

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 3 March 2023 commencing at 10.00 am and finishing at 12.40 pm

Present:

Voting Members: Councillor Bob Johnston – in the Chair

Councillor Imade Edosomwan
Councillor John Howson

Non-Voting Members: Steve Moran (Pension Scheme Member)
District Councillor Jo Robb (District Councils) (Remotely attended)

Local Pension Board Members in Attendance: Alistair Bastin (Remotely attended)
Marcia Slater (Remotely attended)
Stephen Davis (Remotely attended)

By Invitation: Tim Dickson (Client Relations Manager – Brunel)
Philip Hebson (Independent Investment Advisor)
David Vickers (Chief Investment Officer – Brunel)

Officers: Sean Collins (Service Manager Pensions, Insurance and Money Management)
Sally Fox (Pension Services Manager) (Remotely attended)
Gregory Ley (Financial Manager- Pension Fund Investment)
Mukhtar Master (Governance & Communications Manager) (Remotely attended)
Khalid Ahmed (Law and Governance)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports copies of which are attached to the signed Minutes.

1/23 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies for absence were submitted by Councillor Kevin Bulmer, Councillor Nick Field-Johnson, Alistair Fitt and Alan Staniforth.

2/23 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 2 December 2022 were agreed as a correct record, subject to the inclusion of Marcia Slater (Member of the Local Pension Board) in attendance.

3/23 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

Sam Thomas, a representative of Oxfordshire County Council Staff-Led Climate Action Group attended the meeting and addressed the Committee.

“The Oxfordshire County Council Staff Climate Action Group asks you to instruct Brunel to provide:

1. An Active United Kingdom Paris Aligned Benchmark portfolio, that would allow Brunel client funds to invest directly in UK equities while avoiding exposure to companies engaged in Fossil Fuel activities.
2. ‘An Impact Fund’, which would focus on investing in companies that are developing solutions to the climate emergency, for example by providing capital to smaller, growing ‘green’ companies by directly buying their bonds or providing loans (in primary markets), therefore providing them with capital and liquidity. Brunel’s ‘Cornwall Low Impact’ Portfolio provides an encouraging local model along these lines.

Firstly, we would like to thank you for all the work you are doing to manage the Oxfordshire local government pension scheme and ensuring that investments are being made on behalf of scheme members to provide an adequate livelihood on retirement. We also appreciate and note that in last September’s report ‘Funding Strategy Statement and 2022 Fund Valuation’ it states: “climate risk considerations (are) to be built directly into funding strategy decisions”.

Further, we welcome the fact that you acknowledged the need to create a more ethical, sustainable pension fund and in 2021 you chose to move 15% of our money to the Passive Paris-Aligned Equities fund when that fund became available. The Staff Climate Action Group members feel this is a positive move in the right direction.

However, our members are becoming increasingly concerned about climate change and the actions that we must all make, collectively and at pace, to mitigate the rate of global heating for our world. Indeed, our employer, Oxfordshire County Council sets its key priority as “putting climate action at the heart of our work” and states an ambition of decarbonising the authority’s estate and operations by 2030, and transitioning Oxfordshire as a county to net zero ahead of the national target of 2050.

Moreover, our organisation has signposted us to the ‘Climate Action Oxfordshire’ website <https://www.climateactionoxfordshire.org.uk/> a website hosted on behalf of all of the Oxfordshire Councils agreeing collective action on this agenda, to inform us how to change our own personal behaviours - at home and at work. We are encouraged to insulate our homes, turn down our thermostats, use active travel methods to commute to work and change to a plant-based diet. Furthermore – and which the website shows having the maximum impact on our carbon footprint – we

are advised to “choose ethical banking, pensions and investments”, and it directs us to ‘Bank.Green’ for our personal banking, and ‘Ethex’ for a directory of investment opportunities in the sustainable sector. According to other sources eg a report by Make My Money Matter (MMMM), Aviva, and Route2, and widely reported by PensionsAge, the Guardian and the BBC, switching your pension to a ‘green’ investment portfolio has twenty one times the impact of other personal changes an individual can make; <https://makemymoneymatter.co.uk/21x/#act-now>;

Therefore, we feel it is hugely disappointing that the majority of our pension scheme continues to be invested in funds which include many companies, banks and products that do not have any positive environmental, ethical and sustainable credentials. We can see that at least four of the funds we hold include fossil fuel companies, who are involved in the active expansion and exploration of fossil fuels, including fracking. These funds are: Active UK, Active Global High Alpha, Active Emerging Market, Active Global Sustainable Equities and Multi-Asset Credit. Collectively; we invest about 35% of our Pension Fund into them.

