

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 24th September, 2021

Bath and North East Somerset Councillors: Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Bruce Shearn, Chris Dando and Paul May

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), Richard Orton (Trade Unions), Shirley Marsh-Hughes (Independent Member), Pauline Gordon (Independent Member) and John Finch (Independent Member)

Also in attendance: Tony Bartlett (Service Director for Financial Control and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Geoff Cleak (Pensions Manager), Carolyn Morgan (Governance and Risk Advisor), Chris Crozier (Brunel) and Helen Price (Brunel)

Advisor: Steve Turner (Mercer)

18 WELCOME & INTRODUCTIONS

The Chairman welcomed everyone to the meeting.

19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Wendy Weston, Councillor John Goddard and Michael Rumph had all sent their apologies to the Committee.

20 DECLARATIONS OF INTEREST

There were none.

21 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

The Chairman advised the Committee that agenda item 8 would now be a presentation from Brunel. He explained that the Pension Board had only met on Tuesday this week (21st September) and that their minutes have not yet been completed.

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

Alasdair Yule, B&NES UNISON Branch Green Officer, addressed the Committee on behalf of B&NES UNISON Branch, Bristol UNISON Branch, North Somerset UNISON Branch, South Gloucestershire UNISON Branch, Bath Spa University UNISON, Bath University UNISON Branch and the University of the West of England

UNISON Branch. A copy of his statement is attached as an online appendix to these minutes, a summary is set out below.

The UNISON branches want the Committee to know that we recognise and acknowledge that Avon Pension Fund and Brunel are striving to be at the forefront of the actions to tackle climate change within the pensions/ finance sector, as demonstrated by the thorough responses you have provided.

We have been made aware that Brunel Pensions Partnership is carrying out a consultation this Autumn for the 2022 Paris Stocktake. We would like to make the Committee aware that the West of England UNISON Branches will be expecting to participate as stakeholders in this consultation.

The Chairman thanked him for his statement on behalf of the Committee.

23 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

24 MINUTES: 28TH JUNE 2021

The members of the Committee were minded to advise that the minutes be approved as a correct record.

25 BRUNEL PRESENTATION

Helen Price, Brunel Pension Partnership addressed the Committee and gave a presentation on Responsible Investment. A copy of the presentation is attached as an online appendix to these minutes, a summary is set out below.

She said that she felt that the Partnership had come a long way in the past four years and had now been identified as a leader in the work of addressing Climate Change by winning Pension Fund of the Year for 2020 in the Environmental Finance – Sustainable Investment Awards.

Brunel's approach to Responsible Investment

To deliver stronger investment returns over the long term, protecting our clients' interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

This would be achieved through the three pillars of Responsible Investment.

- Integration
- Collaboration
- Transparency

Climate beliefs

We believe that:

- Climate change presents a **systemic and material risk** to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our Clients, their beneficiaries and **all portfolios holdings**.
- Investing to support the **Paris goals that deliver a below 2C°** temperature increase is entirely consistent with **securing long-term financial returns** and is aligned with the best long-term interests of our clients.
- For society to achieve a net-zero carbon future by 2050 (or before) requires **systemic change in the investment industry**, and **equipping and empowering our Clients** (and other investors) is central to this change.

Brunel's Climate Change Policy

Integrating climate risk and opportunities in all we do

- Engaging on public policy – making markets work
- Portfolio design – Investing where it matters
- Manager selection & monitoring – Designing climate transition solutions
- Engaging with companies – Convincing others to change
- Positive investment – Delivering and evidencing progress

Net Zero

- Net Zero for financed emissions (investments) by 2050, or before.
- Net Zero on operational emission by 2030, or before

Engagement by Brunel – Banks

- Brunel co-filed a shareholder resolution at Barclays in December 2019. The first ever shareholder climate resolution at a major European bank
- In 2020 Brunel co-filed a climate resolution at HSBC, Europe's second largest financier of fossil fuels
- Joined IIGCC Banking Sector Workstream - Aligning the Banking Sector with the Goals of the Paris Agreement

Climate Stocktake

The purpose of the climate stocktake is to review Brunel's approach to managing climate risk. It will seek to address the following questions:

- Did we deliver on our overall Climate Policy objectives – Was it effective? Was it efficient?

