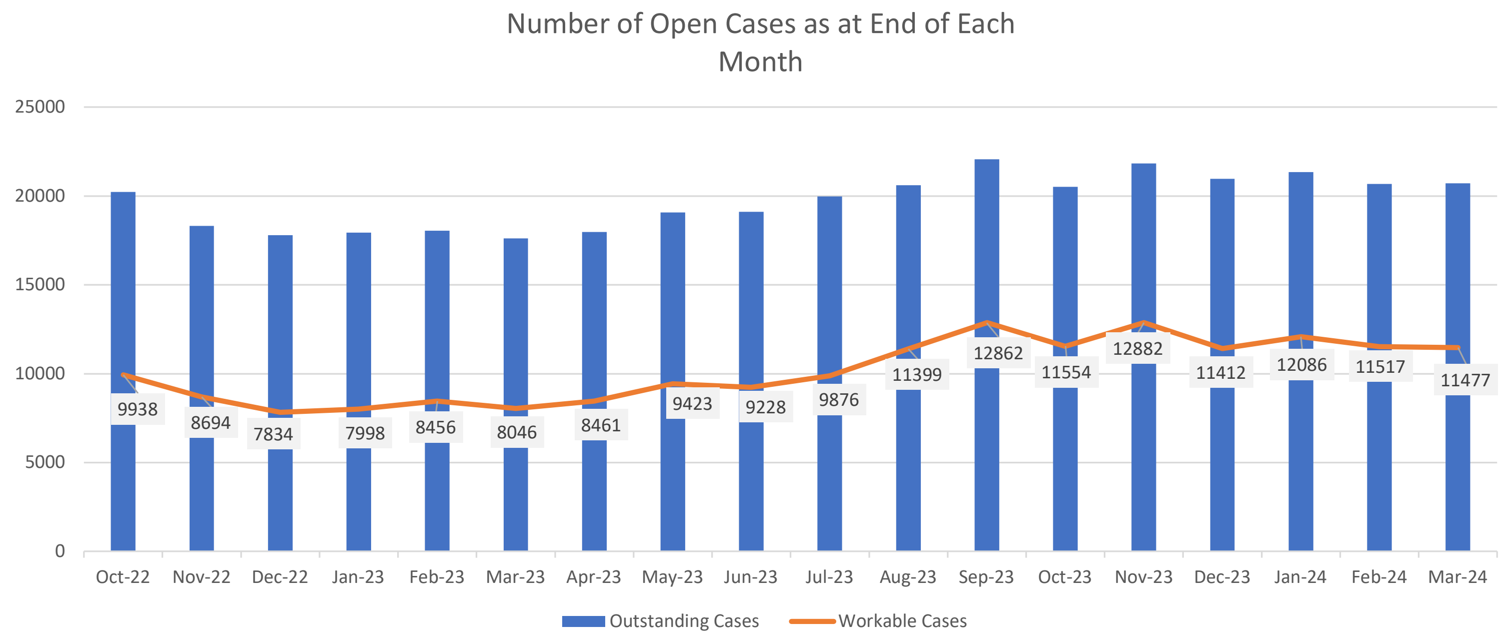
		Tasks Last Quarter										
		Actual Days to Process										
		Average Days to Process	0 to 5	6 to 10	11 to 15	16 to 20	21 to 25	26 to 30	31 to 40	41 to 45	46 to 59	60+
Death Notification	**5 Days**	6	69	57	16	4	2	1	0	1	0	0
Death - Act/Def/Pen - Payment	**10 Days**	9	64	15	6	8	0	2	2	0	2	0
Retirement (Active) - Quote	**15 Days**	27	54	55	33	53	38	17	41	24	37	142
Retirement (Active) - Actual	**15 Days**	17	106	74	21	17	11	7	5	2	1	4
Retirement (Deferred) - Quote	**30 Days**	35	24	14	23	20	21	30	61	48	139	198
Retirement (Deferred) - Actual	**15 Days**	17	93	65	63	33	26	30	62	8	15	5
Divorce - Quote	**45 Days**	29	2	6	4	0	1	7	11	8	7	21
Divorce - Actual	**15 Days**	34	1	0	0	0	0	0	0	0	0	0
Refund - Quotes	**10 Days**	71	255	154	49	77	65	39	11	1	12	225
Refund - Actual	**10 Days**	33	14	27	45	42	21	21	78	40	56	30
Deferred Benefits	**30 Days**	50	48	14	37	21	23	24	89	41	74	232
Transfer In (Active) - Quote	**10 Days**	24	11	7	3	6	1	2	12	4	9	24
Transfer In (Active) - Actual	**10 Days**	38	6	4	2	0	5	2	4	0	3	3
Transfer Out (Active/Deferred) - Quote	**10 Days**	44	8	4	4	6	8	6	5	6	18	75
Transfer Out (Active/Deferred) - Actual	**10 Days**	33	14	4	0	0	0	0	0	0	0	0
Employer Estimate - Quote	**15 Days**	15	15	16	11	4	1	2	1	0	0	0
Member Estimate - Quote	**15 Days**	8	117	47	24	12	3	1	3	3	1	8
Joiner	**40 Days**	4	530	629	373	463	800	170	42	4	13	55