If we focus on: ‘Active UK Equity’, where we invest about 15% of our members’ money, these holdings include: Shell, Harbour Energy and BP. These are just a few of the many global companies in several of the Brunel holdings which are causing great harm to people and planet. This undermines the Brunel claim that; ‘In collaboration with all our stakeholders we are forging better futures by investing for a world worth living in.’ (Brunel Pension Partnership, 2021)

In line with the International Energy Agency’s report (International Energy Agency, 2021) looking at suitable pathways to achieving net zero by 2050, one of the key policy recommendations is to stop investment into new fossil fuel exploration. It is clear that the companies referred to above, and many other oil and gas companies, are pursuing new and existing activities that are clearly not in line with achieving the representative Councils’, the UK’s and the Paris Commitments’ net zero ambition. This is very evident from a recent report by Carbon Tracker on major oil and gas companies’ future capital expenditure plans, and informs us that, ‘regarding the expansion of their capex plans: 62% of investments approved in 2021/Q1 2022 (or \$103bn) were inconsistent with a Paris-aligned pathway (the IEA’s 1.7°C Announced Pledges Scenario), including \$58bn that was outside even a 2.5°C outcome.’ <https://carbontracker.org/reports/paris-maligned/>

We are also concerned about the Pension Funds’ continued investments in oil and gas companies from the perspective of the potential negative impact on future value, with several large financial institutions now warning of massive write-downs due to stranded assets eg ‘The rapidly-diminishing returns of oil production may result in investors suffering from stranded assets as a result of their inability to profit from depreciating energy reserves. Even the investment bank Goldman Sachs has acknowledged the scale of this problem, publishing a study in December 2015 finding that \$1 trillion of future oil investments are unprofitable. Past research carried out by the Carbon Tracker Initiative has also shown that major fossil fuel companies risk wasting \$2.2 trillion in investments which may turn out to be uneconomic.’ <https://bylinetimes.com/2023/01/05/energy-firms-fossil-fuel-investments-radically-at-odds-with-climate-change-obligations/>

We warmly welcome Brunel's commitment to net zero, and the launch of a new series of Paris-aligned benchmarks that have been developed in coordination with FTSE Russell. We are also mindful of Brunel's moves in the right direction on climate related issues and the fact that this year Brunel has been awarded Europe's 'IPE Award' which focused on its launch of the 'Cornwall Low Impact Pension Portfolio'; a fund that invests in renewables and affordable housing in Cornwall: [Brunel wins Europe-wide IPE Impact Investing award - Brunel Pension Partnership](#) (Brunel Pension Partnership, 2022).

We appreciate the continued transparency, clear information and engagement we have had on this complex subject with Brunel through Sean Collins - Service Manager, Pensions, and Alistair Bastin - Pension Board member. We recommend that this dialogue with members continues and ensures that our members' voices are heard, as we urge Brunel to make further rapid changes to our investment holdings, including the development of new and climate appropriate funds.

Brunel is promising us 'better futures by investing for a world worth living in.' In bleak times with ever worsening news about the state of our planet, the Staff Climate Action Group desperately hopes that these aren't just empty words or, worse still, greenwashing. We hope that you will urge Brunel to consider an Active UK PAB zero fossil fuel companies fund and an Impact Fund that we are suggesting, such that the LGPS can be part of the solution to the climate emergency rather than an ongoing part of the problem."

4/23 REPORT OF THE INDEPENDENT INVESTMENT ADVISOR

(Agenda No. 5)

The Independent Investment Advisor submitted a report which provided an overview of the financial markets, the overall performance of the Fund's investments against the Investment Strategy Statement and commentary on any issues related to the specific investment portfolios.

The report included the quarterly investment performance monitoring reports, including the newly designed report from Brunel.

Members were informed that the Fund had not suffered unduly in absolute value terms from the challenges that have faced the markets over 2022. This had been helped by the diversified spread of assets. For Quarter 4, there was some stability, with public markets recovering whilst in private markets there was an element of catch up in valuations.

The UK property sector had fallen 22% in value terms last year with Europe by 5%.

Reference was made to Unlisted Private Equity valuations which had held up well during 2022, but during Quarter 4 valuations had started to fall which reflected the growing economic concerns. The Chair referred to the possible overvaluation of these.

In relation to the valuations of infrastructure assets, Members were informed that there were concerns around construction and in particular in relation to renewable energy which would overstretch the valuations.

District Councillor Jo Robb referred to some sectors in property which were flourishing such as the housing market and office space and it was asked that Brunel take into consideration that there were office blocks which met modern requirements and also those it was impossible to bring up to required standards in accordance with energy efficiency / building regulations.