- Does it meet clients and beneficiaries' expectations and needs?
- Is it best practice? What do third party assessments e.g. EY and Principles for Responsible Investment tell us about any current or future gaps? Where are there opportunities for further leadership?
- How does our current approach stack up in light of new research and evidence? Are there outcomes of the Net Zero Investment Framework, International Panel on Climate Change or International Energy Agency (IEA) Net Zero Road map that need to be reflected in our approach going forward?
- Is the way our various asset managers are addressing climate risk, in the context of their mandates, consistent with our policy? Do we have any concerns?
- Are there any specific holdings that are cause for concern? Companies that not responding to engagement?

November 2021: COP26

November 2021: Stocktake process starts

December –September 2022

- Public policy achievements review
- Stakeholder engagement

May/ October 2022: Client workshops

November 2022: Stocktake complete

January 2023: Updated climate change policy

Cyber Security

- Alphabet - has published a set of principles to promote the responsible use of AI
- Netease – published its ESG report in June 2020 and included data privacy and protection, and GDPR compliance
- Baidu – put in place robust corporate structure and measures to protect the privacy of users' data

Diversity

Diversity Charter - This is a commitment by signatory firms to work together to build an investment industry which represents a more balanced and fair representation of diverse societies.

- Who has the responsibility and oversight for the diversity strategy and targets? If there are no targets, explain why?
- How do you ensure you operate an equal opportunity development and promotion process?
- How are you fostering inclusivity? Do you undertake staff surveys, ensure policies are accessible?

Shirley Marsh-Hughes commented that some companies within the Emerging Markets may find the issue of climate change difficult to address.

Helen Price replied that across all portfolios they would look to use their Transition Pathway Initiative Manager ratings to identify companies that we need to engage with. She added that they need to be mindful of local policies whilst seeking further disclosure / progress.

Councillor Steve Pearce asked if there was any opportunity to produce impact investment vehicles for addressing climate change issues.

Chris Crozier, Brunel replied that finding a consistent definition of impact was being looked at. He added that they do have some Private Market Portfolios that are impactful in terms of housing and renewable energy vehicles that do offer opportunities. He said that they would be willing to discuss the issue further with local officers.

Councillor Pearce asked if the Committee could receive a report on this issue at some point in the future.

The Group Manager for Funding, Investment & Risk commented that within the Fund there was likely to be a myriad of different opportunities and said that it does have impactful investments.

The Chairman thanked Brunel for the presentation on behalf of the Committee.

26 EQUITY PORTFOLIO REVIEW

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.

27 ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

The Investments Manager introduced this report to the Committee. He informed them that the report was for noting as there were no recommendations to change the Risk Management Strategies.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Avon Pension Fund Committee is asked to note the following:

- (i) The Risk Management Strategies are all achieving their strategic objectives.
- (ii) There are no strategic changes required to any of the strategies.
- (iii) There is adequate collateral to support the strategies.

28 BRUNEL UPDATE

The Group Manager for Funding, Investment & Risk introduced this report. She explained the report was for noting and that the last transition of our liquid/listed assets, the Multi Asset Credit Portfolio, had now completed. She added that the transition costs were slightly higher, but that the process had been efficiently done.

She informed the Committee that Brunel would be holding two Investor Days that will take place on 27th September and 6th October respectively.

The Service Director for Financial Control and Pensions added that there are seven new Pension Chairs on the Brunel Oversight Board following the Local Elections in May. He said that the Chair of the Board is expecting to address issues, particularly climate change on an ongoing basis.

Shirley Marsh-Hughes commented that this was a milestone and offered her congratulations to Brunel and the Avon Executive Team.