Annex 3 Trend in Overall Performance

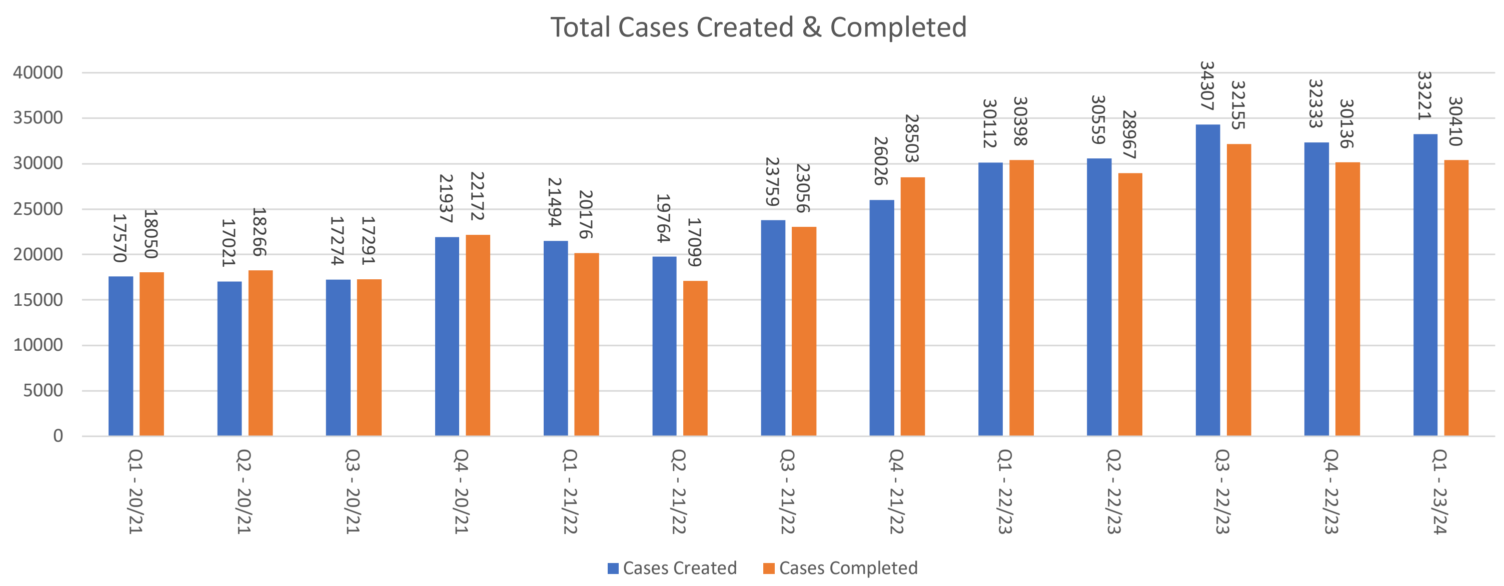
Work Type	Target Processing SLA	Q2 Apr-23 to Jun-23	Q3 Jul-23 to Sep-23	Q4 Oct-23 to Dec-23	Q1 Jan-24 to Mar-24	Trend
Death Notification	5 Days	73.8%	57.1%	75.0%	46.0%	
Death - Act/Def/Pen - Payment	10 Days	65.3%	72.5%	79.7%	79.8%	
Retirement (Active) - Quote	15 Days	44.0%	52.1%	27.7%	28.7%	
Retirement (Active) - Actual	15 Days	62.5%	75.1%	74.4%	81.0%	
Retirement (Deferred) - Quote	30 Days	70.1%	49.8%	30.1%	22.8%	
Retirement (Deferred) - Actual	15 Days	66.9%	71.4%	81.3%	55.3%	
Divorce - Quote	45 Days	90.9%	80.2%	88.2%	58.2%	
Divorce - Actual	15 Days	50.0%	0.0%	100.0%	100.0%	
Refund - Quotes	10 Days	1.7%	33.1%	11.3%	46.1%	
Refund - Actual	10 Days	29.4%	49.0%	64.7%	11.0%	
Deferred Benefits	30 Days	39.4%	54.0%	31.2%	27.7%	
Transfer In (Active) - Quote	10 Days	2.3%	23.5%	24.0%	22.8%	
Transfer In (Active) - Actual	10 Days	12.5%	40.0%	20.7%	34.5%	
Transfer Out (Active/Deferred) - Quote	10 Days	33.3%	32.8%	17.6%	8.6%	
Transfer Out (Active/Deferred) - Actual	10 Days	45.5%	51.4%	85.7%	100.0%	
Employer Estimate - Quote	15 Days	82.4%	55.3%	65.5%	84.0%	
Member Estimate - Quote	15 Days	87.1%	92.0%	86.5%	85.8%	
Joiner	40 Days	99.3%	98.6%	99.1%	97.7%	

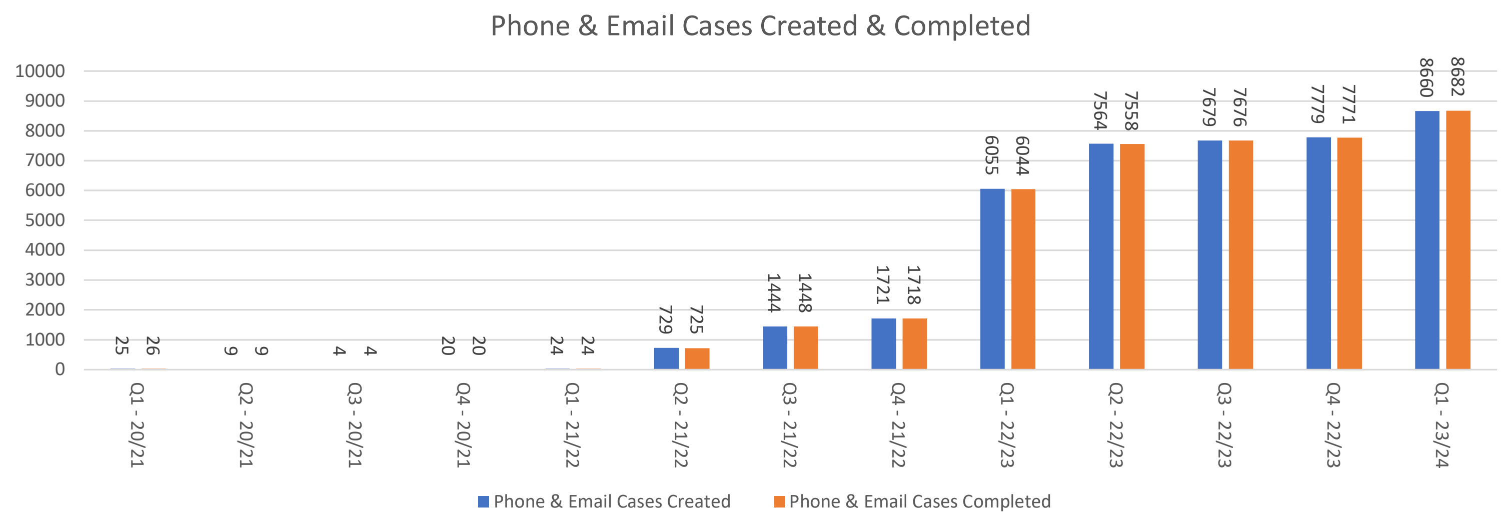
RAG Key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