The Independent Investment Advisor reported that companies in the developed world were in much healthier condition than had been expected, although it was expected that there would be a slowdown in activity.

In relation to energy prices, there had been a lower demand this winter and it was expected that there would be a fall in energy and oil prices.

The Committee noted the report.

5/23 PRESENTATION FROM THE CHIEF INVESTMENT OFFICER FROM BRUNEL

(Agenda No. 6)

David Vickers of Brunel attended the meeting provided Members with the main issues arising from the performance of the Brunel portfolios over the past year and highlighted the key issues for the forthcoming year.

The Committee was informed that all Brunel's funds were Paris aligned (supporting the goal of net zero greenhouse gas emission by 2050 or sooner).

Reference was made to the war in Ukraine, inflationary pressure, energy and oil costs and rising interest rates (4% rise in 6 months) which had all impacted on the market.. There would be performance issues because of the economic environment.

Members were informed that there were expectations that inflation and energy and oil prices would drop which would support a pick up in performance.

Reference was made to the expected recession with central banks raising interest rates to quell inflation and long-term central government debt and the need to reverse the buying of Government Bonds.

The Committee noted the information reported.

6/23 STRATEGIC ASSET ALLOCATION

(Agenda No. 7)

Consideration was given to a report of the Independent Investment Advisor which set out the direction of travel for the Fund's Strategic Asset Allocation for the next three years.

The Committee was reminded that the purpose of this Strategic Asset Allocation Review was to:

- to take stock on the performance and composition of the Fund's Asset Allocation;

- to recommend any changes required to the Fund's Asset Allocation to maintain targeted returns, including cashflow, whilst considering the Fund's appetite for volatility, liquidity risk and the need for diversification of risk;
- to consider the work that the Fund has undertaken in relation to Environmental, Social and Governance (ESG) issues, with a particular focus on climate change.

Members were informed that the asset review was a rolling process, looking at the asset allocation, and looking at all aspects of portfolios and what they were meant to be doing.

It was emphasised to the Committee that the recommendations were designed to shape the strategic direction of the Fund's investment strategy but it would involve further work and consideration before definitive recommendations are made to the Pensions Committee at the appropriate time.

Discussions took place on the suggested recommendations and the following comments were made:

- Action would need to review the impact of inflation and a discussion took place on the implications for a positive cash flow. Members were advised that currently all income on secured income and property was re-invested, and it maybe more appropriate to carry on with the existing strategy and convert these to distribute income back to the Fund when needed rather than to have more liquid assets.
- Consideration needed to be made to the impact of the rise in the minimum wage and an increase in wages.
- Hedging strategy provided an opportunity to protect funds. In relation to currency, the dollar had been strong for some time and Brunel had the means to put in place hedging arrangements.
- Reduction of exposure to equities in the UK market – the current allocation to the UK market equated to 29% of the total equity investments which was 25% higher than the benchmark of 4% which the UK market formed of the global index. It was also agreed that we should reduce exposure to FTS 100 and looking for exposure to FTSE 250.
- On emerging markets, China investments represented 35% of the index. Given concerns about the social and governance risks associated with investments in China, consideration should be given to asking Brunel to develop an emerging market portfolio excluding China.

RESOLVED - That approval be given to the following recommendations:

(1) Against a higher inflationary environment to work with Brunel to ensure that the Fund's assets continue to match the liability profile at the cashflow level, including if necessary, generating sufficient income to fund increased pension payments.

(2) To consider if the Fund should put in place a currency hedging strategy, utilising the resources available through Brunel and this be reviewed annually.

(3) To review the exposure to the UK equity market with the objectives of:

i. To explore further with Brunel, reducing the overweight position of UK Equities in comparison to the Global UK weighting over time. Consideration will be given to switching to either the Paris Aligned Global passive sub fund or to the active Global Sustainable Investment sub fund.

ii. For the retained UK exposure to achieve better representation to UK plc in earnings terms and reducing carbon/ climate risk exposure, either on a passive or active basis.

(4) To explore further with Brunel the option of creating a separate China sleeve from the emerging market mandate and deciding on relative weighting.

(5) In the absence of similar arrangements being offered by Brunel, to retain the listed Private Equity (PE) portfolio and return the management of that to a semi-active basis to ensure that an appropriate balance of investments is maintained.

(6) To continue to work with Brunel and independently to meet the Fund's evolving ESG and Climate policy requirements and to explore with Brunel the Oxfordshire local aspect.

(7) That no action be taken at this time on the DLUHC "Levelling Up" local investment proposals.

(8) To confirm that the Fund will continue to reinvest on a timely basis capital distributions made by legacy managers and Brunel as investments mature.

