

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 25th September, 2020

Present:- Councillors Bruce Shearn (Chair), Shaun Stephenson-McGall (Vice-Chair), Chris Dando, Paul May and Manda Rigby

Co-opted Voting Members: : Councillor John Cato (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), Charles Gerrish (Academies), William Liew (HFE Employers), Shirley Marsh-Hughes (Independent Member), Pauline Gordon (Independent Member), John Finch (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Wendy Weston (Trade Unions)

Advisors: Steve Turner (Mercer) and Ross Palmer (Mercer)

External Managers: Laura Hobbs (Brunel), Helen Price (Brunel) and Chris Crozier (Brunel)

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

15 WELCOME & INTRODUCTIONS

The Chair of the Committee welcomed everyone to the meeting.

16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from co-opted member Councillor Toby Savage.

17 DECLARATIONS OF INTEREST

There were none.

18 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

20 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

21 MINUTES - 26TH JUNE 2020

The minutes were approved as a correct record.

22 ANNUAL RESPONSIBLE INVESTING REPORT

The Investments Manager introduced this report to the Committee.

He stated that Brunel are our strategic partner for developing, implementing and monitoring our Responsible Investing policies and priorities. He added that for the year ending December 2019 Brunel have published a Responsible Investing and Stewardship Outcomes Report.

He explained that the report sets out the Responsible Investing and Environmental, Social and Governance (ESG) issues that have been taken into account and how these were addressed through strategic decision making.

He informed the Committee that some of the major strategic updates during the year were as follows:

- The climate change modelling work undertaken by the Fund as part of the 2019/20 investment strategy review leading to a series of climate change objectives and asset allocation changes
- Transition of assets to Brunel and further policy development in collaboration with Brunel and its strategic partners
- Monitoring, reporting and scrutinising investment managers Responsible Investing activity
- Active participation in several industry initiatives including Local Authority Pension Fund Forum (LAPFF) and ClimateAction 100+ (CA100+). This year the Fund joined the Institutional Investors Group on Climate Change (IIGCC) and post period-end has been working with IIGCC and Brunel to help develop a framework for investors' asset allocation to meet the Paris Agreement goal of becoming <2°C aligned

Wendy Weston commented that at the next Committee meeting she would like to hear any progress on the Barclays AGM shareholder resolution and referring to the LAPFF Quarterly Engagement Monitoring Report, how other financial institutions are dealing with Responsible Investing.

Laura Hobbs, Responsible Investment Manager, Brunel gave a presentation to the Committee, a summary is set out below.

Brunel overview

Brunel Pension Partnership is one of the eight national Local Government Pension Scheme (LGPS) pools, bringing together circa £30 billion investments of 10 likeminded funds.

Brunel formally began its operations on 18 July 2017 upon the execution of the current shareholders agreement and its subsequent annexes, such as the services agreement.

Covid-19 / Responsible Investment (RI)

The Covid-19 pandemic has had a profound impact on the economy and employment and has fired up Responsible Investment activity by putting a spotlight on ESG investing.

Policy makers are being urged to step-up with the growing likelihood of possible future pandemics.

Covid-19 has heightened almost every area of our work and uncovered important new topics. Climate change remains a focus.

Climate Change – Barclays update

Brunel co-filed the first ever shareholder climate resolution at a major European bank in December 2019. 23.95% of votes supported the resolution at the Barclays AGM in May 2020 demonstrating clear shareholder backing for the bank to become net zero by 2050.

Climate Change – Blackrock update and TCFD (Task Force on Climate-related Financial Disclosures)

Following extensive engagement with Blackrock, we welcomed their public stance over voting against 53 companies and putting another 244 on 'watch' for inadequate action over climate risk

TCFD could be embedded in UK pensions law

Net Zero Framework – IIGCC project to pilot new tools to assess our portfolios' alignment with climate goals

Climate Change - Net Zero Investment Framework

The framework has been developed with over 70 global investors, representing more than \$16 trillion, through the Institutional Investors Group on Climate Change (IIGCC)

Aims to maximise investor contribution to decarbonisation, helping to keep global temperature rises below 1.5°C

Brunel is among a group of 5 investors that are testing the framework, by modelling the impact of real-world portfolios

Working with Avon, we submitted three portfolios for modelling:

- 'Benchmark Portfolio' – passive portfolio with no climate considerations integrated

- ‘Current Portfolio’ – the listed portion of Avon’s current investment portfolio
- ‘Future Aligned Portfolio’ – hypothetical portfolio applying the Net Zero methodology to Avon’s portfolio

We look forward to sharing the results of the modelling with analysis and the final framework in 2021.