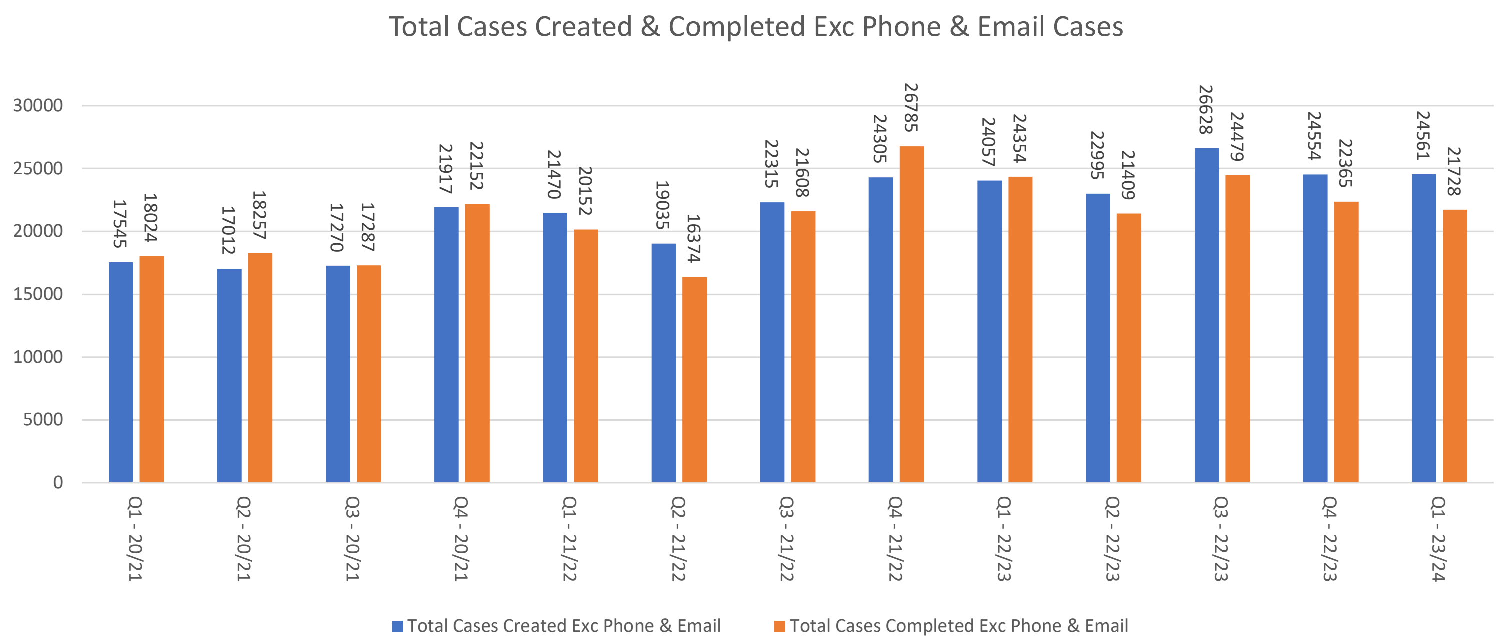
Annex 4



Annex 5







TPR Improvement Plan Data As of 31st March 2024

Annex 1 – TPR Errors by Member Numbers

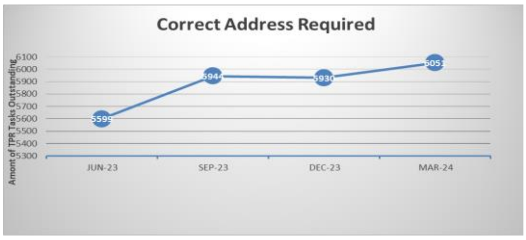
	Dec-23				Mar-24				*Trend
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	
ACTIVE	40952	144	0.35%	99.65	40643	108	0.27%	99.73	-36
UNDECIDED	6995	144	2.06%	97.94	6972	97	1.39%	98.61	-47
DEFERRED	45006	4052	9.00%	91.00	44516	4118	9.25%	90.75	+66
PENSIONERS	36788	468	1.27%	98.73	36085	482	1.34%	98.66	+14
DEPENDANTS	5354	138	2.58%	97.42	5158	136	2.64%	97.36	-2
FROZEN	7267	1870	25.73%	74.27	7657	1924	25.13%	74.87	+54
TOTALS	**142362**	**6816**	**4.79%**	**95.92**	**141031**	**6865**	**4.87%**	**95.13**	+49

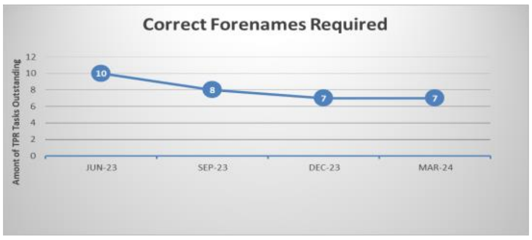
Annex 2 – Outstanding Queries by Type (there may be multiple queries per member)

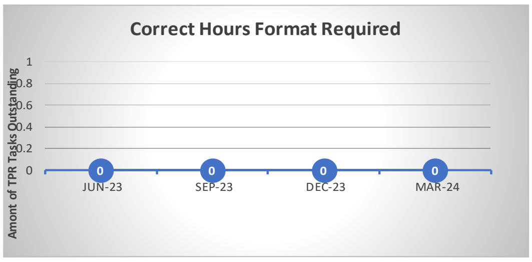
	Dec-23		Mar-24		*Trend
	TPR Errors	%	TPR Errors	%	
Age 75 Exceeded Lgps Eligibility Issue	93	1.36%	106	1.54%	+13
Care Pay For 2014-2015 Required	1	0.01%	0	0.00%	-1
Care Pay For 2015-2016 Required	3	0.04%	0	0.00%	-3
Care Pay For 2016-2017 Required	2	0.03%	0	0.00%	-2
Care Pay For 2017-2018 Required	2	0.03%	2	0.03%	0
Care Pay For 2018-2019 Required	3	0.04%	1	0.01%	-2
Care Pay For 2019-2020 Required	6	0.09%	3	0.04%	-3
Care Pay For 2020-2021 Required	10	0.15%	6	0.09%	-4
CARE pay for 2021-2022 required	20	0.29%	12	0.17%	-8
CARE pay for 2022-2023 required	19	0.28%	6	0.09%	-13
CARE pay for 2023-2024 required	0	0.00%	1	0.01%	+1
Casual Hours Data Required	1	0.01%	1	0.01%	0
Correct Address Required	5930	87.00%	6050	88.13%	+120
Correct Forenames Required	7	0.10%	7	0.10%	+0
Next of Kin Address Required	0	0.00%	18	0.26%	+18
Correct Hours Format Required	0	0.00%	0	0.00%	0
Correct Nino Required	162	2.38%	154	2.24%	-8
Correct Title Required Ie Miss Or Mr	1	0.01%	1	0.01%	0
Data Required From A Previous Employ	4	0.06%	2	0.03%	-2
Date Joined Fund Required	4	0.06%	1	0.01%	-3
Historic Refund Case	474	6.95%	474	6.90%	0
Leaver Form Required	63	0.92%	14	0.20%	-49
Pay Ref Required	11	0.16%	6	0.09%	-5
Correct Surname Required	0	0.00%	0	0.00%	0
Correct Date Of Birth Required	0	0.00%	0	0.00%	0
Grand total	**6816**	**100%**	**6865**	**100%**	

