

## Bath & North East Somerset Council

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| MEETING:  | <b>AVON PENSION FUND INVESTMENT PANEL</b>                                    |
| MEETING DATE:   | <b>1 DECEMBER 2023</b>   |
| TITLE:  | <b>Risk Management Framework Review for Periods Ending 30 September 2023</b> |
| WARD:   | ALL  |
| <b>AN OPEN PUBLIC ITEM</b>  |  |
| List of attachments to this report:<br><b>Exempt Appendix 1 – Mercer Report: Risk Management Framework Review to 30 Sept 2023</b> |  |

### 1. THE ISSUE

- 1.1. The Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the Fund's Risk Management Framework (RMF) thereby ensuring that strategic objectives continue to be met. This report informs Panel of issues considered and decisions made by FRMG as well as any recommendations.
- 1.2. Exempt Appendix 1 shows all risk management strategies are rated green and continue to perform in line with expectation.

### 2. RECOMMENDATION

The Avon Pension Fund Investment Panel is asked to note:

- 2.1. **The performance of each of the underlying RMF strategies and current collateral position.**

### 3. FINANCIAL IMPLICATIONS

- 2.2. The risk management strategies have been implemented to provide greater certainty that the funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

### 4. UPDATE ON RISK MANAGEMENT STRATEGIES

- 4.1. The underlying equity benchmark fell over the quarter, with the equity protection strategy (EPS) performing in line with expectations, increasing the net equity performance by 0.15% as markets moved toward the protection levels. Since inception the EPS has detracted c. 2.0% from equity returns and reduced volatility by c. 25%.
- 4.2. Following the reinstatement of the interest and inflation trigger framework in October 2023, several interest rate triggers were hit leading BlackRock to trade

up to the 40% cap on the aggregate interest rate hedge ratio. The inflation hedge ratio was around 22% at the same date. To facilitate the new triggers being switched on, £200m of equities were transferred from the Brunel passive Paris-aligned strategy into the synthetic Paris-aligned strategy managed by BlackRock. As a result there was no impact on the strategic target allocation to equities and the collateral could withstand a 4.7% increase in yields at period end.

## **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**

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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| <b>Contact person</b>  | Nathan Rollinson, Investments Manager (Tel. 01225 395357) |
| <b>Background papers</b>   | FRMG papers   |
| <b>Please contact the report author if you need to access this report in an alternative format</b> |   |