

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 5th August, 2020, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Advisors: Steve Turner (Mercer), Nick Page (Mercer) and Ross Palmer (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk) and Nathan Rollinson (Investments Manager)

1 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES - 6TH MARCH 2020

The minutes of the meeting on 6th March 2020 were confirmed as a correct record.

8 EQUITY PROTECTION STRATEGY - TRANCHE 3 ROLLOVER & DYNAMIC HEDGING IMPLEMENTATION

The Investments Manager introduced this report to the Panel. He explained that the Fund's current static strategy was extended in 1Q20 as an interim solution to allow the Panel time to consider the technical details and implementation options of a dynamic strategy.

He stated that two tranches of the current strategy were rolled before March 2020; the third tranche was rolled for a shorter period of time as a result of the extreme market volatility experienced during March. He said that the Panel are asked to agree whether to roll tranche 3, aligning expiry with the prior two tranches, or to let it expire and accept that c.1/3rd of the Fund's equity holdings will remain unhedged while further work on dynamic hedging is undertaken.

He added that in light of the significant equity market rebound since the final tranche was extended in March 2020 and uncertainty as a result of COVID-19, the recommendation is to roll tranche 3 for a period that would bring it into alignment with the overall protection strategy.

He explained that in addition the Panel has also been tasked with assessing the suitability of dynamic hedging as a long-term alternative to static hedging - this involves an assessment of the governance, cost and risk implications of switching to such a strategy.

Pauline Gordon asked what text was missing from 6.1 of the cover report.

The Investment Manager apologised and replied that the detail relating to that section of the report could be found on page 38.

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Panel returned to open session at 4.20pm.

The Chair announced that Councillor Chris Dando had left the meeting at 3.30pm.

The Avon Pension Fund Investment Panel **RESOLVED** to agree:

- (i) To rollover tranche 3 of the equity protection strategy for a further 10 months to align with the prior two tranches, and to delegate the implementation to Officers and Mercer.
- (ii) To implement a Dynamic Equity Protection Strategy using a Total Return Swap on a Customised Index when the current static structure expires in 2021.

He thanked the members, officers present and advisors from Mercer for their contributions to the discussion on this item.

9 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this item to the Panel. She explained that items were in place for the meetings scheduled until February 2021 and that there currently was a Strategic / Monitoring split to each of the agendas.

She said that the item 'Scope of equity portfolio review' would be moved to the September agenda and that it was likely that further discussion regarding Equity Protection / Dynamic Hedging would be required in November following the report on the agenda today.

Shirley Marsh-Hughes asked whether the Panel should do some work, possibly in November, to reassure themselves regarding the asset allocation approach given the current volatility of the markets.

The Group Manager for Funding, Investment & Risk replied that this could be covered under the Review Performance item listed for November. She added that our focus will be on our less liquid assets, especially property.

Pauline Gordon asked if any further preparation work was required in terms of Brexit as that deadline approaches.

The Group Manager for Funding, Investment & Risk replied that the biggest impact Brexit will have will be on our currency. She added that by the time Brexit happens we will have transitioned to sustainable equities and we would not have a dedicated allocation to UK equities. She said that there would be a slight exposure to UK Bonds through the LDI portfolio and also to Sterling / Corporate Bonds.

John Finch commented that it would be good to have a discussion in September on how quickly we may need to transition to the longer-term strategy, given the shorter-term market volatility.

The Chair asked when it would be appropriate to discuss the Supreme Court rulings regarding investment strategies, ESG issues and ethical investments.

The Group Manager for Funding, Investment & Risk replied that these matters could be picked up on in discussions concerning the Equity Portfolio Review. She added that she did not feel that the rulings would change what we can do or have been doing and that the focus will be on explaining what we do. She said that moving to global sustainable will have a wide-ranging effect on the regional markets that we invest in.

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

The meeting ended at 4.30 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services