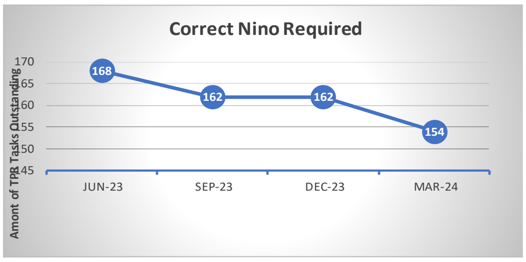
***Trend is influenced by number of errors**

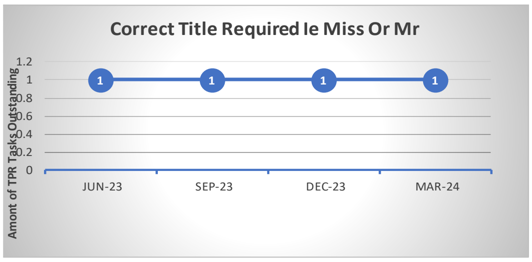
TPR Error Numbers by Error Type

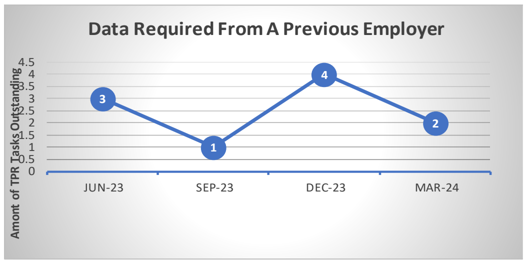


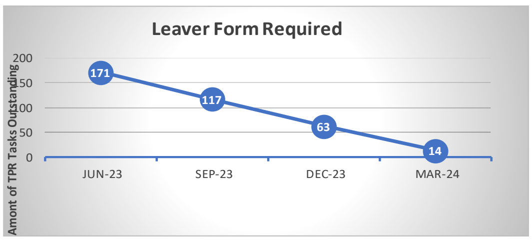


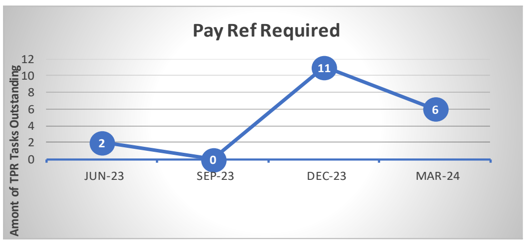




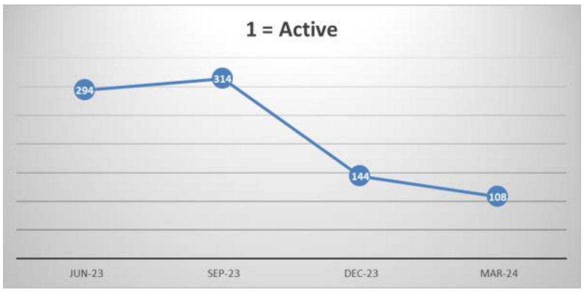


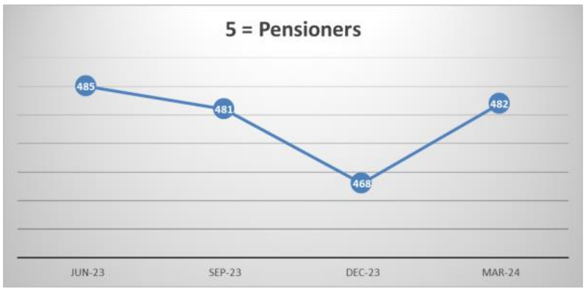


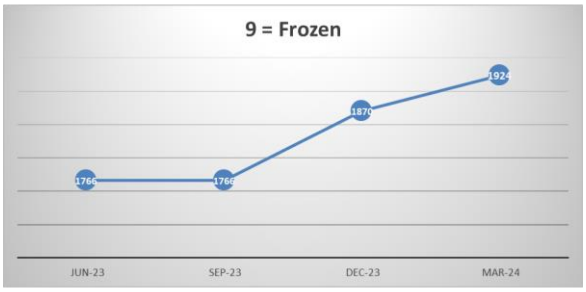




TPR Error Numbers by Status







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Pensions Increase update

June 2024

Avon Pension Fund

Your pension, your future

Phase 1 is complete

Phase 1

- Remediated **801** members using Retro PI process: –
  - **696** members paid arrears/interest and corrected their monthly pensions going forward (**645** LGPS and **51** Teachers).
  - **105** members fixed in readiness for 2024 PI.
- Modest increase in member calls and emails. Response to date has been largely neutral.
- Short-term pensions (**46**) and Tier 3 Ill-health cases (7) corrected manually – no arrears due. *(Note: Included non-PI cases).*

POPULATION	Monthly Arrears (£)	SUPP PI Arrears (£)	Interest (£)	Total Paid (£)	Numbers
LGPS	547,977.07	62,003.72	45,569.74	655,550.53	645
Teachers	100,050.45	-	8,619.64	108,670.09	51
TOTAL	**648,027.52**	**62,003.72**	**54,189.38**	**764,220.62**	**696**

2024 PI

- 2024 Pension Increase successfully run.
- APF team used Provisional PI runs to identify and clear errors arising on both Admin and Payroll systems.
- Future Phase cases - errors already identified.
- Retirement cases held until after 2024 PI run were processed by Member Services with Quality Assurance team support.
- Member Services training completed to address root cause member Admin record date anomalies emanating from benefit processing.

Lessons learned - Phase 1

- We have **improved our knowledge** of the PI annual process. Heywood support has been invaluable and effective.
- **Communication** with the APF Committee, Pension Board and Council, and within the APF project team has been constructive.
- We achieved the Phase 1 **timeline** within the hard deadline imposed by the 2024 PI run.
- We underestimated the time needed for **payroll** updates, testing and live execution putting pressure on the APF project team. Project plan lacked contingency for the issues that we encountered.
- **Additional checks** on initial Altair data will be done to surface interface record issues earlier.

Future phases plan

Population

- Cases are more complex than Phase 1 and require deeper analysis.
- Not all of population will require remediation.

Approach

- Technical Manager to lead project and will from part of teams BAU project work.
- Use full end-to-end bulk remediation process where possible – run smaller batches with similar profiles once analysis and any correction work complete.
- Payroll query and tracing case work started. Other categories will be addressed as resource permits and decisions on process have been made.

Aiming to address all cases by end 2024.

