

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Friday, 15th September, 2023, 10.00 am

Bath and North East Somerset Councillors: Shaun Stephenson-McGall (Chair), Paul Crossley and Chris Dando

Independent Co-opted Voting Members: John Finch, Pauline Gordon and Jackie Peel

Advisors: Steve Turner (Mercer) and Nick Page (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager) and Jeff Wring (Director, One West)

11 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer drew attention to the Emergency Evacuation Procedure.

12 DECLARATIONS OF INTEREST

There were none.

13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

14 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Mel Clarke addressed the Panel, a copy of her statement will be attached as an online appendix to these minutes, a summary is set out below.

I acknowledge the work that APF have done on decarbonisation, but I am worried that progress is too slow and the level of transparency is inadequate

The fund has a Commitment to be net zero by 2050 (Responsible investing report 2022, page 7), but net zero by 2050 falls short of what is actually required to keep climate risk within acceptable levels. Please consider revising this target and bring it in line with up-to-date climate research. Many organisations are now saying they will reach Net Zero by 2030.

Sir David King, previously the UK government's chief scientific advisor, now head of the climate change advisory group has said that: "Achieving net zero by 2050 is no longer enough to ensure a safe future for humanity; we must revise global targets beyond net zero, and commit to net-negative strategies urgently."

Another important point is that the funds responsible investment reports do not give an up to date picture of the current carbon intensity of the fund. To get an idea how things currently lie, I have tried to access recent reports via the publicly available APF meeting minutes.

However, I find that almost all key information is redacted. Redacting of virtually all documentation in this way leaves pension fund members with no way to assess what the fund current climate performance is.

The Chair thanked her for her statement on behalf of the Panel.

He said that we are very aware for the need to accelerate our net zero targets and are currently reviewing them with the intention to bring forward the 2050 target in a way that is compatible with achieving our investment return objective. The Committee will be considering the new targets at its meeting in December and we will be in a position to share our revised targets with members and other stakeholders then.

He added that each year we publish comprehensive climate data in a number of ways, through newsletters, our annual report and accounts and our responsible investing report. Although lot of the data is only analysed and published annually, each quarter we report on the carbon footprint of our equity portfolios and these can be found in the quarterly Panel meeting report from Brunel which are available on the meetings website.

He stated that as a Fund we are transparent as we put all non-commercially sensitive information in the public arena; however there are some topics that the Panel have to consider that are commercially sensitive and these are discussed in private to ensure Panel members have all the information they require to make informed decisions. Once a decision is made it will be included in future public documents that monitor our portfolios and their performance.

16 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

17 MINUTES: 14TH JULY 2023

The Panel **RESOLVED** that the minutes of the meeting held on 14th July 2023 be confirmed as a correct record and signed by the Chair.

18 LOCAL IMPACT PORTFOLIO FRAMEWORK

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She stated that a robust decision making framework was required, one that would enable quick and timely decisions to be made. She said that the Panel's recommendation would then be presented to the Committee.

She explained that where possible all assets would be managed by Brunel, but that this may depend on size or nature of the asset concerned.

She said work was already progressing on the Schroders Greencoat opportunity that was presented to the Panel in July.

John Finch asked how realistic was it that Brunel will be able to create the portfolios that we are seeking.

The Group Manager for Funding, Investment & Risk replied that she felt that in time they could be able to create a vehicle that could support this work more fully and at the same time be cost effective for them.

Jackie Peel referred to page 23 of the agenda and asked about the Fund's overall return objective of c. 6.5%, net of fees over a 10-year period. She asked at what point could the returns be assessed.

Steve Turner, Mercer replied that performance of the portfolio will be reported over time, but that in principle the concept will be like infrastructure assets already held. He added that this will likely be shown as a J-curve, with initial negative returns before positive returns could be seen after 4-6 years.

The Group Manager for Funding, Investment & Risk added that the monitoring of Private Markets is a difficult issue and said that they would also be monitoring the expected return information given to them by the Fund Manager.

The Head of Pensions commented that for some private investments, depending on the stage at when our investment is made, there maybe a build / development phase and therefore a different report structure will be required that shows figures in relation to budget and timescales.

The Chair referred to the Geographic Coverage section of the report and asked for an explanation of what was meant by the word 'material'.

Steve Turner replied that when the design parameters were first discussed they said that the portfolio would be a mixture of South West specific funds and UK diversified strategies with a 15 – 20% South West element. He added that Greencoat was 100% South West specific.

He said that a great deal of flexibility is needed to find suitable opportunities in the area.

Pauline Gordon asked if it was known which Funds were interested in investing at this stage.

Steve Turner replied that the principle Funds were Avon and at least one other fund and that the investment could be in the region of £100m - £150m. He said that this

would be sufficient to get the strategy off the ground and felt that they have a strong pipeline of assets in place.

