

| Bath & North East Somerset Council | | |
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| MEETING: | AVON PENSION FUND INVESTMENT PANEL | |
| MEETING DATE: | 25 FEBRUARY 2022 | AGENDA ITEM NUMBER |
| TITLE: | Private Market Portfolios | |
| WARD: | ALL | |
| AN OPEN PUBLIC ITEM | | |
| List of attachments to this report: | | |
| Exempt Appendix 1 – Brunel Private Markets Update | | |
| Exempt Appendix 2 – Mercer Paper: Brunel Private Markets Cycle 3 Commitments | | |

1 THE ISSUE

- 1.1 The investment cycles for the Brunel private markets are every two years. Cycle 3 (2022-2024) portfolio specifications have been finalised and new capital committed will be invested from April 2022.
- 1.2 The Fund is not altering its strategic allocations to the private market portfolios; these were agreed by the Committee in April 2020. The Fund currently has strategic allocations to the Secured Income, Renewable Infrastructure and Private Debt portfolios.
- 1.3 As the overall value of the Fund has increased since the Fund made its Cycle 2 commitments in 2020, the capital committed is short of the target allocations in monetary terms. Therefore, more capital is being committed to Cycle 3 portfolios to ensure the Fund reaches and then maintains its strategic allocation targets.
- 1.4 Brunel will provide an update on the Cycle 1 & 2 portfolios as well as a Cycle 3 forward-look at the meeting. Their presentation can be found at Exempt Appendix 1.
- 1.5 Mercer has provided assurance that the Cycle 3 private market portfolios still meet our strategic objectives (see Exempt Appendix 2).

2 RECOMMENDATION

- 2.1 **The Panel notes the capital being committed to Cycle 3 private market portfolios to reach the existing strategic allocations as outlined in Exempt Appendix 2.**

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 3 PRIVATE MARKET COMMITMENT TOP-UP

- 4.1 Given the commitment/draw down nature of private market investing, where committed capital takes time (1-5 years) to be invested, coupled with distributions of capital over the life of the fund (particularly in the latter years of a fund's life), it is difficult to achieve and maintain the strategic allocation. To mitigate this, the Fund periodically commits more capital when it is falling behind the target allocation, targeting a 2% 'overcommitment' to maintain the allocation over the life cycle of the underlying investments.
- 4.2 Commitments to Brunel private market portfolios are a fixed monetary amount at each 2 yearly cycle, based on the Fund value at the time of each cycle. As the Fund's value has increased since the strategic allocations to private markets were agreed in April 2020, the capital committed to private market portfolios has fallen behind the target allocations. Therefore more capital is being committed to achieve the overall strategic allocations to private market portfolios.
- 4.3 The Fund currently has a 10% allocation to the Secured Income portfolio which provides the Fund with contractual, inflation-linked long dated cashflows.
- 4.4 The Fund has a 10% overall allocation to infrastructure split equally between core infrastructure (5%), which is managed by the legacy manager IFM, and Renewable Infrastructure (5%), managed by Brunel. The renewable infrastructure allocation remains a key strategic allocation given the Fund's wider climate change objectives. Although Brunel Cycle 3 will not offer an explicit renewables 'sleeve' Mercer have confirmed the Cycle 3 specification for this portfolio meets the Fund's climate and risk/return objectives given the focus for Cycle 3 is climate mitigation solutions.
- 4.5 The Fund has a 5% allocation to private debt which serves to enhance risk/return through the so-called 'illiquidity premium' and is made up of primarily floating rate loans, therefore minimising the Fund's exposure to increasing interest rates.
- 4.6
- 4.7 Mercer have provided assurance (see Exempt Appendix 2) that the portfolio specifications for each of the Cycle 3 portfolios are in line with the Fund's investment risk and return objectives. The increased monetary commitments are also set out in Exempt Appendix 2.

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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| Background papers | Brunel Client Group papers |
| Please contact the report author if you need to access this report in an alternative format | |