Population	Number	APF Resource
Payroll queries	118	Payroll
Suspended from outset (tracing)	92	Data Control
GMP	150	Technical/ GMP project
Other record issues	84	Technical
Deaths	32	Technical
2024 PI run & payroll reconciliation	15	Technical
TOTAL	**491**	

Notes:
- Maximum number. After review some may not need remediation.
- Total LGPS PI cost is expected to be within the original £1.5m estimated at the outset of project. We expect there will be no aggregate actuarial impacts but there may be some impacts on the individual employer level.
- Interest outstanding for some manually corrected cases to be calculated and paid during future phases.

Project costs – Phase 1

Category	Description	Cost to Fund
645 LGPS members	**Pension increase remediation** – Arrears and interest paid	£655,550
51 Teachers	**Pension increase remediation** – Arrears and interest paid	Nil cost to Fund £109k billed to BANES
Total Cost		**£655,550**

Project costs – Future Phase estimate

Category	Description	Cost to Fund
Future LGPS members	**Pension increase remediation** – Arrears and interest to pay	£600,000 to £800,000

Bath & North East Somerset Council		
MEETING	**LOCAL PENSION BOARD - AVON PENSION FUND**	
MEETING	**12 June 2024**	Agenda Item Number 10
TITLE:	**Update on Legislation**	
WARD:	**All**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Latest position of regulatory changes**		

1 THE ISSUES

1.1 The purpose of this report is to update the Pension Board on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration.

2 RECOMMENDATION

The Pension Board is asked to:

2.1 Note the current position regarding the developments that could affect the administration of the fund.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 THE REPORT

4.1 The table below provides a summary of the main regulatory updates since the last meeting, including brief comment on what the implications are for the Fund and what the next steps will be.

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

6 EQUALITIES STATEMENT

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

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 in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses 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.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 The report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Services, Assurance & Pensions, representing the administering authority.

Contact person	Nicky Russell – Technical and Compliance Manager; Tel 01225 395389
Background papers	LGA Bulletins SAB Meeting Minutes National Technical Group Meeting Minutes
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1			
Item	**Latest Position**	**Relevant Links**	**Action by Fund / Next Steps**
McCloud Judgment	A closed consultation on the draft McCloud Statutory guidance ran between March 2024 and April 2024. Generally, across the sector, a number of concerns have been raised on the issues of administrative burden, communication challenges, and consistency of treatment both within the LGPS and across the public sector. A response to the latest consultation is awaited. Aside, ongoing work continues in relation to the Teachers' excess service element of the judgment, the impact on pension taxation and also around the level of communication needed for the 2024 Annual Benefit Statements.	https://www.gov.uk/government/publications/pensions-schemes-newsletter-158-april-2024 https://www.youtube.com/watch?v=970W5cupZ18	The administration team are processing business as usual cases to be compliant with the McCloud regulations although they still are having to be vigilant as subsequent issues have been found with calculations following the release of further software versions. Systems and Quality Assurance are still working through the system issues which were identified by the software provider since switching on the McCloud functionality in October 2023. These are being fixed in bulk and will ensure that the scope of the McCloud Remedy is accurate, in terms of population and cost. There remains a lot of work for the team to undertake to implement the remedy in full both in terms of calculations and communications before August 2025. The team will continue to rely on central support and external advisory support as part of this process given the complex nature of some elements of the remedy.
Codes of Practice / Good Governance	Following on from publication of the General Code of Practice in January 2024, this became effective on 28 March 2024. Whilst there aren't any definitive timescales set out by the Regulator in relation to public service pension schemes, there is a general expectation for Funds to have considered the Code and	https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice	The Fund has established a workplan to consider what action needs to be taken to ensure the requirements of the General Code will be met. A toolkit has been used to identify key areas for review.

	assessed what work will be required to adhere to the Code over the next few months. Whilst a further consultation on the outcomes of the SAB's Good Governance project was expected in the summer, this may now be delayed due to the General Election.		
Pensions Dashboard	Guidance issued by the DWP in March 2024, accompanied by a Written Ministerial Statement sets out further details of the staged timetable and confirms 31 October 2025 as the target staging date for public service pension schemes. Alongside the above, a consultation has been run by the FCA relating to guidance for firms intending to offer dashboards for customers, PDP have issued updated Data Standards and DWP have issued updated Deferred Connection guidance. In addition, further guidance/communications have been issued by the Pensions Dashboards Programme via blogs and regular updates.	https://www.gov.uk/government/publications/pensions-dashboards-guidance-on-connection-the-staged-timetable https://hansard.parliament.uk/Commons/2024-03-25/debates/24032527000019/PensionsDashboard https://www.fca.org.uk/publications/consultation-papers/cp24-4-further-consultation-regulatory-framework-pensions-dashboard-service-firms https://www.pensionsdashboardsprogramme.org.uk/standards/data-standards/ https://www.gov.uk/government/publications/pensions-dashboards-guidance-on-deferred-connection https://www.pensionsdashboardsprogramme.org.uk/category/news/blogs/ https://www.pensionsdashboardsprogramme.org.uk/pur/	A separate update will be provided on this item in the administration report in relation to what actions have/are being taken by the Fund.
Pension Taxation	The Lifetime Allowance was formally abolished with effect from 6 April 2024 via the Finance Act 2024. Two new limits – the Lump Sum Allowance (LSA)	https://www.legislation.gov.uk/ukpga/2024/3/contents/enacted	Whilst the removal of the LTA is beneficial to members, there are a number of practical considerations that the administration team

	and the Lump Sum and Death Benefit Allowance (LSDBA) are now in force. To support administering authorities implement the changes, given the complexities that can emerge, the LGA published a guide in March 2024. This was subsequently updated in May 2024 to provide further guidance on how Pension Commencement Excess Lump Sums (PCELS) may be treated in the absence of a consultation on the long-term policy for the LGPS. Further publications continue to be released by HMT and HMRC setting out the implications of the LTA abolition in terms of taxation of lump sum benefits, treatment of any protections and also transitional arrangements and reporting requirements. In particular a consolidated FAQ document has been published. The Pensions Tax Manual has also been updated.	https://lgpslibrary.org/assets/gas/uk/Abolition%20of%20the%20lifetime%20allowance%20v2.2.pdf https://www.gov.uk/government/publications/pensions-schemes-newsletter-159-april-2024/lifetime-allowance-lta-abolition-frequently-asked-questions https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/updates	are having to take into account when implementing the changes. The member website and other documents need to be re-drafted for the changes to the LTA, so that communications to members are clear and accurate. Whilst the central guidance produced is helpful, there remains a lot of work to be undertaken by the Technical Team in this area. Member queries are expected to emerge, which will also require resource to manage.
Cost Management / Section 13	The Scheme Advisory Board will soon publish the final report of its cost management assessment process following on from the HMT process which concluded recently. In line with the HMT conclusions that were published in March 2024, SAB have commented that they don't expect to be recommending any changes to Scheme Benefits. Although not directly linked to the LGPS, in April, the Court of Appeal upheld the High Court's decision to dismiss the judicial review brought against the Treasury (by the British Medical Association and the Fire Brigades Union) in	https://www.gov.uk/government/news/gad-completes-2020-actuarial-valuations https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWCA/Civ/2024/355.html	Further publications will be considered accordingly once released.

