

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	22 SEPTEMBER 2023
TITLE:	INVESTMENT STRATEGY AND BRUNEL UPDATE (for periods ending 30 June 2023)
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Brunel Monitoring Dashboard</p> <p>Appendix 2 – Investment Strategy Dashboard</p> <p>Appendix 3 – Mercer Quarterly Investment Performance Report</p> <p>Appendix 4 – Quarterly LAPFF Engagement Report</p>	

1 THE ISSUE

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level, policy and operational aspects of the Fund.
- 1.2 Exempt Appendix 1 updates the Committee about Brunel and the wider pool covering delivery of service, performance, governance and risk management aspects of the pool.
- 1.3 Appendix 2 summarises progress in respect of the investment strategy (including the risk management framework), portfolio performance and responsible investment issues. Despite strong performance from the Fund's listed equity portfolios over the quarter, 1-year and 3-year investment performance remains behind the strategic benchmark driven largely by declines in property valuations and LDI assets. Significant macro headwinds i.e., high inflation and the uncertain economic outlook persist.
- 1.4 The Mercer Investment Performance Report at Appendix 3 contains performance statistics for periods ending 30 June 2023. Mercer will present their paper at the meeting.

2 RECOMMENDATIONS

The Avon Pension Fund Committee is asked to:

- 2.1 Note the information set out in the report and appendices.

3 FINANCIAL IMPLICATIONS

- 3.1 The returns achieved by the Fund from 1 April 2020 will affect the 2022 triennial valuation. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 BRUNEL UPDATE

4.1 The dashboard of key indicators covering strategic aspects of Brunel is set out in Exempt Appendix 1. It covers all aspects of service delivery, governance, finance and risk. It is updated quarterly to reflect current activity and developments and changes to ratings are highlighted in the commentary. A verbal update will be provided at the meeting.

5 INVESTMENT STRATEGY

A – Funding Level and Investment Performance (‘Amber’ Ratings)

5.1 The Fund’s assets were £5,455m on 30 June 2023 and delivered a net investment return of -0.1% over the quarter.

5.2 The liabilities are expected to have decreased c.0.7% due to the rise in yields. The combined effect of the movement in asset and liability values over the quarter saw the estimated funding level increase marginally to c.97%. The deficit was estimated to have decreased over the quarter to c.£155m.

5.3 Manager performance is monitored in detail by the Investment Panel. The Fund’s investment return and performance relative to the benchmark is summarised below.

Table 1: Fund Investment Returns (Periods to 30 June 2023)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-0.1%	-0.3%	3.2%
Avon Pension Fund (excl. currency hedging)	-0.8%	-1.1%	2.9%
Strategic benchmark (no currency hedging)	1.4%	6.4%	7.7%
Currency hedge impact	0.7%	0.8%	-0.3%

B – Portfolio Performance

5.4 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are presented to the Investment Panel. A summary of Brunel portfolio performance can be found in Section 4 of the Mercer report at Appendix 3.

5.5 Listed equity returns were positive on an absolute basis but struggled to outperform on a relative basis. Although stock selection across portfolios was largely positive a general underweight in large technology stocks weighed on relative performance. The Committee should note that the top-7 global stocks¹ contributed 65% of total global index returns. We believe that the long-term proposition for sustainable stocks remains intact. The passive Paris-aligned index outperformed its active counterparts to produce an absolute return of 5.3% over the quarter. Better than expected corporate earnings, the expectation of more dovish global central bank policy, and a cooling of US inflation helped credit components of the portfolio including the Multi Asset Credit (MAC) portfolio, which delivered an absolute return of 1.8%. Elsewhere, the fund-raising environment for private markets (PM) continues to face challenges with a general slowdown in acquisitions. However, the Fund’s core infrastructure mandate delivered a positive absolute return over the quarter

¹ Apple, Microsoft, Amazon, NVIDIA, Tesla, Alphabet and Meta – dubbed the ‘magnificent seven’

and the pace of deployment within Brunel PM portfolios remains largely on track.

5.6 GBP strengthened against the US Dollar over the quarter, with the currency hedge contributing 0.7% to returns. Over the year GBP has appreciated against the USD and JPY which meant the currency hedge added 0.8% to returns.

5.7 **Returns versus the strategic assumptions:** Equity and liquid growth assets classes are generally delivering in line or exceeding expected returns. Property is below its modelled return and the other private market mandates are largely still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions. It should be noted that actual asset returns relate to a relatively short time period (post investment strategy review) so there are limitations at this stage to making direct comparisons with the longer-term strategic assumptions.

6 INVESTMENT PANEL ACTIVITY

6.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee.

6.2 The Panel last met on 15 September. A verbal update of key discussion points/outcomes will be provided at the meeting.

7 RESPONSIBLE INVESTMENT ACTIVITY

7.1 **Stewardship Summary:** Brunel have appointed Federated Hermes EOS to provide voting and engagement services on behalf of the Fund. Hermes engaged with 352 companies held by Avon in the Brunel active equity portfolios on a range of 1223 ESG issues. Environmental topics featured in 26% of engagements, 68% of which related directly to climate change. Social topics featured in 25% of engagements, where conduct and culture, human rights and diversity featured prominently. Of the 37% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 454 meetings (6,430 resolutions). At 302 meetings they recommended opposing one or more resolutions. 68% of the issues Hermes voted against management on comprised board structure and remuneration.

7.2 **Climate Policy Updates:** The Fund will be reviewing its climate objectives as part of the climate workshop taking place in October and will be undertaking a series of engagement sessions including a dedicated ESG member survey in the lead up to the workshop.

8 RISK MANAGEMENT

8.1 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.

9 EQUALITIES STATEMENT

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

10 CLIMATE CHANGE

10.1 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.

11 OTHER OPTIONS CONSIDERED

11.1 None.

12 CONSULTATION

12.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager 01225 395357
Background papers	Data supplied by Mercer & SSBT Performance Services
Please contact the report author if you need to access this report in an alternative format.	