

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	11 September 2020	AGENDA ITEM NUMBER
TITLE:	Equity Portfolio Review	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Equity Review Brief		

1 THE ISSUE

- 1.1 One of the actions from the Strategic review which concluded in April 2020 was to assess the viability for all the equity assets to be invested in low carbon and sustainable solutions.
- 1.2 This analysis was delegated to the Investment Panel. The Panel are asked to agree the brief for the review.

2 RECOMMENDATION

- 2.1 **That the Panel agrees the brief for the Equity portfolio review.**

3 EQUITY REVIEW BRIEF

- 3.1 The Strategic review concluded that the direction of travel for the total allocation to equities is for it to be invested in assets that are sustainable and are aligned to the transition to the low carbon economy.
- 3.2 The current strategic allocation to equities is 37.5%, split as follows:
 - a) Low Carbon 10%
 - b) Sustainable equities 10%
 - c) Global Equity 12%
 - d) Emerging Markets 5.5%
- 3.3 The review will need to assess the following:
 - a) The impact on overall risk and return to ensure there is no unforeseen bias or increase in risk
 - b) Whether the Emerging Market Equity premium can be adequately captured under sustainable or low carbon strategies
 - c) Likewise for the potential allocation to Global Small Cap equities which was recommended as part of the strategic review to reduce overall risk
- 3.4 This review is planned for 2021 so that it can incorporate a number of timing issues. Brunel's Sustainable Equity Portfolio is still in process of being launched and better understanding of how this will deliver for the transition to a low carbon

economy is needed before an increased allocation can be considered. In addition, the IIGCC led project to create a framework for analysing what <2°C aligned asset portfolios should look like is underway and will progress into 2021. As a result of this project, the Fund will have a more informed view as to whether the equity portfolios offered by Brunel are aligned with the <2°C objective or whether it needs to invest in more narrowly defined portfolios.

3.5 Lastly any changes to the equity portfolio may cause a rebalancing of the equity protection strategy if the underlying market exposures vary significantly from the current exposure.

3.6 The proposed scope of the review is set out in Appendix 1.

4 FINANCIAL IMPLICATIONS

4.1 The 2020/21 budget provides for advisory costs following the strategic review.

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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

6.1 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 Low Carbon Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

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

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

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Background papers	
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