	relation to the inclusion of McCloud costs as member costs in the Treasury's cost control mechanism. The FBU is seeking permission to appeal in the Supreme Court. Aside, the Government Actuary's Department has begun liaising with Funds in relation to its Section 13 report on the 2022 actuarial valuation. The report is expected to be published in the autumn.		
Levelling Up / Pooling	On 15 May 2024, the local government minister Simon Hoare MP wrote to all Pension Committee Chairs and administering authority S151 officers in England setting out questions in relation to pooling progress and LGPS efficiencies, including governance.	https://lgpsboard.org/images/PDF/letters/240515Efficiencies_LGPS_Ministerial_Letter.pdf	A response to the letter will be considered accordingly by the Fund and if still required (due to the General election) it will be submitted prior to the 19 July deadline.
Responsible Investment	Following on from publication of the report prepared by Amanah Associates for the Scheme Advisory Board in relation to Sharia Law, advice from Counsel in relation to the report has been produced. The Economic Activity of Public Bodies (Overseas Matters) Bill had reached the House of Lords Committee stage but dissolution of parliament on 30 May has meant this won't go any further for the moment. The LGA have produced a technical briefing in relation to the Bill.	https://lgpsboard.org/images/LegalAdviceandSummaries/20240306_SABSummary_LydiaSeymourCounsel_legaladviceonShariaLawandtheLGPS.pdf https://publications.parliament.uk/pa/bills/cbill/58-03/0325/220325.pdf https://www.local.gov.uk/parliament/briefings-and-responses/economic-activity-public-bodies-bill-committee-stage-house-lords	These updates, and the impact on the Fund, will be considered further by the investment team as the position develops and any recommendations emerge.
Academies	The Education and Skills Funding Agency (ESFA) published in April 2024 new best practice guidance for Academies covering key areas including an overview of the LGPS, Valuations, the DfE	https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/local-government-pension-scheme-lgps	The Fund will make existing/new academies aware of the latest best practice guidance to assist with their understanding any decision making in relation to the LGPS participation and obligations to the Fund.

	guarantee, pooling, conversions and transfers and LGPS engagement. The ESFA also updated its guidance relating to the guarantee in May.	https://www.gov.uk/government/publications/academies-and-local-government-pension-scheme-liabilities	
Annual Report Guidance	Joint guidance produced by SAB, DLUHC and CIPFA was published in March 2024 to assist LGPS funds in the preparation and publication of the pension fund annual report and to ensure consistency of reporting across funds. SAB published a follow-up explainer document in April 2024 highlighting where significant changes have emerged. Whilst applying to 2023/24 annual reports, compliance in full with the requirements will be on a best endeavours basis for 2023/24 depending on the disproportionate effort/cost involved in updating prior content. The guidance will be reviewed at the end of 2024.	https://lgpsboard.org/images/Guidance/Annual%20Report%20Guidance%202024.pdf https://lgpsboard.org/images/Annual%20report%20guidance%202024%20explainer%20final.pdf	Where possible, the Fund will look to comply in full to the new guidance and work has already started on the structure of the report.

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Bath & North East Somerset Council		
MEETING:	**LOCAL PENSION BOARD - AVON PENSION FUND**	
MEETING DATE:	**12 June 2024**	**AGENDA ITEM NUMBER**
TITLE:	**Governance Update**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Pension Board Workplan 2024** **Appendix 2 – Pension Board Training Plan 2024** **Appendix 3 & 4 – Risk Register & Framework**		

1 THE ISSUE

1.1 The purpose of this report is to receive regular governance updates as well as Training and Work Plan issues from the Board and request high level training needs from Board Members.

2 RECOMMENDATION

That the Board

2.1 Notes the workplan & training plan for 2024

2.2 Notes the dates for future meetings

2.3 Notes the risk register

2.4 Notes the audit plan

3 FINANCIAL IMPLICATIONS

3.1 There are direct implications related to the Pension Board in connection with this report, however these are all currently within the planned budget for the operation of the Board.

4 REPORT

4.1 **Work Plan**

a) In developing a work plan the Board should reflect the need to maintain a balance between building the knowledge and understanding of Board Members along with delivery of the statutory obligations of the Board.

b) The views of the Board are vital in informing the nature, frequency and cyclical nature of items as well as the timing of certain time-critical issues for consideration such as Project Brunel.

c) An outline of the Work Plan is attached at Appendix 1 which is based on the discussion and agreement reached previously. It will continue to be re-presented at each meeting as the year progresses using the comments and feedback of the Board, Officers and other stakeholders such as the Pension Fund Committee to inform its contents.

4.2 **Modern Gov**

a) All Pension Board members have been asked to access meeting papers via Modern Gov.

b) If any member requires assistance with access to Modern Gov, the Governance Team (APF_Governance@bathnes.gov.uk) is able to provide support & training.

4.3 **Future Meeting Dates**

a) Meeting dates for 2024 are as follows:

- 20th February
- 12th June
- 4th September
- 5th December

b) Any suggestions from members regarding the style and format of meetings is welcomed.

4.4 **Training**

a) In developing a training plan Board Members should reflect on their own statutory requirements as set out in previous reports. In summary Board Members should have a breadth of knowledge and understanding that is sufficient to allow them to understand fully any professional advice the Board is given. They should also be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision relating to the Board's duty to assist the Avon Pension Fund.

b) As agreed at previous Board meetings individual board members should retain their own training log to evidence how they are fulfilling their responsibilities and update these on a quarterly basis to the Governance Team to aid future training needs analysis.

c) Appendix 2 contains the proposed training programme for the year ahead. The workshops will be held jointly with the APF Pension Committee.

d) Members are asked to consider any other training needs through the rest of 2024 to fit into the working cycle of the Board.

