

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	21 February 2018
TITLE:	STRATEGIC POLICY UPDATE
WARD:	ALL
List of attachments to this report: Exempt Appendix 1- Work programme for outstanding actions Exempt Appendix 2- Mapping of Avon mandates to Brunel Portfolios Exempt Appendix 3- Current timetable for transitioning assets to Brunel portfolios	

1 THE ISSUE

- 1.1 The Fund has implemented a number of changes to its strategic allocation following its review of its Investment Strategy in 2017.
- 1.2 The Fund will begin to transfer its assets to Brunel in 2018/19. The process will take a few years. Brunel has developed a timeline with the Client Group which is broadly in line with the timeline in the Full Business Case (agreed 1Q17). In addition, the portfolio specifications to be offered by Brunel have been agreed with the Client Group. Funds now have to map their existing mandates to the Brunel portfolios.
- 1.3 This report updates the Panel on
 - a) outstanding actions from the strategic review;
 - b) the mapping of Avon's current & future mandates to Brunel portfolios
 - c) the transition timeline

2 RECOMMENDATIONS

That the Investment Panel:

- 2.1 Notes the work programme for the outstanding actions from the 2017 Investment Review and agrees the proposal for Sustainable Equities.
- 2.2 Agrees the mapping of the Avon mandates to the Brunel portfolios.
- 2.3 Notes the proposed timeline for transitioning the assets into the pool.

3 FINANCIAL IMPLICATIONS

- 3.1 The estimated advisory costs of the 2017 investment review have been provided for in the 2017/18 budget and outstanding actions will be provided in the 2018/19 budget.
- 3.2 The basis for the costs of transitioning the assets into the Brunel portfolios have been agreed in the Service Agreement (which forms part of the Shareholders Agreement).

4 2017 INVESTMENT REVIEW

4.1 Actions completed:

- a) Reduced equity allocation
- b) Divested from corporate bonds
- c) Invested in Multi Asset Credit
- d) Increased allocation to Diversified Growth Funds
- e) Switched passively managed equities into a Low Carbon index fund

4.2 Outstanding actions:

- a) Invest in Long Lease Property
- b) Invest in renewable infrastructure
- c) Consideration of options for within sustainable equities

Exempt Appendix 1 sets out the work programme for these outstanding actions.

5 POOLING OF ASSETS

- 5.1 Exempt Appendix 2a maps each of the current mandates to a portfolio offered by Brunel. It also maps agreed strategic allocations not yet implemented to the Brunel mandates.
- 5.2 Exempt Appendix 2b sets out the portfolio specifications – it is for background information only to support appendix 2b.
- 5.3 The Appendix sets out the benchmark and performance targets for each Brunel portfolio and the corresponding metrics for our current mandates. This demonstrates that they are the same or very similar, which provides assurance that the Fund's mandates can be mapped into a portfolio which will meet our investment strategy requirements.

It should be noted that each Brunel portfolio (except for passive) will have a number of sub funds/mandates and these in aggregate will deliver the portfolio's investment objective; therefore there may be a range of investment mandates with slightly different outcomes (due to different risk return characteristics) within each portfolio.

The assets held within the QIF managed by Blackrock, will in time transfer to Brunel. Brunel will appoint managers for liability driven investment approaches but the strategy will remain bespoke to each client.

- 5.4 Exempt Appendix 3 sets out the current timeline agreed by Brunel and the Client Group. This will be subject to agreed changes between Brunel and the Client Group depending on market conditions and client priorities. The timeline for active equities has been developed the most; the timeline for alternatives has yet to be

reviewed in depth (the Head of Private Markets, Richard Fanshawe, joined on 1 February so has yet to agree the transition plan).

6 RISK MANAGEMENT

6.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed assessed via Asset Liability Studies, which are used to determine the appropriate risk adjusted return profile (or strategic benchmark) for alignment with the Funding Strategy. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

7 EQUALITIES

7.1 An Equality Impact Assessment is not relevant.

8 CONSULTATION

8.1 N/a as delegated to Investment Panel.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Section 151 Officer (Strategic Director – Resources) has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager (Tel: 01225 395306)
Background papers	Committee Papers and Investment Panel minutes
Please contact the report author if you need to access this report in an alternative format	