John Finch commented that he was aware of more managers investigating options for similar types of investment.

Councillor Chris Dando asked for clarification on what was meant by making a quick decision.

The Group Manager for Funding, Investment & Risk replied that decisions were not likely to fall into line with the current meeting cycles as meetings may be required to take place at short notice. She added that this is why the flexible / hybrid model has been included in the options.

Councillor Dando said that he would welcome any emerging options to be shared with the Panel informally prior to the delegated Working Group making an actual decision. He added that there needs to be a transparency to the process.

Jackie Peel said that flexibility would be required to enable timely decisions to be made with speed and agility and would therefore support Option 3.

Pauline Gordon asked if this was comparable with the work undertaken for the Risk Management Framework.

The Group Manager for Funding, Investment & Risk replied that the FRMG don't make strategic decisions and that their remit is set out in the Committee's Terms of Reference.

Councillor Dando said that he felt a flow chart of the process would help.

The Director, One West commented that clarity was needed on where and how decisions will be made. He said that he felt that Option 3 was a good fit and if chosen should be reviewed after 12 months. He added that all decisions of the Working Group would be reported to the Panel, but it would not be eligible to re-decide them.

The Group Manager for Funding, Investment & Risk said that if timely they would bring options to a scheduled meeting of the Panel.

The Head of Pensions said that the proposed configuration of the Working Group would be 3 Investment Panel members and 3 officers, with decisions being taken solely by the Panel members.

The Chair asked that the points made today by the Panel are conveyed to the Committee prior to them meeting.

The Investment Panel **RESOLVED** to agree that Option 3 (Delegate to a Working Group of Panel members and officers) be chosen as the Local Impact Portfolio Framework to be recommended to the Avon Pension Fund Committee.

19 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30TH JUNE 2023

The Investments Manager introduced this report to the Panel and highlighted the following areas.

The Fund's assets were £5,455m on 30 June 2023 and delivered a net investment return of -0.1% over the quarter. The marginal decline in the value of Fund assets over the quarter was driven mainly by the protection assets (LDI and equity protection). The UK property portfolio and the long-lease property component of the Fund's Secured Income allocation also struggled to generate meaningful positive performance with property valuations affected by the high interest rate environment.

Positive equity performance served to offset much of the negative performance from real assets. The passive Paris-aligned index outperformed the two active equity mandates.

A net amount of £125m was drawn down from a combination of cash at hand and the Fund's liquidity management strategy to fund Brunel private market portfolios during the quarter, including the first drawdown to Cycle 3 Secured Income.

A redemption request from IFM Infrastructure for £100m was submitted at the end of the quarter, addressing the overweight to the asset class due to strong returns. Proceeds will be used to fund private market calls arising from the Brunel portfolios.

Steve Turner, Mercer addressed the Panel and began by stating that the last 18 months have been challenging for investment markets to be able to generate strong absolute returns.

He highlighted the following points from within Appendix 3 (Mercer Performance Report).

- Our medium-term outlook (as at July 2023) is mixed.
- We remain slightly negative on equities due to expectations for flat or negative corporate profit growth in 2023.
- We continue to have a modestly positive view on growth fixed income markets (e.g. Multi Asset Credit) due to attractive credit spreads and yields.

Private Markets – Important to maintain a disciplined long-term approach and to wait for these assets to be deployed over time.

Mandate Performance to 30 June 2023

He explained that over a one year period there is a divergence in performance between the Brunel Global High Alpha Equity and Brunel Global Sustainable Equity due to Alpha's exposure to the big seven tech stocks. He added that the High Alpha fund was slightly more carbon intensive relative to the Sustainable fund, but is a lot less versus the market.

Brunel Diversified Returns Fund – No overall portfolio concerns, suggest discussion with Brunel at next appropriate opportunity.

Brunel UK Property – Feel this market area has stabilised.

Brunel Secured Income – 60% in long lease property (15-20 years). Asset class is held by 85% UK DB Investors who are strategic sellers of these assets over time.

Some Private Market assets starting to show strong performance. Important to have in mind the pace of deployment -v- expectations.

Equity Protection Strategy – Deep dive review is in progress.

The Panel **RESOLVED** to note the information as set out in the reports.

20 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 30 JUNE 2023

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.

21 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She informed them that the provisional agenda for the next meeting on 1st December is as follows:

Strategic:

- Responsible Investment Disclosures: TCFD Statement
- Equity Protection analysis

Routine:

- Quarterly Investment Performance
- Risk Management Framework Monitoring

She added that dates for meetings in 2024 had now been agreed.

The Panel **RESOLVED** to note their forward agenda.

The meeting ended at 11.17 am

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services