Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE INVESTMENT PANEL

Minutes of the Meeting held

Wednesday 26th February 2025, 1.00 pm

Members: Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch and Pauline Gordon

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 of Financial Services, Assurance & Pensions)

38 EMERGENCY EVACUATION PROCEDURE

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

39 DECLARATIONS OF INTEREST

There were none.

40 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Jackie Peel (Independent Member) had given her apologies to the Panel.

Councillor Chris Dando and John Finch (Independent Member) attended the meeting virtually via Teams.

41 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

43 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

44 MINUTES: 26TH NOVEMBER 2024 (PUBLIC & EXEMPT)

The Panel **RESOLVED** that the minutes of the meeting held on 26th November 2024 be confirmed as a correct record and signed by the Chair.

45 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2024

The Senior Investments Officer introduced the report to the Panel and highlighted the following points.

- The Fund's assets were £5,899m on 31 December 2024 and delivered a net investment return of -1.8% over the quarter, lagging the 3.0% return for the strategic benchmark.

- Currency hedging had a negative impact on overall returns given the strong movements in currencies during the quarter.

- The estimated funding level stood at 106% as of 31 December 2024 (c. £284m surplus).

- Returns from Brunel's listed portfolios were positive with some notable double-digit performances from Global High Alpha, Global Sustainable Equities and the Passive Developed Equities Paris Aligned portfolios, however relative returns were in line with or behind benchmark.

- Brunel's listed market portfolios all recorded positive absolute performances, but in a familiar theme to previous quarters, relative performance was held back due to stock selection and the continued dominance of the US technology stocks.

- During the period the Fund rebalanced its equity overweight down by 5% bringing the overall equity allocation down to c. 45%, which is within the rebalancing range set out in the Investment Strategy Statement. Due to equity market gains post quarter-end the Fund's allocation to equities has drifted above the upper bound of its rebalancing range. Officers will rebalance the portfolio accordingly and update Panel at its next meeting.

The Investments Manager addressed the Panel to provide them with a Local Impact update.

- During the quarter, £4m was drawn down from the Fund's commitment to Wessex Gardens. Capital will be used to fund a solar construction asset in Oxfordshire. This takes capital deployed to £40m of a total figure of £50m committed.

- The Fund received its first capital call from the Octopus Affordable Housing Fund. £5m in capital to be used for completion and handover of three separate Affordable Housing schemes in Exeter, Essex and the South-East of England.

- SME Funding – The Fund agreed a commitment of £50m to an SME funding strategy following consultation with Mercer. Completion of the manager appointment and legal review expected over the next quarter. The Fund has negotiated a significant discount to the prospective managers standard fee terms.

Councillor Crossley asked if investment was also planned for wind turbines, as whilst acknowledging the benefits of solar panels they do result in a loss of land which could be used for food production.

The Investments Manager replied that the Wessex Gardens vehicle is predominantly land based solar. He added that through other infrastructure allocations they do have investment in wind turbines alongside other renewables.

The Head of Pensions added that having visited one of the sites he was aware that discussions had taken place for potential new solar panels to be slightly elevated to allow for sheep to graze the land. He said that he could not say for definite at this point whether that design would be in place for the site mentioned.

Steve Turner, Mercer addressed the Panel and highlighted the following areas from their report.

- Q4 was an unusual period in which the US Dollar, nominal gilt yields, inflation and equities all increased, whilst Sterling weakened. As a result, the currency hedging, LDI and equity protection strategies all contributed to relative underperformance, as well as underlying portfolios underperforming within their own markets.

- Based on a high level analysis, the underperformance over Q4 can be attributed to: Around half due to currency hedging and LDI (approximately equal contribution from each portfolio) due to the market dynamics outlined above. As LDI performance was negative in Q4 due to gilt yield movements, and the % allocation to LDI was above the SAA, this has had an unusually large impact on total performance. As at the time of writing, gilt yields have reverted to their levels prior to the October 2024 Budget, so we expect most of this underperformance to have reversed.

- State Street don't take currency hedging into account when calculating the total Fund benchmark. Mercer and Fund officers are due to discuss this issue further with them in due course.

- Around a quarter of underperformance was due to negative relative returns from Brunel's funds, in particular the active equity strategies.

- Focus required on how Brunel continue to manage their portfolios and what, if any improvements can be made.

- Upcoming Investment Strategy Review – Consider further exposure to passive management.

- The remainder was due to negative relative returns from other portfolios. We would highlight the Partners Group overseas property mandate in particular (-34% -v- benchmark). These are illiquid, private market assets that are in run-off, with a high absolute benchmark return, so meaningful performance reporting for these assets is not straight-forward. Could consider exclusion from overall benchmark returns when the valuation of this mandate falls below 1% of total assets.

- The asset's performance is reduced by the significant haircuts to Net Asset value applied, within the Partners fund, pre-redemption, and therefore do not reflect the true underlying long-term value of these property assets to Avon. Pauline Gordon suggested it would be helpful to see examples of this valuation difference, for sample underlying assets.

- The LDI portfolio and underperformance of the active equity mandates were also key drivers of the negative relative return against the strategic benchmark over the one year period, as well as the Equity Protection Strategy.

The Chair asked if a timeline for discussions with State Street and any possible changes to the benchmark had been put in place.

Steve Turner replied that he was hopeful that these issues could be resolved by Q1.

The Group Manager for Funding, Investment & Risk added that it would be important for this to be resolved ahead of any potential new pooling arrangements.

The Head of Pensions said that he was not worried about the performance quirk over these three months, but it was important to understand what the underlying drag of the Risk Management Strategy is and whether they are comfortable accepting that drag in exchange for the insurance policy it provides.

He added that in terms of equities, the persistent underperformance of Brunel is mainly due to their underweight to the large technology stocks and that the question to answer was whether now was the correct time to change that stance or not.

John Finch commented that the Brunel portfolio performance was partly a result of our climate change views and the main reasons for their underperformance and said that this could continue to be a problem given the rollback within the USA of the climate change agenda.

Steve Turner agreed and said that they were considering that as a factor to be monitored over the coming months. He posed an open question to Brunel on what the non-financial reasons were for investing in Sustainable Equities and what were the deliverables of these investments.

The Group Manager for Funding, Investment & Risk said that it would be interesting to monitor going forward what companies within the USA continue to report or disclose in terms of ESG.

The Panel **RESOLVED** to note the information as set out in the report and its appendices.

46 RISK MANAGEMENT FRAMEWORK REVIEW FOR PERIODS ENDING 31 DECEMBER 2024

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.

The Panel **RESOLVED** to note the performance of each of the underlying RMF strategies and current collateral position as set out in Exempt Appendix 1.

47 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced the report to the Panel. She informed them of the future meeting dates and the subject matter likely to be discussed at those meetings.

In addition she explained that the Strategic Investment Review was due to be carried out between June and September.

Pauline Gordon commented that the June 2025 meeting date within the report was incorrect and should be listed as 4th June 2025.

Councillor Paul Crossley asked if an update on pooling arrangements could be given to the Panel.

The Group Manager for Funding, Investment & Risk replied that they were still in limbo currently and that an update would be provided to the Committee in due course. She added that Pools have to submit their plans to Government by March 1st 2025 and then it would need to be seen how long it would take for the Pensions Bill to be progressed through the different stages of Parliament.

The Head of Pensions said that he felt that the proposals from Government would be the broad minimum baseline and that a risk remains that they decide that further measures are required to be taken.

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

The meeting ended at 1.55 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services