The Chairman stated that he was intending to make a statement to Full Council on 18th November regarding climate change and investments and that he would circulate this to the Committee in advance.

Councillor Paul May said that he was pleased to see that the Fund was doing well, but asked if this could be shown in context with any comparative figures from other organisations.

The Service Director for Financial Control and Pensions replied that this was difficult to evidence.

Steve Turner, Mercer added that they have experience and anecdotal evidence through clients that they work with. He said that the Environment Agency were considered to be leaders in the market place, but Avon were not hugely behind in terms of the work done so far.

He added that Mercer have recently developed a new Internal Benchmarking Exercise tool to assess how far our clients have progressed on climate change. He said that in respect of this Avon were in the top 10% of their client base on this matter.

The Service Director for Financial Control and Pensions said that Unison have looked at the LGPS Funds and reported this in some way and showed that we are near the top along with the Environment Agency.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

That the Committee notes the information set out in the report and appendices.

29 INVESTMENT PANEL ACTIVITY

The Investments Manager introduced this report. He said that a lot of the content of the report was covered in other items on the agenda today.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes the draft minutes of the Investment Panel meeting on 17th September at Appendix 1 and Exempt Appendix 2.

30 INVESTMENT PERFORMANCE

The Investments Manager introduced this report. He said that it had been a strong quarter for Growth Assets as evidenced by the funding level and stable deployment of capital into Private Market Strategies.

He added that as of 30 June 2021 86% of the Fund's £345m commitment to the Secured Income portfolio had been deployed.

Steve Turner, Mercer addressed the Committee and highlighted the following points from within Appendix 2 (Mercer Performance Report).

- The funding level is estimated to have improved from 97% to 101% over Q2 as asset growth outweighed the rise in the value of the liabilities. It is estimated to have increased by 9% over the year to 30 June 2021.
- Fund returns over the quarter were driven by the continued strength in growth assets.
- Central banks starting to talk more about an increase in Interest Rates. This has a potential major risk to financial markets and therefore a knock-on effect on other markets, including equities.

He said that the benefit of now having a Dynamic Equity Protection Strategy would be that the protection will evolve in line with the markets. He added protection would

be in place from the first -10% move in equities and that permanent protection would be in place if markets fell from -10% to -30%.

William Liew asked for clarification in terms of the word 'permanent'. He also asked if the portfolio was well balanced in terms of inflation risks.

Steve Turner replied that the portfolio was well positioned with indirect inflation protection for the exposure to real assets. He said that there was also potential to rebalance inflation hedging within the risk management mandate.

He added that the permanence of the protection before was time specific and that it now would evolve in line with market conditions.

He said that the protection would now only come off if a decision were taken to remove the Equity Protection Strategy.

Pauline Gordon commented that in terms of Corporate Pensions there would be more of a journey plan and funds would de-risk if overfunded would take risk away from Growth Assets and place it within matching assets. She asked if this could be considered for the Fund as part of the Strategy Review next year.

Steve Turner replied that this has been on their mind for future work and could discuss with officers and members.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes the information set out in the report and appendices.

31 UPDATE ON LEGISLATION

The Pensions Manager introduced this report. He said that there had been no significant changes since the previous report. He added that developments on the exit payments cap was still awaited but expected during Q4 potentially. He said that the introduction of any new cap is likely to have administrative implications for the Fund depending on how it is structured.

Shirley Marsh-Hughes asked if external support had been considered to help with the work relating to McCloud and the Pensions Dashboard.

The Pensions Manager replied that he felt that external support was available to the Fund if required and that teams were in place for the work of both of those projects. He added that he would look into whether it would be possible to have a collaboration of officers from across the South West.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes the current position regarding the developments that could affect the administration of the fund.

32 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager introduced this report and highlighted the following areas from within it.