4.5 **Hyman's LGPS Online Learning Academy (LOLA)**

a) The SAB's Good Governance Review & TPR's General Code of Practice include additional knowledge and skills requirements for Committee, Pension Board and

Officers. Hymans Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).

b) The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework.

c) The modules are set out below:

1. Committee Role & Pensions Legislation
2. Pensions Governance
3. Pensions Administration
4. Pensions Accounting and Audit Standards
5. Procurement & relationship Management
6. Investment Performance & Risk Management
7. Financial Markets & Products
8. Actuarial Methods, Standards & Practices
9. Current Issues

d) The full timetable for completion of all modules is contained in Appendix 2.

4.6 Risk Management Process & Risk Register

a) The Fund has in place a documented risk management policy setting out the Fund's approach to risk, process for review, and update of the risk register. It also sets out the roles and responsibilities of those involved in management of risk including the role of the Pension Board and Pension Committee.

b) Appendix 2 sets out the risk framework introduced to assist risk owners to assess the risks, plus a high level matrix showing the distribution of risks by score.

c) The complete risk register is attached as appendix 1.

- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. It sets out mitigating actions.
- The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
- All risks are also reviewed quarterly or when there has been a material change.
- Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Manager
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

4.7 **Quarterly Review of Risk Register**

a) The risk register has been reviewed and no changes have been made.

4.8 **Audit Plan 2024/5**

Audit Area for 2024/25	Quarter	Number of Days
Internal Control Framework/ Data Analytics (on going checks)	Q2	30
Pensions Payroll	Q1	15
Annual Benefit Statement	Q1	20
iConnect Data Security	Q2/Q3	20
General Code	Q3	20
Local Impact Investing	Q4	25
TOTAL DAYS		**130**

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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

6 EQUALITIES

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

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 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.

8 CONSULTATION

8.1 The Report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Systems, Assurance & Pensions, representing the administering authority.

Contact person	Carolyn Morgan – Governance & Risk Advisor – 01225 395240

Please contact the report author if you need to access this report in an alternative format

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Appendix 1

Pension Board Workplan	**February**	**June**	**September**	**December**
Investment Strategy Statement				
Administration Strategy & service plan update (include KPIs)				
Workplan & training plan				
Investment update				
Regulatory Update				
Risk Register review				
Annual review of committee & PB governance arrangements				
Pension Board's annual report				
Benchmarking				
Breaches Log - review of regulatory & data Breaches				
Statutory annual requirements (year end/ABS/PSS)				
Review of Audit reports				
Audit Plan				
Pension Fund annual report & statement of accounts				
Update on Service Plan - Projects/Change Programme				

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Appendix 2
Pension Board Training Plan

Type of training	Date	Content
Workshop	Sep-24	TPR General Code of Practice
Workshop	Oct-24	Funding / Employer Conts session
Workshop	TBC	Pensions Dashboard

Hymans Learning Academy	Title of Module	Date to be completed	Time Commitment
Introduction	• An Introduction to LGPS Online Learning Academy	Jul-23	2 minutes
Module 1 – Committee Role and Pensions Legislation	• An Introduction to Pensions Legislation	Jul-23	27 minutes
	• An introduction to Pensions Legislation - The Role of a Councillor		
Module 2 – Pensions Governance	• LGPS Oversight Bodies – DLUHC & GAD	Aug-23	50 minutes
	• LGPS Oversight Bodies – TPR		
	• Business Planning		
	• LGPS Governance		
Module 3 – Pensions Administration	• Introduction to Administration	Sep-23	51 minutes
	• Additional Voluntary Contributions		
	• Policies and Procedures		
Module 4 – Pensions Accounting and Audit Standards	• Pensions Accounting and Audit Standards	Oct-23	11 minutes
Module 5 – Procurement and Relationship Management	• Public Procurement	Nov-23	11 minutes
Module 6 – Investment Performance and Risk Management	• Introduction to Investment Strategy	Jan-24	48 minutes
	• LGPS Investment Pooling		
	• Performance Monitoring		
	• Responsible Investment		
Module 7 – Financial Markets and Product Knowledge	• Introduction to Financial Markets and Product Knowledge	Feb-24	33 minutes
	• Investment – MiFiD II		
Module 8 – Actuarial Methods, Standards and Practices	• Introduction to Funding Strategy	Mar-24	0
	• LGPS Actuarial Valuations – Process		
	• LGPS Valuation – Technical		
	• Employers		
Current Issues	• Understanding McCloud	Ongoing	
	• Pensions Dashboards		
	• Understanding Goodwin		
	• Introduction to Cyber Risk		
	• GAD Section 13		
	• Climate Change and TCFD		
	• McCloud Consultation • SAB and HM Treasury Cost Cap Mechanisms • Next Steps on Investment (England & Wales) Consultation Overview • Next Steps on Investment (England & Wales) Consultation Response • A Brief Introduction to Taskforce on Nature-related Financial Disclosures		

