

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Friday 27 May 2022, 2.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch, and Shirley Marsh-Hughes (left the meeting at 4.33pm)

Advisors: Josh Caughey (Mercer), Steve Turner (Mercer), Luke O'Donnell (Brunel) and Daniel Spencer (Brunel)

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

1 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting.

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence were received from Pauline Gordon.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business.

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

Nick Aslett addressed the Panel asking that 2050 target for the removal of all funding to the fossil fuel industry be revised and money be divested from fossil fuel industries immediately.

The Chair confirmed that a written response would be sent to Mr Aslett and this, along with the statement, would be attached as an online appendix to these minutes.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were no items from Councillors or co-opted Members.

7 MINUTES - 25TH FEBRUARY 2022

RESOLVED that the minutes of the meeting on 25 February 2022 be confirmed as a correct record and signed by the Chair.

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2022

The Investments Manager introduced the report and invited representatives from Brunel and Mercer to present their update.

Daniel Spencer and Luke O'Donnell (Brunel) gave an update as follows:

1. Credit update: US and UK Government Bond Yields were trending upwards.
2. Last year there was a supply shortage which caused prices to rise and inflation to increase and the Government Bond Yields adjusted accordingly.
3. Corporate borrowing costs had also increased due to the events of the last 3 months.
4. Managers and their portfolios: CQS had expertise in loans and asset class criteria, Neuberger Berman had a broad approach and Oaktree had specialist in asset class strength and distinctive asset allocation.
5. Asset types and return drives: 60%-80% of returns were of moderate risk. Higher risk assets were low in the portfolio (10%-20%).
6. Environmental, Social and Governance (ESG) progress of Managers to date were set out in the presentation slides, including key milestones to date in relation to climate issues. In the shorter term, there would be a full climate audit followed by target setting.
7. Responsible Investing: Q1 had been impacted by 2 events, the invasion of Ukraine by Russia and subsequent impact on commodities and the continuing lockdown policies of China which was causing bottlenecks in terms of supply. This had resulted in higher inflation causing central banks to react.
8. In Q1 ESG companies had done badly compared with carbon intensive ones so it had been difficult for sustainably focused investors to achieve progress this year due to global events. Sustainable themed investments were down by 5-6%.
9. Drivers of market in Q1: Growth and Quality stocks underperformed value and economic/commodity sensitive stocks
10. Current credit themes: Inflation; Covid; global growth uncertainty; rising credit volatility and central bank tightening.

In response to questions, Committee Members were advised:

1. In relation to responsible investment, the Portfolio Managers were of a high standard and the pipeline of investible opportunities was strong.
2. The target for net zero was 2050, but interim targets had been set for 2030 to monitor progress.
3. In terms of timescales for ESG progress, the long term would be 5-10 years and medium term 2-3 years. It was hoped that the short-term target of a climate audit would be completed this year.
4. Neuberger Berman was the leader in terms of RI and may be able to

- achieve ambitious medium term targets.
5. Consideration was being given to the impact of commodity production resulting from the Russia/Ukraine situation.
 6. Even though sustainable themed investments were down, there would be no compromise on RI and Managers were looking at different scenarios in the event of the Russia/Ukraine conflict continuing for a long period.
 7. The result of the Australian election would not impact on investments as this was a small part of the global equity universe.
 8. Even though there were no direct investments in China in this portfolio, the zero covid policy and lockdowns in areas such as Shanghai did have an impact on inflation and market behaviour causing a domino effect.
 9. In relation to the risks and opportunities of stagflation, work was being undertaken in terms of scenario planning and this would be reported back to Panel members.

The following questions from Panel Members would be raised with Portfolio Managers:

1. What were the knock-on risks and impact on poorer countries of commodity shortages resulting from the Russian/Ukraine conflict?
2. What analysis was taking place about the lessons learnt from the Covid pandemic in relation to investment risk?

Josh Caughey and Steve Turner (Mercer) gave an update as follows:

1. Market background: key issues were the Russian invasion of Ukraine and the increase in inflation. This had an impact on the Liability Driven Investment (LDI) portfolio.
2. Performance Summary: All global equity mandates were ahead of the assumed strategic returns with the exception of the Paris aligned fund, which has an insufficient track record to be able to draw any conclusions
3. Property, secured income and infrastructure were all ahead of returns.
4. Equity protection had been adding value, equity markets had come down and the funding level was protected by 1-2%.
5. The LDI portfolio made a large positive contribution to returns due to the protection it provided against inflation.

In considering whether any issues should be brought to the attention to the Pension Fund Committee, it was noted that the performance of responsible investment and the reasons for this would be highlighted to the committee in the officers' report. Officers also advised the Panel of the Government guidance due later in the year in relation to the levelling up agenda and the potential impact for the local government pension scheme.

RESOLVED that the information in the report be noted.

8 CLIMATE POLICY UPDATE

The Group Manager for Funding, Investment & Risk introduced the report and asked the Panel to note the outcome of the Analysis for Climate Transition (ACT) which would feed into the strategic review and also note the summary of the first Brunel 2022 climate stocktake workshop. She drew attention to the following:

1. It was important to manage expectations as it was only possible to divest from stocks that the fund owned.
2. There needed to be a way to demonstrate how the process worked for some high-profile stocks.
3. Communications were important especially the messaging in relation to selective divesting.

Panel members stressed the importance of communications and publicising information in a format that was easy to understand with basic facts about what the fund did not invest in; areas where the Council had some control; the reality of the size of investment and relatively small amount which was associated with fossil fuels and the progress already made towards achieving net zero alignment by 2050. It was agreed that the response to the public statement would be published on the website, and there could also be a press release to coincide with the publication of the responsible investment annual report in September.

The panel noted that consideration of the exempt appendices would need to be in exempt session due to the detail contained within, but that there would be a higher level presentation to the Committee which would be held in open session.

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.

RESOLVED that the following be noted:

1. the outcomes of the ACT analysis as summarised in Exempt Appendix 1.
2. the proposals for additional climate targets that will be considered as part of the 2022/23 strategic review.
3. the summary of the first Brunel 2022 climate stocktake workshop.

9 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 MARCH 2022

The Investments Manager fed back from the meeting of the Financial Risk Management Group (FRMG) which had considered financial and geopolitical assumptions and identified the main issue as the increase in inflation, how persistent it may be and whether this needed to be offset. He confirmed that Mercer had advised this was not necessary. Separately he drew the Panels attention to the recommendation for the collateral plan be approved, and the implementation of the plan be delegated to FRMG.

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RESOLVED

1. That the following be noted:
 - a. the current funding level and Liability Driven Investment (LDI) hedging position.
 - b. the impact and performance of the equity protection strategy
 - c. the current collateral adequacy position
2. That the proposed collateral plan as set out in Exempt Appendix 2 be approved and the implementation of the plan be delegated to Funding and Risk Management Group.

9 FORWARD AGENDA

The Panel were advised that officers would soon be arranging meeting dates for 2023.

RESOLVED that the forward agenda set out in the report be noted.

The meeting ended at 4.39pm

Chair

Date Confirmed and Signed

Prepared by Democratic Services