The Member Services team has seen an increase in new monthly tasks over the previous 18 months from circa 1,800 to 2,200 tasks per month with the current outstanding cases totalling 4,841 (an increase of 58% since March 2020). He said that the main volume of work is with member refunds, active member retirements and retirements from deferred status. He added that Member estimate requests have increased by 35% over the same period and general enquiries also remain high in volume and a number of these identified as duplicate chasers.

As previously agreed by the Pensions Committee a managed phased recruitment process across pensions admin has been in operation since July 2020. During this time twenty-two officers have either been recruited new to post or have moved internally within APF. This process has been managed remotely by senior officers with training and support provided by the new officer training program.

A number of vacant posts remain across the service. (i) As part of the ongoing phased recruitment there are 4.2 fte posts to backfill. (ii) Recruitment of the Technical & Compliance Advisor remains outstanding following the recent advertising campaign. (iii) Recruitment of Transformation Manager and Project Manager – currently being reviewed by Mercer consultant.

Referring to Appendix 1 (Fund Performance against SLA – KPI's) he said that officers were aware that steps need to be made to address performance and workload.

He said that a project had been developed with service managers and staff to put in place two teams from October with specific focus on (i) Backlog clearance and (ii) Business as usual. He added that these teams would look to be in place for six months, with a review of progress to take place after three months.

He said that members of the Pension Board had raised concerns around the delivery of IT equipment to staff and when they would be able to return to the office.

Richard Orton asked if working from home was hampering efficiency why have staff not returned to the office sooner.

The Pensions Manager replied that there was currently limited access to the offices within Keynsham Civic Centre and that officers have to abide by the current rules that have been put in place by B&NES.

Councillor Shaun-Stephenson McGall asked if the figures stated in relation to Member Self Service (MSS) were good in comparison to other Funds and how were we looking to increase its use.

The Pensions Manager replied that he believed these figures to be around par, possibly slightly above other Funds. He said that an additional resource had now

been recruited to assist the Communications & Marketing Manager to maximise member sign up to MSS. He added that they will triage incoming member enquiries/requests to identify and signpost members to use MSS which will assist the reduction to the workload on the Member Services team.

He said that a good target over the next 18 months would be to increase usage from 35% to 60%.

William Liew suggested that the Fund uses employers where possible in helping to spread the messages regarding online use and to consider holding seminars online for members on this matter.

Councillor John Cato asked if any usability evaluations of MSS had been carried out.

The Pensions Manager replied that there hadn't and said that they could consider approaching members via a survey to see if the system requires any development.

The Service Director for Financial Control and Pensions commented that digital developments do need to be progressed and that it was acknowledged that we need to encourage the use of MSS and expand its possibilities.

He added that Keynsham Civic Centre was undergoing refurbishment following the pandemic and that the Pensions Teams were looking to have as much space as possible within the building when that work has been completed.

Councillor Paul May asked if the Chairman could make representation on behalf of the staff regarding their return to the Keynsham Civic Centre.

The Chairman replied that he would along with discussing whether their access to the new Council laptops could be accelerated within the rollout programme.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes:

- (i) The Fund performance for the three months to 30th June 2021.
- (ii) The current Risk Register.

33 BUDGET & CASH FLOW MONITORING

The Group Manager for Funding, Investment & Risk introduced this report. She said that the Pension Fund’s Statement of Accounts will be approved by the Corporate Audit Committee at their December meeting.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 4th October.

The Committee notes:

- (i) The administration and management expenditure incurred for the year to 31 March 2022.
- (ii) The Cash Flow report for the year to 31 March 2022.
- (iii) The Going Concern Statement for the Pension Fund as currently drafted.

34 WORKPLANS

The Governance & Risk Advisor introduced this report. She said that attached to the report was the work plan for the Committee and a separate one for the Investment Panel which sets out provisional agendas for forthcoming meetings. She added that a provisional training programme for 2021/22 was also included.

The members of the Committee were minded to advise that the following resolution should be made on Monday 4th October.

The Committee notes the Committee & Investment Panel work plans and training programme for the relevant period.

The meeting ended at 3.57 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services