Climate Change – how do we measure our progress?

We aim to have all of our material holdings on TPI (Transition Pathway Initiative) level 4 or above by 2022

We aim to reduce the carbon intensity of our Portfolios by 7% each year vs the benchmark

PAI Project will help us to define what a Paris Aligned Portfolio looks like and inform how we progress towards alignment

Covid-19 has created a spotlight on the ‘S’ of ESG

Racial inequality – Talk About Black blog
Labour standards and modern human slavery
Workplace mental health

We have been engaging across all of these topics, both directly with companies and through our asset managers, working collaboratively with other investors in the industry.

Racial inequality – Talk About Black blog

Helen Price, Stewardship Manager, Brunel led on this area of the presentation as she had published the blog

We are members of the Diversity Project and contributed to guidance around how asset owners can integrate diversity into the selection process

We are seeking to improve the amount of data available around diversity and inclusion, working with data and engagement providers

Migrant Labour and Modern Human Slavery

Covid-19 has created a migrant labour crisis, particularly in the Middle East. Alongside 38 other investors, comprising \$3 trillion we have written to 54 companies who have operations in The Gulf, focusing on high risk sectors of hospitality, construction and oil and gas.

We are asking companies to:

- Engage independent specialists to perform exit interviews
- Commit to reimbursing recruitment fees and adopt the ‘employer pays principle’

- Perform best practice due diligence on labour outsourcing companies

Workplace Mental Health

We wrote to all FTSE 100 companies alongside a coalition of investors with £2.2 trillion.

Urging companies to develop a specific 'mental health during Covid-19 action plans', with items such as:

Training for all line managers on how to spot signs of poor mental health and assist vulnerable employees

Increased flexibility in job design and performance appraisals

Clear details for employees on how to access support

Brunel's PRI (Principles for Responsible Investment) Assessment

We are very pleased with our results as our score was above the median score for all modules.

Sustainable Investment Awards

2020 Winner – Pension Fund of the Year

Councillor Paul May praised their good work and commented that it was good to be better than the benchmarks that have been set. He asked if targets for improvement on climate change / ecological emergencies could be agreed. He also suggested a local focus on additional housing concerns.

Laura Hobbs replied that Brunel do have a target to reduce the carbon intensity of their portfolios by 7% each year vs the benchmark.

She said that they would be happy to work with the Committee on specific climate change goals. She added that they will have input into the 2022 stocktake and that RI covers many areas such as deforestation and water quality.

Councillor Shaun Stephenson-McGall asked if in the stocktake of 2022 will the fund start to divest from laggard companies. With regard to human capital he also asked how Brunel would engage with companies such as Wells Fargo following comments made by their CEO.

Laura Hobbs replied that they were aware that some clients were discussing divestment internally and it was something that could be fed into the 2022 stocktake.

Helen Price added that unfortunately comments like that are still heard a lot across our industry as an excuse for not employing staff from BME backgrounds. She added that the comments are not acceptable and that Brunel have feedback to many companies on this issue through their work on the Diversity Project to try to ensure that diverse talent is sought.

She explained that a specific piece of work was currently ongoing with local universities to recruit 100 black interns to work within Asset Management companies.

Richard Orton said that in 2022 the Fund must divest from those companies that do not take the matter of climate change seriously enough and that if it did not the Fund would look weak.

The Group Manager for Funding, Investment & Risk said that work was already underway with regard to future stocktakes and that a great deal of progress had been made over the past 12 months. She added that it would be welcome to have better and more appropriate benchmarks to measure our investments against.

John Finch asked if Covid-19 has moved us towards being better ESG citizens.

Laura Hobbs replied that she felt that it has highlighted to people the ecological and environmental importance of where they live. She added that it was important for companies to look after their employees and have a sustainable approach to their work. She said that it has made people more aware of the need to have a more sustainable economy.

Pauline Gordon said that she was very pleased with the progress that Brunel has made on the issues and felt that they were leading the way on Climate Change and Responsible Investing.

The Committee **RESOLVED** to:

- i) Approve the Annual Responsible Investment Report for 2019/20 for publication
- ii) Agree the RI priorities for 2020/21

23 INVESTMENT STRATEGY STATEMENT

The Group Manager for Funding, Investment & Risk introduced this report to the Committee. She explained that 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. She said that the current statement has been revised to include changes arising from the Fund's 2019/20 investment strategy review, specifically: increased allocations to private market assets, the development of climate change objectives and ensuing changes to the Fund's equity allocation. She added that updates have also been made to sections covering the Fund's risk management strategies and pooling.

