Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**26 NOVEMBER 2024**
TITLE:	**Risk Management Framework Review for Periods Ending 30 September 2024**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Mercer Report: Risk Management Annual Framework Review 30 September 2024	

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 quarters report includes the annual health check of the risk management framework, which looks at options for utilising excess collateral held within the QIF.

1.2. Exempt Appendix 1 shows all risk management strategies are rated green and continue to perform in line with expectation.

1.3. The collateral buffer has improved by c.1.4% to 887bps over the quarter owing to a change in the way the manager calculates and reports the headroom to the regulator.

1.4. Post period-end, the Fund rebalanced its equity overweight by 5% bringing the overall equity allocation down to c. 45%, which is within the rebalancing range set out in the Investment Strategy Statement. This was implemented via the synthetic equity strategy held in within the QIF. Further information relating to this decision is included in Section 4 of this report.

2. RECOMMENDATION

The Avon Pension Fund Investment Panel:

2.1. **Recommends to Committee that the options set out in Exempt Appendix 1 are considered as part of the 2025 Strategic Investment Review and that no immediate action is taken before then.**

2.2. **Notes the reduction in the synthetic equity exposure to bring aggregate equity exposure to within the tolerance range set out in the Investment Strategy Statement.**

2.3. **Notes the performance of each of the underlying RMF strategies and current collateral position as set out in Exempt Appendix 1.**

3. FINANCIAL IMPLICATIONS

2.4. 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. EQUITY REBALANCE AND ANNUAL RMF REVIEW

4.1. The fund's aggregate equity exposure at the end of the quarter was c. 50%; c. 4% above the upper range of the strategic allocation range. Post period-end steps were taken to reduce the synthetic Paris-aligned equity exposure by £300m, reducing the overall synthetic exposure from c. £1,000m to c. £800m. This had the effect of further improving the collateral position to >900bps and brought the overall equity allocation back to within range.

4.2. The synthetic equities were used to rebalance the overweight due to ease of implementation and the fact the Fund will pay a lower ongoing financing cost for the synthetic equity holdings (c. £1.2m p.a).

4.3. The excess collateral position is central to the RMF annual health check, which Panel consider before taking recommendations to full Committee in December. The Mercer paper outlines options for how to use excess collateral, such as reinstating the interest rate trigger framework and switching synthetic Paris-aligned equities into the physical Brunel Paris-aligned fund. FRMG discussed these options at their 18th November 2024 meeting and concluded that no immediate action was required and options to refine the RMF should be considered more fully at the 2025 Strategic Investment Review.

4.4. In the short term, excess cash held within the QIF can be used to help fund drawdowns from private markets portfolios.

5. RISK MANAGEMENT STRATEGY PERFORMANCE

5.1. The underlying equity benchmark fell marginally over the quarter, with the equity protection strategy (EPS) decreasing net equity performance by 0.8%. Since inception the dynamic EPS has detracted c. 2.6% from equity returns and reduced volatility by c. 24%.

5.2. There was no change to the hedge ratios during the quarter with the interest rate hedge ratio at 40% and the inflation hedge ratio was around 22%.

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

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

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