

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND INVESTMENT PANEL
MEETING DATE:	15 SEPTEMBER 2023
TITLE:	LOCAL IMPACT PORTFOLIO FRAMEWORK
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Local Impact Portfolio framework	

1 THE ISSUE

- 1.1 The strategic asset allocation agreed by the Committee includes a 3% allocation to a Local Impact Portfolio. This paper sets out the proposed framework for the portfolio including the portfolio specification, implementation routes, decision making and monitoring.
- 1.2 The proposed framework reflects the highly differentiated opportunity set available in local investing, how conflicts of interest will be managed and how decisions will be implemented.
- 1.3 The Panel are asked to consider the proposed framework to recommend to the Committee at its meeting on 22 September 2023.

2 RECOMMENDATIONS

The Investment Panel:

- 2.1 **Agree the Local Impact Portfolio Framework to recommend to the Pensions Committee.**

3 FINANCIAL IMPLICATIONS

- 3.1 Once the portfolio starts to consider investment opportunities the budget for advice, due diligence work will be brought to Committee.

4 PROPOSED FRAMEWORK

- 4.1 The proposed framework is set out in Appendix 1. The main principles are that:
- a) the assets will be managed by external managers (Brunel or others) or via externally managed funds to manage conflicts of interest;
 - b) collaboration with Brunel/client funds is preferred implementation route;
 - c) internal decision making must be flexible, robust and timely so that opportunities are not missed.
- 4.2 The main aspects that the Panel need to consider are:

- a) Investment Objectives – the definition of impactful assets, the target return and the benchmark for monitoring performance – *note these are unchanged from those agreed as part of the Investment Review in March 2023.*
- b) Geographic coverage – to maximise the opportunity set the focus will be the South West region with an expectation that some will be within the Avon area – *note this is unchanged from that agreed as part of the Investment Review in March 2023.*
- c) Investment time horizon – initial 3% allocation expected to be invested within 5 years.
- d) Portfolio specification – a core /specialist approach is proposed to give flexibility in terms of size of investments, access to niche assets and implementation routes. Not all assets will deliver the return target (i.e. it is not a hurdle) but the portfolio overall will need to achieve the target.
- e) Implementation options – there is a governance impact on the Fund depending on the implementation routes. For the amount of capital to be invested, implementation with a low to medium governance burden is preferred.
- f) Advice – external investment, legal and tax advice will be commissioned as needed on a case-by-case basis. For investments via Brunel, advice will be required as to the suitability of the investment based on the portfolio specification. For non-Brunel led investments more detailed due diligence will be commissioned by the Fund.
- g) Decision making – approving the construction of a portfolio (that is, allocations to opportunities within the agreed asset allocation policy) is already delegated to the Panel. However, as the Panel meets quarterly, the preference is for a smaller working party of Panel members and officers to ensure timely decisions are made. **The Panel needs to agree which option they wish to include in the recommended framework.**
- h) Portfolio monitoring – will be part of the Panel’s remit to monitor the investment performance of all portfolios. It is proposed (once capital has been invested) to issue an annual activity and impact report for the Committee and wider stakeholders.

4.3 The Panel are asked to agree the proposed framework to be recommended to the Committee for approval. Exempt Appendix 1 will then be amended for presenting to the Committee.

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

6 EQUALITIES STATEMENT

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council’s Climate Strategy. The Fund acknowledges the financial risk to

its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Head of Pensions has had the opportunity to input to this report and has cleared it for publication.

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Background papers	None
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