She informed the Committee that there has been a consultation with scheme employers and Trade Unions as well as publishing it on the website for wider comments. She added that in addition, the Pension Board has reviewed the draft statement for compliance with the regulations.

Richard Orton asked if there were only three responses received during the consultation.

The Group Manager for Funding, Investment & Risk confirmed that this was the case. She added that the consultation had come at a difficult time during the start of the pandemic and was probably not a priority for employers and stakeholders. She said the document was also quite technical as it is a statutory document and therefore not easy to comment upon.

Councillor Paul May asked if the issue of an ecological emergency can be referred to in the statement and for specific targets to be set with regard to climate emergency. He also asked for companies that are below level 4 of the TPI (Transition Pathway Initiative) to be challenged and for the Fund to consider disinvestment from them in future years.

The Group Manager for Funding, Investment & Risk replied that in the current statement objectives were agreed on those issues and that the new stocktake would give us a clearer idea on how quickly we can achieve what we want to.

She added that discussions on divestment and how portfolios might change would take place with Brunel if required and that we need to make sure that what we invest in can actually deliver.

The Head of Business Finance & Pensions said that the 2022 / 23 stocktakes would be a watershed moment for the Fund in terms of putting pressure on for our objectives. He stated that there was still work to be done and that we need to ensure that pensions can still be paid.

Councillor John Cato said that he supported the ISS and the comments made during debate regarding further acknowledgement of ecological and biodiversity matters.

The Committee **RESOLVED** to:

- i) Note the conclusion from the Pension Board that the Draft ISS complies with the regulations and statutory guidance
- ii) Note the comments from those that responded to the consultation
- iii) Approve the ISS for publication

24 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this report to the Committee. She informed them that the report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.

The Committee, 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 Committee **RESOLVED** to:

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

25 INVESTMENT PANEL ACTIVITY

The Investments Manager introduced this item to the Committee. He informed them that following a report on a UK Property Portfolio Proposal from Brunel the Panel considered target sector exposure, the estimated cost of realigning the existing portfolio and how Brunel utilise third party advisors to ensure the team can access relevant sector/fund research and enhanced due diligence.

He explained that having considered the transition process and proposed sector changes, Panel concluded that Brunel's approach was reasonable and cost efficient.

The Committee **RESOLVED** to:

- i) Note the decisions as summarised in paragraph 4.1
- ii) Note the minutes of the Investment Panel meeting on 11th September at Appendix 1 and Exempt Appendix 2

26 RISK MANAGEMENT ANNUAL REVIEW

The Investments Manager introduced this report to the Committee. He explained that monitoring of the Risk Management Framework has been delegated to the Investment Panel who monitor the collateral adequacy of the pooled vehicle that contains the strategies, the performance of the strategies and the performance of the manager, Blackrock.

He said that at its meeting on 11 September 2020, the Panel reviewed each of the Risk Management Strategies and considered whether any changes should be recommended to Committee.

The Committee, 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 Committee **RESOLVED** to:

- i) Note Mercer's report reviewing the strategies and collateral position
- ii) Agree the Panel's recommendation to maintain the existing trigger framework for the LDI strategy
- iii) Agree the Panel's recommendation 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 further increasing the hedge following the outcome of the RPI reform consultation, delegating these actions to Officers and Mercer.

There was one abstention from a member of the Committee.

27 INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 30 JUNE 2020)

The Investments Manager introduced this report to the Committee. He informed them that the key points from the funding level analysis were as follows.

- The funding level increased from 84% to 92% over the quarter to 30 June 2020. Based on investment returns and net cashflows into the Fund, the deficit was estimated to have recovered over 2Q20, from £864m to £420m.
- The increase in the funding level occurred as the value of the assets rose by more than the present value of the liabilities over the period.

He explained that the Fund's assets increased by £489m (c.10.9%) over the quarter ending 30 June 2020 giving a value for the Fund of £4,955m and that the Fund's currency hedge detracted -0.1% over the quarter.

The Committee **RESOLVED** to note the information set out in the report and appendices.

28 PENSION FUND ADMINISTRATION

The Pensions Manager introduced this report to the Committee. He informed them that updated advice and guidance for scheme administrators has been received from the Pensions Regulator as the COVID-19 pandemic continues to evolve. He added that whilst the prioritisation of critical administration work to support scheme members by focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases remains, administrators are also reminded of their responsibility to maintain other administrative processes.

