

BATH AND NORTH EAST SOMERSET

MINUTES OF AVON PENSION FUND COMMITTEE INVESTMENT PANEL MEETING

Friday, 11th September, 2020

Present:- 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)

External Managers: Christian Porter (Brunel), Richard Fanshawe (Brunel) and Chris Crozier (Brunel)

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

10 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

11 DECLARATIONS OF INTEREST

There were none.

12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

13 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

15 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

16 MINUTES - 5TH AUGUST 2020

The minutes of the meeting on 5th August 2020 were confirmed as a correct record.

17 UK PROPERTY PORTFOLIO

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.

18 RISK MANAGEMENT ANNUAL REVIEW

The Investments Manager introduced this report to the Panel. He explained that the Risk Management Framework encompasses three dedicated risk management strategies and a passive equity fund for collateral management purposes. He stated that the Liability Driven Investment (LDI) Strategy and the Buy-and-Maintain Corporate Bond (CB) Portfolio are designed to hedge interest rate and inflation risks arising from the Fund's liabilities, whereas the Equity Protection Strategy (EPS) is designed to shield the Fund from a large drawdown in the value of its underlying equity holdings.

He said that the Investment Panel reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to any of the strategies to ensure they meet the strategic objectives. He added that the Panel monitors the collateral adequacy, the performance of the strategies and the performance of the manager, Blackrock.

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

The Panel **RESOLVED** to:

- i) Note Mercer's report reviewing the strategies and collateral position
- ii) Recommend to the Committee that the existing trigger framework for the LDI strategy should be maintained
- iii) Recommend to the Committee that the inflation hedge be reinstated outside of the trigger framework to the level it was prior to the restructure that took place in March, and to further examine the implementation of restoring the hedge, then consider the necessity of further increasing the hedge following conclusion of the RPI reform, and delegate to Officers.

19 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investments & Risk introduced this report to the Panel. She stated that it outlines the progress on pooling of assets with specific reference to the investment activities.

She explained that assets that have transitioned now total £2.96bn (at 31/06/20) and that in addition, Brunel invests £110m in secured Income and £40m in Renewable Infrastructure on behalf of the Fund.

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

The Panel **RESOLVED** to:

- i) Note the progress made on pooling of assets.
- ii) Note the project plan for the transition of assets.

20 EQUITY PORTFOLIO REVIEW

The Group Manager for Funding, Investments & Risk introduced this report to the Panel. She explained that 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.

She stated that 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

She informed the Panel that the review is planned for 2021 so that it can incorporate a number of timing issues. She added that the IIGCC led project to create a framework for analysing what <20C aligned asset portfolios should look like is underway and will progress into 2021.

She said that 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 <20C objective or whether it needs to invest in more narrowly defined portfolios.

She stated that a series of workshops would take place under the review and that the intention was to report back to the Committee in September 2021.

The Chair said that during the review he would welcome some discussion on whether <1.50C portfolios were achievable.

The Panel **RESOLVED** to agree the brief for the Equity Portfolio Review.

21 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2020

The Investments Manager introduced this report to the Panel. He said that following the conclusion of the 2019/20 investment strategy and the resultant asset allocation changes, officers have been working with Mercer and the Fund's Custodian to revise the strategic benchmark that the Fund uses to benchmark total performance.

He added that officers and Mercer continue to work with the Custodian to explore options for integrating the Fund's FX overlay programme into the strategic benchmark in a cost-efficient manner.

Steve Turner, Mercer referred the Panel to page 20 of Appendix 2 and said that there had been a huge rally in all assets, especially Global Equity and forms of credit. He added that funding was only 2-3% below the recovery plan.

He referred to the divergence in returns across sectors during the pandemic, noting strong performance in the technology sector which represents c.20% of the global market and cautioned that the oil & gas sector, which dominates the UK market, could face headwinds as low carbon energy solutions continue to gain traction.

He suggested that as much of the portfolio had now transitioned to Brunel that it would be a good time to consider the style of the performance report moving forward.

The Group Manager for Funding, Investment & Risk agreed and said they should meet and agree the best way to do that, including their attendance at future meetings.

Pauline Gordon asked for further information on whether BlackRock was behind the benchmark in its passive equity.

The Investments Manager replied that Mercer were sweeping up a legacy passive sleeve which accounts for a slight discrepancy. He added that an update would be provided on this at the Committee.

Pauline Gordon asked if any details could be given as to why Partners Property were behind nearly 10% over 3 months.

Ross Palmer, Mercer replied that the number showing for Partners is actually lagged by a Quarter and that the figure for Q2 was 3.4%.

John Finch asked how much of the Global Equity Portfolio was either local market or local currency in terms of excess returns.

Steve Turner replied that it was all local currency. He added that one of the long-term managers, Baillie Gifford had outperformed by around 30% over the Quarter. He said that they have largely benefitted from their holdings in digital and e-commerce companies such as Tesla, Amazon, Shopify, Nintendo and Zoom.

The Chair highlighted that during the quarter Brunel published their first Responsible Investment and Stewardship Outcomes Report, which evidences policy commitments on ESG risk integration, engagement and stewardship activities.

He added that the shareholder resolution that Brunel co-filed with ShareAction requesting that Barclays publish a plan to phase out the provision of financial services to non-Paris aligned oil and gas companies led to the company publicly stating an ambition to become net zero by 2050. The shareholder resolution itself won significant minority support.

The Panel **RESOLVED** to note the information as set out in the reports.

22 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She highlighted that Brunel would give an overview presentation of Listed Market Portfolios at the November meeting and one on Private Market Portfolios at the February 2021 meeting.

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

The Chair thanked the representatives from Brunel and Mercer for attending alongside the officers from the Avon Pension Fund for their reports and contributions to the meeting.

The meeting ended at 4.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services