

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	13 DECEMBER 2024
TITLE:	ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Mercer Report to Investment Panel	

1. THE ISSUE

- 1.1. The Risk Management Framework (RMF) encompasses dedicated risk management strategies including Liability Driven Investment, Buy-and-Maintain Corporate Bonds, Synthetic Equities and Equity Protection. Collateral (in the form of cash and gilts) is used to support a number of these derivative based strategies.
- 1.2. The RMF is linked to the funding strategy and de-risks the Fund by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the Fund's current funding position.
- 1.3. The Committee reviews the strategies annually to assess whether they continue to meet the Fund's strategic objectives. The annual review also considers any financial implications on the wider portfolio, specifically in terms of collateral requirements.
- 1.4. Monitoring of the framework has been delegated to the Investment Panel who monitor collateral adequacy, the performance of the strategies and the performance of the manager, Blackrock. In addition, the Funding and Risk Management Group (FRMG) is responsible for agreeing the operational aspects relating to the RMF thereby ensuring that strategic objectives continue to be met in a timely fashion. FRMG raise any issues or concerns to the Panel for further consideration as well as report back on decisions/actions they have agreed.
- 1.5. At its meeting on 26 November 2024, the Panel reviewed each of the Risk Management Strategies and considered whether any strategic changes should be recommended to Committee.

2. RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1. **Agree the recommendation that the options set out in Exempt Appendix 1 should be considered as part of the 2025 Strategic Investment Review.**
- 2.2. **Note the Risk Management Strategies are performing in line with the Fund's strategic objectives.**

3. FINANCIAL IMPLICATIONS

3.1. 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. ANNUAL REVIEW OF RISK MANAGEMENT STRATEGIES

4.1. The Investment Panel reviewed the Risk Management strategies at its meeting on 26 November 2024 and confirmed all strategies continue to perform in line with expectation.

4.2. The Mercer paper at Exempt Appendix 1 surfaced one issue in respect of the Fund's collateral position, which is materially above the point at which the manager would require additional collateral.

4.3. The Panel considered various options for the most efficient use of excess collateral including:

- (I) Reactivating the interest rate trigger framework
- (II) Switching synthetic Paris-aligned equities into the physical Brunel Paris-aligned fund
- (III) Continuing to hold excess collateral as cash within the RMF fund

4.4. On balance the Panel were minded to recommend to Committee that they take no immediate action ahead of the full investment strategy review scheduled for the first half of 2025. This has the benefit of allowing the Committee to consider any proposed changes to the RMF in the context of the wider investment strategy.

4.5. In the meantime, excess collateral will continue to earn the current cash rate of c.4.75% and can also be used for general cash flow purposes, including funding of private markets calls.

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 STATEMENT

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 Council's Director of Financial Services, Assurance & Pensions has had the opportunity to input to this report and has cleared it for publication.

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Background papers	Mercer Papers
Please contact the report author if you need to access this report in an alternative format	