He stated that officers have completed work to reconcile data returns ahead of the statutory ABS exercise. He added that 94% of all active member statements were issued ahead of the 31st August deadline and that work is now underway to assess requirements for the provision of statutory Pension Saving Statements.

He said that the I-Connect onboarding project was still suspended pending recruitment of the I-Connect team and that a recruitment project to fill vacancies across the administration teams had commenced in September 2020.

Charles Gerrish asked how the recruitment process would be managed with Covid-19 restrictions still in place.

The Pensions Manager replied that it would take place over a period of 6-8 months and would be closely controlled to ensure that adequate training was in place. He added that the team had been under resourced for some time.

Shirley Marsh-Hughes commended the current team for doing a sterling job in the current climate. She asked if there was a back-up plan if the correct staff can't be found.

The Pensions Manager replied that outside help could be brought in to help if necessary for specific projects or larger pieces of work.

Shirley Marsh-Hughes asked how staff were coping with working from home.

The Pensions Manager replied that it was beginning to take its toll on some staff, but that there are support mechanisms in place. He added that regular health checks are undertaken with staff that include discussions on mental health.

The Head of Business Finance & Pensions added that we were moving into uncharted territory with the pandemic and that he expected working from home through the Winter to be difficult. He said that the management team have been working together to try to maintain morale.

He stated that work would be outsourced where possible and warned that some areas of performance may deteriorate in the coming months.

He thanked all staff for doing a great job.

The Pensions Manager highlighted the following information from the report.

McCloud Judgement

He said that on 16 July 2020, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS. He explained that in summary the consultation proposes that qualifying members, all who were active in 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break, would be protected by the application of a revised underpin which will be applied retrospectively for those who have already left the scheme. He said that the consultation runs until 8th October 2020 and we are currently in the process of formulating a response.

Public Sector Exit Payments Cap

He informed the Committee that on 21 July 2020, HM Treasury published the Government's response to the consultation on restricting exit payments in the public sector. He added that this was followed by the publication of draft regulations which include a list of employers who will be covered by the cap, which is set at a total of £95,000. He said that exit payments include redundancy payments, severance payments, pension strain costs and other payments made as a consequence of termination of employment.

He stated that the Regulations will need to be approved by both houses of parliament and will come into force 21 days after that process is complete. He added that we understand it is the intention that the cap will be in force by the end of the 2020 calendar year.

The Committee **RESOLVED** to note:

- i) Fund and Employer performance for the period to 31st August 2020
- ii) The current position regarding the developments that could affect the administration of the Fund.
- iii) The updated Risk Register and actions taken

29 BUDGET & CASH FLOW MONITORING

The Group Manager for Funding, Investment & Risk introduced this item to the Committee. She explained that the forecast for the year to 31 March 2021 is for expenditure to be £178,000 below budget.

She informed the Committee that within the directly controlled Administration budget expenditure is forecast to be £178,000 under budget. The forecast reduction in directly controlled expenditure is related to salaries, in particular delays in filling vacant posts.

She stated that in the part of the budget that is not directly controlled, it is likely that there will be an overspend in compliance and investment governance costs. She explained that this overspend will be as a result of the additional advisory work required relating to the pandemic, regulatory changes and investment projects agreed since year end.

She said that an update will be provided at the December meeting once the workplan has been fully reviewed.

The Committee **RESOLVED** to note:

- i) The administration and management expenditure incurred for 4 months to 31 July 2020.
- ii) The Cash Flow Forecast at 31 July 2020.
- iii) The draft statement of Going Concern for the pension fund.

30 PENSION BOARD ANNUAL REPORT

The Pensions Manager introduced this report to the Committee. He informed them that the Local Pension Board Annual Report summarises the Board's establishment and activities over the past 12 months and briefly looks forward to the proposed work plan for the forthcoming year.

He added that the Annual Report will be available on the Fund's website and also be referenced in the Annual Report of the Avon Pension Fund which will in turn be submitted to Full Council.

Councillor Paul May asked, in terms of governance, if the report would be submitted to the other Councils that used to be within Avon.

The Head of Business Finance & Pensions replied that he believed this was the case, but that he would check on behalf of the Committee.

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

31 WORKPLANS

The Governance & Risk Advisor introduced this item to the Committee.

The Committee **RESOLVED** to note:

- i) The quarterly monitoring report for the Service Plan
- ii) The Committee & Investment Panel work plans and training programme for the relevant period

The meeting ended at 4.35 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services