

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	22 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. The Investment Panel have considered the proposed framework for managing and monitoring this portfolio and their recommendation is set out in this paper.
- 1.2 The proposed framework includes portfolio specification, implementation routes, decision making, and monitoring. It 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 Implementation and monitoring of this portfolio falls within the delegations to the Investment Panel.

2 RECOMMENDATION

The Committee:

- 2.1 Agrees the proposed Local Impact Portfolio Framework as set out in this paper.

3 FINANCIAL IMPLICATIONS

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

4 PROPOSED FRAMEWORK

- 4.1 The framework is set out in Appendix 1. Key principles are as follows:
 - a) all assets will be managed by external fund managers, either via Brunel or directly where Brunel is unable to help.
 - b) working through Brunel is the preferred implementation route.
 - c) internal decision making must be flexible, robust and timely so that opportunities are not missed.

4.2 The main aspects of the framework are:

- a) Investment Objectives – the definition of impactful assets, the target return and the benchmark for monitoring performance are unchanged from those agreed as part of the Investment Review in March 2023;
- b) Geographic coverage – to maximise the opportunity set within a ‘local’ footprint, focus will be the South West region with an expectation that some will be within the Avon area (unchanged vs Investment Review in March 2023);
- c) Investment time horizon – initial allocation of 3% is expected to be invested within 5 years;
- d) Portfolio specification – a core/specialist approach provides flexibility in terms of size of investments, access to niche assets, and implementation. There will be a range of returns above and below the aggregate target return.
- e) Implementation options – different routes lead to different governance requirements. Given relatively modest capital to be invested, Brunel managed funds or other 3rd party pooled funds generates a manageable (low/medium) governance burden for the Fund.
- f) Advice – external investment, legal and tax advice will be commissioned as needed on a case-by-case basis. The level of advice will be determined by the implementation route; 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 – the Panel proposes decisions to invest be delegated a named Officer in conjunction with a working group of Panel members and officers. This will ensure timely decision making as opportunities arise.
- h) Portfolio monitoring – will be part of the Investment Panel’s remit to monitor the investment performance of all portfolios. Once capital has been invested, an annual activity and impact report will be published for the Committee and wider stakeholders.

5 INVESTMENT PANEL DISCUSSION

5.1 The Panel discussion focused on the following points:

5.2 **Return objective:** at what point will the returns be able to be assessed given the target of 6.5% over 10-year period? The portfolio will be monitored in line with the other private market portfolios such as the infrastructure portfolio. In the initial years there may negative returns (the j-curve effect) before positive returns emerge after c. 4 years, but this will be dependent on the investment opportunity. Depending on the stage at which the investment is made, there may be a build/development phase and in such cases we would have to consider what other reporting for example in relation to budget and timescales, is needed to demonstrate the investment is on track.

5.3 **Geographic coverage:** we would expect a UK diversified strategy/fund to have at least 15-20% invested within the South West to meet ‘material’ criteria.

5.4 **Decision-making:** This portfolio comes under the remit of the Investment Panel, the Committee having agreed the strategic allocation and framework. The Panel agreed that this portfolio may need more decisions to be made by the fund, especially if investments were made outside Brunel, and discussed 3 options for decision making as shown below.

	Option	Advantages	Disadvantages	Governance process
1.	Delegate decisions to officers	Quick process. Knowledgeable.	PC/IP not involved. No internal challenge.	Would report all decisions to IP. Would require ToR change.
2.	Delegate decisions to Investment Panel	Knowledgeable group, internal challenge to recommendations. Manage elevated risks in a new investment area. Will be responsible for monitoring.	Formal meeting cycle will slow decisions. Less easy to meet at short notice.	Would report all decisions to PC. No change to ToR required.
3.	Delegate to a Working Group of Panel members and officers *	Knowledgeable group, internal challenge to recommendations. Manage elevated risks in a new investment area. Smaller group would be able to meet at short notice. Retain accountability within the Panel. As members of Panel will be responsible for monitoring.	Extra group to support within governance framework.	Would report all decisions to IP. Would require ToR change.

For option 3 the working group would consist of at least 3 panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group Manager Investments and Investments Manager.

5.5 The Panel agreed that the formal quarterly cycle of panel meetings would not support flexible and agile discussions and decision making. The preferred option to recommend to committee was a working group of Panel members and officers. To clarify the working group would consist of 3 Panel members and 3 officers **with decisions based on the agreed recommendation by the Panel members on the working group.**

5.6 **To enable this to work within the Council's constitution, following the Panel meeting this recommendation is amended as follows.** The delegation will be to a named officer, the Head of Pensions *in conjunction* with the working group. This will enable the working group to fully discuss and come to a recommendation, with the formal decision taken by the Head of Pensions as an Officer Decision Report via the normal democratic reporting processes within Bath and North East Somerset Council. A decision cannot be made without consulting the working group. The framework set out in Appendix 1 includes this amendment. The Scheme of Delegation will be amended accordingly.

5.7 All decisions will be reported back to the Panel at its next meeting.

6 RISK MANAGEMENT

6.1 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.

7 EQUALITIES STATEMENT

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

8 CLIMATE CHANGE

8.1 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.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

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

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Background papers	None
Please contact the report author if you need to access this report in an alternative format.	