

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Friday, 20th November, 2020

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

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

23 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

25 DECLARATIONS OF INTEREST

There were none.

26 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

28 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

29 MINUTES - 11TH SEPTEMBER 2020

The minutes of the meeting on 11th September 2020 were confirmed as a correct record.

30 DYNAMIC EQUITY PROTECTION: STRATEGY DESIGN

The Investments Manager introduced this report to the Panel, a summary is set out below.

The main differences of a dynamic approach versus the existing static structure is that it trades 'little and often', seeking to limit timing risk, reduce volatility and improve overall risk-adjusted returns.

One of the significant challenges of implementing a dynamic structure is measuring its success. Benchmarking a static structure is relatively simple given that it has a finite life and its value is determined on a single expiry date. With a dynamic strategy the most intuitive way of presenting performance is to show the extent to which it has either added or detracted from equity market returns and how it has served to reduce volatility over a given period of time.

Mercer have run a number of back-tests across different timeframes and using various dynamic implementation approaches to arrive at a recommendation that optimises risk-adjusted returns.

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) Agree to implement the bank-led dynamic equity protection strategy by using a "Put Spread Calendar Collar" structure and agrees the design parameters as set out in Exempt Appendix 1.**
- ii) Delegate the implementation of the strategy, including the appointment of a bank counterparty, to Officers and Mercer.**

31 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this report to the Panel, a summary is set out below.

Assets that have transitioned now total £3.19bn (at 31/09/20). In addition, Brunel invests £109.3m in secured Income and £40.2m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt have yet to commence.

To fund the allocation to Sustainable Global Equities in line with the strategic allocation the Brunel UK Equity fund was sold as were the two mandates with Jupiter. The balance was funded by the partial sale of the Brunel Global Equity 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.

The Panel **RESOLVED** to:

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

32 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2020

The Investments Manager introduced this report to the Panel, a summary is set out below.

Green Sovereign Bonds – The UK government has announced it will issue its first green bonds to fund investment in tackling the climate crisis and aid the recovery from the pandemic.

Brunel has joined the Workforce Disclosure Initiative. The initiative calls for greater transparency on workforce policies and practices in companies' direct operations and supply chains. They have also joined the Good Work Coalition, which engages with companies on the importance of a real living wage and living hours.

The Department for Work & Pensions launched a consultation in August, proposing mandatory Taskforce on Climate-related Financial Disclosures (TCFD) to be embedded within pensions Law. The public consultation, launched by the Pensions Climate Risk Industry Group, sought views on policy proposals to require trustees of larger occupational pension schemes and authorised schemes to address climate change risks and opportunities through effective governance and risk management measures.

The Fund pledged its support for an engagement initiative targeting marine microplastic pollution; a priority theme for the Fund as outlined in the Fund's recently published Responsible Investing Annual Report.

Referring to Appendix 2, Steve Turner, Mercer addressed the Panel.

He said that by taking a three year view on Equities (Developed, Emerging and Small Cap) this could be fairly constructive. He explained that the key reason for this was the expectation that interest rates will remain low. He added that in 2021 they were expecting to see a lot of pro-growth policies and spending from Central Banks and Governments.

He stated that Property remains the most challenging asset class that the Fund has exposure to, in particular those affected by Covid-19 within the hospitality and leisure industries. He added that the level of rate collection within most property funds is

between 60% - 80%. He said that in the long term there was an ongoing question mark over future use of office space which Brunel were keeping under review.

He said in terms of Manager Performance there was still a period of transition to Brunel to be considered. He informed the Panel that a number of managers had outperformed against their benchmark.

He explained that a discussion had already begun with officers regarding the redesign of their performance report as a lot of elements within it should be addressed by Brunel. He added that the Mercer version would look to focus more on monitoring strategic asset allocation.

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 note the information as set out in the reports.

33 TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Group Manager for Funding, Investments & Risk introduced this report to the Panel, a summary is set out below.

It is expected that “large” pension funds will be required to provide climate-related financial disclosures in the future. For funds with assets of £5bn or more, it is expected that the reporting period would start from 1 October 2021, with the report required by late 2022. Assuming this is to become law, MHCLG would be expected to make provision for the LGPS broadly in line with DWP regulations.

The Task Force for Climate-related Financial Disclosures (TCFD) framework is considered best practice and is widely adoptable and applicable to organisations across all sectors and countries. Use of this framework to improve the Fund’s disclosure was discussed as part of the Fund’s strategic review in 2019/20; it was agreed the Fund would consider adopting the TCFD’s recommendations as soon as it was practical.

As long-term investors with a focus on responsible investing and transparency, it is imperative that we support, where possible, initiatives that will improve the information available for markets to effectively price climate-related risk in order to improve investment decision making and for policy makers to address market and policy failures.

Early adoption demonstrates the commitment the Fund has to addressing climate risk and capturing opportunities as well as encouraging better disclosure across the industry.

The Panel **RESOLVED** to note the intention to adopt the TCFD recommendations for the year ending 31 March 2021.

34 FORWARD AGENDA

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

She informed them that in addition to the provisional agenda within the report that workshops on the Equity Portfolio Review were due to be planned for next year.

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

The meeting ended at 4.00 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services