

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	25 November 2022	AGENDA ITEM NUMBER
TITLE:	Strategic Investment Review	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Mercer paper		

1 THE ISSUE

- 1.1 A review of the investment strategy is being undertaken alongside the 2022 triennial valuation. The Committee will discuss the possible changes to the strategy in a committee workshop in 1Q23 and the revised strategy will be agreed at the Committee meeting in March 2023.
- 1.2 At this stage Mercer have been requested to present their initial thoughts about the scope and issues to be considered to the Panel as part of the consultation process. There are no strategic decisions to be made at the meeting.

2 RECOMMENDATION

The Panel notes

- 2.1 **The report from Mercer.**

3 FINANCIAL IMPLICATIONS

3.1 The budget has a provision for the Strategic review.

4 2022/23 STRATEGIC INVESTMENT REVIEW

4.1 The Fund reviews its investment objectives and strategic asset allocation at least every 3 years in line with the triennial valuation cycle. In the last review the main changes were to increase the allocation to private market assets (mainly private debt) and revise the allocation within the equity portfolio to be better aligned with the transition to net zero (completed in 2021).

4.2 Given the significant increase in inflation, interest rates and volatility in the markets this year, the focus for this review is around expected returns and the impact of hedging the liabilities as well as new opportunities and achieving our net zero targets.

4.3 The objective of the review is to:

- a) Determine the optimal asset allocation to deliver the return required in the funding plan to maintain stable and affordable contributions
- b) Ensure the Risk Management Strategies remain appropriate and add value to the overall strategy given the change in the market environment
- c) Consider if new investment opportunities including Social/Local investing could be built into the strategy
- d) Consider whether the net zero ambition can be accelerated, and the climate related targets brought forward, without detracting from the overriding return objective.

4.4 Mercers report in Appendix 1 will be discussed at the meeting when Panel will be asked to give feedback.

4.5 The costs arising from changes to the asset allocation or how the investment strategy is implemented, will be included in the final proposals.

4.6 Implementation of any changes to the asset allocation will be delegated to Officers and/or the Investment Panel as required.

4.7 The timetable for the review is:

- a) January 2023 – Officers and Mercer develop key areas for consideration
- b) 28 February 2023 - Committee Workshop to agree objectives and investment beliefs, consider asset allocation options and risk management strategies to conclude on the preferred option
- c) 17 March 2023 – Committee meeting to approve preferred option and timetable for implementing any changes.

4.8 Following the review the Investment Strategy Statement will be updated.

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 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 Paris Aligned 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 Head of Pensions has reviewed this paper for publication.

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Background papers	Mercer papers
Please contact the report author if you need to access this report in an alternative format	