

Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND INVESTMENT PANEL		
MEETING DATE:	26 February 2021	AGENDA ITEM NUMBER	8
TITLE:	Private Market Portfolios		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Exempt Appendix 1 – Mercer advice			

## 1 THE ISSUE

- 1.1 The investment cycles for the Brunel private markets are every two years. Where a client allocates to a cycle in year 1, they have the option to 'top-up' their committed amount in year 2.
- 1.2 For Cycle 2 which began in April 2020, Avon allocated to the Secure Income, Renewable Infrastructure and Private Debt portfolios but did not commit the full allocation at that point; in March 2021 the Fund has an opportunity to increase the amount committed.
- 1.3 Mercer has provided advice regarding the top up options (see Exempt App.1).

## 2 RECOMMENDATION

- 2.1 **The Panel agrees to top up the commitments to the private market portfolios as outlined in Exempt Appendix 1.**

### 3 FINANCIAL IMPLICATIONS

- 3.1 The fees that Avon will pay to its investment managers including Brunel are provided for in the Fund's annual budget. The fees on private market portfolios are higher than that for listed market portfolios.

### 4 CYCLE 2 PRIVATE MARKET COMMITMENT TOP-UPS

- 4.1 Following the strategic review in 2019/20, the Fund increased its allocation to private markets as follows:

Portfolio	Pre review allocation	Post review allocation	Cycle 2 commitment April 2020	Max. Top-up March 2021
Secure Income	7.5%	10%	+1.25%	1.25%
Renewable Infrastructure	2.5%	5.0%	+1.25%	1.25%
Private Debt	0%	5.0%	+1.0%	4.0%

- 4.2 Given market uncertainty due to the pandemic in April 2020, the Fund scaled back its commitment to Cycle 2 with the intention to review whether to top up in March 2021 in line with strategic allocations (see above).
- 4.3 Due to the nature of private market investing, any commitment made will take time to be drawn-down; therefore it will take time to achieve the strategic allocation and this must be considered when deciding how much to top up for this cycle.
- 4.4 Mercer advice and recommendations are set out in Exempt Appendix 1.
- 4.5 Any top-up must be confirmed by the Fund to Brunel by 31 March 2021.
- 4.6 The Panel has delegated powers (see extract from Terms of Reference below) to agree the commitments to the private market portfolios at each cycle to maintain strategic allocations. Should the Fund not increase in line with the current strategic allocations, the next opportunity to allocate will be March 2022.
- 4.7 Extracted from the Committee's Terms of Reference:

*"The Investment Panel ... have delegated authority for:*

*...*

*7. Approve commitments to Brunel's private market portfolios at each commitment cycle to maintain strategic allocations."*

### 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 is

addressing this through its strategic asset allocation to Low Carbon 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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<b>Background papers</b>	Brunel Client Group papers
<b>Please contact the report author if you need to access this report in an alternative format</b>	