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Appendix 3 - Risk Register

				Pre Mitigants				Post Mitigants			
Number	**Function**	**Risk**	**Impact**	**Impact**	**Likelihood**	**Score**	**Mitigating Actions / Control Framework**	**Impact**	**Likelihood**	**Score**	**Trend**
NR06	Governance	Cyber attack	Fund is unable to operate Members do not receive pension payment on time	Critical	Almost Certain	25	- Disaster recovery plan in place - Business continuity plan - B&NES cyber security policy and system defence - Implementation of recent internal cyber audit findings	Critical	Likely	20	→
NR01	Admin	Ability to deliver service to agreed standards	Poor member outcomes and/or breach of regulations	Critical	Almost Certain	25	- KPIs & complaints monitored and acted on - Plan to digitise will improve self-serve & operations efficiency - Actions to improve staff recruitment & retention - Process improvements being identified and implemented - Review of Top 10 Process Controls	High	Likely	16	→
NR04	Governance	Governance of Fund not in accordance with APF policies Controls not adequate	Fines for non-compliance Disciplinary issues and reputational risk	High	Almost Certain	20	- Internal Audit is undertaking a review of the Fund's controls which we will implement during Q1 2024 - We have inititiated a new project to correct errors in annual pension increments	High	Likely	16	→
NR18	Comms	Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders	Complaints Detrimental media coverage Loss of stakeholder confidence	High	Likely	16	- Regular communications to stakeholders; emergency communication possibe through website and email - Press/media enquiries and issues dealt with in accordance to B&NES policy - Workshops and meetings held for current topics to gain stakeholder input - Contracts in place with legal advisors and PR professionals - Media monitoring undertaken	Medium	Likely	12	→
NR02	Regs	Regulatory changes	Breach of regulations Poor member outcomes Increased workloads for officers Changes to pooling could undermine delivery of investment strategy	High	Likely	16	- Regulatory changes monitored via LGA and professional advisors - Officers attend SWAPOG/Tech Group - Regulatory projects included in service plans - Officers respond to consultations	Medium	Likely	12	→
NR05	Governance	Failure to manage personal data per regulations	Personal data corrupted, compromised or illegally shared Fines and reputational damage	Critical	Almost Certain	25	- One West is Data Protection Officer for Fund and advises on data protection matters - Record of processing and privacy notice set out how data is managed - Processes reviewed as a result of data breaches - Regular officer training - Data sharing/transfer agreements and DPIAs implemented for all relevant projects	High	Possible	12	→
NR10	Investments	Failure to earn investment returns	Scheme cannot meet liabilities and employer contributions could rise	Critical	Likely	20	- Diversified asset allocation - Professional and independent investment advice - Risk management strategy supports funding strategy - FRMG & Investment Panel monitor performance and risk - Periodic strategic investment review	High	Possible	12	→
NR11	Investments	Brunel fails to deliver client objectives regarding service delivery	Affects Fund's ability to achieve investment objectives	Critical	Possible	15	- Brunel governance framework for strategic and operational decision making - Robust performance reporting - Avon-Brunel working group (internal)	High	Possible	12	→
NR12	Investments	Failure to achieve decarbonisation targets	Government climate policies not moving fast enough or sufficiently enforced Significant reputational and financial risks to value of investments	Critical	Almost Certain	25	- Climate exposure assessed annually - climate risk analysis embedded into strategic decisions - Net Zero target of 2045 - by 2030 will divest from high emission companies that are not aligning to NZ - targets to reduce emissions by 2025 and 2030 - programme to enage with companies and policymakers - Brunel's comprehensive climate change policy and approach to investing underpins each portfolio	Medium	Likely	12	→
NR08	Employers Funding	Employers unable to meet financial obligations to Fund	Financial cost to other employers in the Fund	High	Likely	16	- Policies on employer financial stability set out in FSS & ISS - Strong covenant management and information gathering processes - Quarterly review and mitigating action	Medium	Possible	9	→
NR07	Employers Data	Employers do not comply with regulatory responsibilites	Poor member data Fines and greather scrutiny by TPR Employer liabilities incorrect if data is incorrect.	Critical	Likely	20	- Management of employers set out in admin strategy/MOU - Employer KPIs recorded and monitored vs TPR standards - Employer training - Reconciliation of Iconnect & Accounts in regards to contributions and data provided	Medium	Possible	9	→
NR09	Investments	Operational risks of investment managers, custodian and other investment suppliers	Loss of assets Inability to trade is assets inaccessible	High	Possible	12	- Due diligence and audits of service providers, managers - Controls embedded in investment management agreements - Diversification across different asset managers - Quarterly service & risk review with Brunel and suppliers	Medium	Possible	9	→
NR14	Investments	An increase in leverage materially reduces capital value leading to an unplanned and significant deviation in strategic asset allocation	LDI strategy may have to be unwound if insufficient collateral Inability to raise hedge ratio	High	Likely	16	- Maintain collateral at prudent level with materia buffer vs risks - Set hedge ratio at level that can be adeqautely collateralised - Auto pause when LDI hedge ratio hits 40% - Offsetting nature of synthetic equity and equity protection strategies dampens leverage requirements	High	Unlikely	8	→
NR16	Finance	Cashflow profile is maturing	Not enough cash in bank to meet pension payments	Critical	Almost Certain	25	- Monthly monitoring & forecast of cashflow - Prudent cash buffer - Tradeable assets can be swiftly sold	High	Unlikely	8	→
NR03	Governance	Pension Committee cannot operate effectively	Delays in decision making for the Fund Failure to meet MIFID & TPR regulations	Medium	Almost Certain	15	- Representation of PC set out in Fund's representation policy - Knowledge requirements in Training policy - Compliance vs regulations defined in Compliance Statement - Decisions responsibilities set out in decision matrix	Medium	Unlikely	6	→
NR13	Investments	Treasury investments	Loss of capital or income on cash Delayed return of principle or investment income	Medium	Possible	9	- Adopt B&NES Treasury management policy - Due diligene on banks - Diversification across multiple suppliers - Consultation with treasury management advisors	Medium	Unlikely	6	→
NR17	Finance	Late / incorrect contributions from employers	Cashflow shortfalls Employer funding Deficits / Default TPR breach	Medium	Possible	9	- Monthly reconciliations of contributions - Management reviews and action - Mercer funding monitor tool - Larger employers pre pay contributions	Low	Possible	6	→

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Appendix 4 Risk Summary & Framework

CURRENT RISKS - SUMMARY

LIKELIHOOD

IMPACT

	Rare	Unlikely	Possible	Likely	Almost Certain
Critical	0	0	0	1	0
High	0	2	3	2	0
Medium	0	2	3	3	0
Low	0	0	1	0	0
Negligible	0	0	0	0	0

RISK FRAMEWORK

	Rare	Unlikely	Possible	Likely	Almost Certain
Critical	5	10	15	20	25
High	4	8	12	16	20
Medium	3	6	9	12	15
Low	2	4	6	8	10
Negligible	1	2	3	4	5

ASSESSMENT OF LIKELIHOOD

1	Rare	0 – 5% probability
2	Unlikely	6 – 20% probability
3	Possible	21 – 50% probability
4	Likely	51 – 80% probalility
5	Almost Certain	81 – 100% probability

ASSESSMENT OF IMPACT

		Service/ Operational	**Assets**	**Legal Obligations**	**Project**	**Duty of Care – Clients & Staff**
1	**Negligible**	Minimal disruption not impacting on an important service which can be resolved	Capital loss potential up to 1% of assets	Litigation, claims or fines Services up to £10k Corporate £25k	Minimal impact on APF delay < 1 month	Minimal or no impact on Services Duty of Care requirements.
2	**Low**	Brief disruption of important service /service area	Capital loss potential up to 5% of assets	Litigation, claims or fines Services up to £25k Corporate £50k	Some impact on APF delay < 3 months	Consideration required re. Duty of Care unlikely to have adverse impact meeting overall requirements.
3	**Medium**	Major effect to an important service area	Capital loss potential up to 15% of assets	Litigation, claims or finesx Services up to £50k Corporate £100k	Adverse impact on APF significant slippage > 3 months	Duty of Care issues may have impact meeting requirements.
4	**High**	Complete loss of an important service area	Capital loss potential up to 25% of assets	Litigation, claims or fines Services up to £125k Corporate £250k	Significant impact on APF major delay of 6+ months	Significant impact on meeting Duty of Care responsibilities.
5	**Critical**	Major loss of whole service	Capital loss potential > 25% of assets	Litigation, claims or fines Services up to £250k Corporate £500k	Complete failure of project extreme delay > 12 months	Not meeting legal responsibilities placing individuals at risk.

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