7/23 MINUTES OF THE LOCAL PENSION BOARD

(Agenda No. 8)

The unconfirmed Minutes of the Local Pension Board held on 20 January 2023 were noted.

8/23 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 9)

The report set out the items the Local Pension Board wished to draw to the attention of this Committee following their last meeting on 20 January 2023.

Alastair Bastin, a Local Pension Board Member presented the report and informed Members that the Board considered a report on Engagement with Scheme Members and the points raised by the Board were:

- the difficulty in measuring the level of engagement and for assessing the effectiveness of the various measures currently in place.
- the important role that scheme employers should play in supporting communications to their staff.

- the focus on home addresses within the current data quality framework set by the Pension Regulator was outdated, and scheme members should be encouraged to share personal email addresses and mobile phone numbers with the Pension Fund to increase the range of communications options open to the Fund. The Board recommended the Committee write to the Pension Regulator to seek an amendment to the current data quality framework to include email addresses as an alternative to the home address.
- Improvements to the website, particularly around investments should hopefully lead to improved engagement on investment issues.

Discussion took place on the use of email addresses and a Member commented that contact should be made with other Pension Funds on whether these were collected. The Service Manager for Pensions, Insurance and Money Management reported that the Pension Regulator specified home addresses as key information, but the use of WhatsApp was being looked at.

The Committee noted the report of the Local Pension Board.

9/23 ANNUAL BUSINESS PLAN 2023/24

(Agenda No. 10)

This Committee provided a report which included details on the Business Plan, Budget and Training Plan for the forthcoming financial year. The report also included a review on progress against the key priorities set out in the Annual Business Plan for 2022/23.

The Service Manager for Pensions, Insurance and Money Management provided details on the latest position on measure of success on service priorities.

Review and improve the Scheme's Data - On Data Quality scores, there continued to be a review of the issues with common data which was mainly missing member addresses.

Enhanced Delivery of Responsible Investment responsibilities - There had been positive progress on the appointment of the Responsible Investment officer with a candidate selected to take up the post.

Improving performance to scheme members - The Engagement Policy was on the agenda for this meeting.

In relation to the Budget, Members were informed that there was an underspend which was mainly due to vacancies.

For priorities for 2023/24, in relation to meeting all the requirements of regulatory change, Members were informed that the Government had delayed the implementation of the Pension Dashboard and therefore this measure of success would not be met.

RESOLVED – (1) That the progress against the service priorities for 2022/23 be noted.

(2) That approval be given to the Business Plan and Budget for 2023/24 as set out at Annex 1 of the report.

(3) That approval be given to the Pension Fund Cash Management Strategy for 2023/24.

(4) That delegated authority be given to the Director of Finance to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy.

(5) That delegated authority be given to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate.

(7) That delegated authority be given to the Director of Finance to borrow money for the pension fund in accordance with the regulations.

(8) That officers be thanked for providing such detailed information together in the report.

10/23 RISK REGISTER

(Agenda No. 11)

The Committee was provided with a report which outlined the latest position on the Fund's risk register, including any new risks identified since the report to the last meeting.

The Pension Fund's Governance and Communications manager introduced the report and reported that there had been very little change to the risk register this quarter.

Risk 15 was in relation to Fund officers having sufficient skills and knowledge to carry out their roles effectively. Members were informed that the Fund was still struggling to ensure that posts were adequately graded and were consistent with other LGPS funds. This negatively affected the recruitment and retention of good staff. Work was continuing in this area.

It was noted that Risk 15 should refer to officers in the Risk Register table.

In relation to Risk 17 Breach of Data Security, Members were informed that the Fund would be liable for any fine for a breach.

RESOLVED – That the latest risk register be noted and it was agreed that the risk register covers all key risks to the achievement of their statutory responsibilities, and that the mitigation plans, where required, are appropriate.

11/23 COMMUNICATIONS POLICY

(Agenda No. 12)

The report presented a review of the Communication Policy for the Fund and highlighted a number of new initiatives agreed with the Local Pension Board to seek improvement with scheme member engagement.

Reference was made to ensuring that communication was in understandable language which would encourage engagement.

The Committee noted that the review had identified a number of 'new' methods of engagement which may provide improved outcomes. If the outcome of the review was agreed, an implementation plan would be developed to deliver the recommended approach.

RESOLVED – (1) That approval be given to the revised Communications Policy.

(2) That the outcome of the Member Engagement Review carried out by the Governance and Communications Team be noted.

(3) That Officers be asked to develop an implementation plan based on the outcome of the Member Engagement Review.

12/23 ADMINISTRATION REPORT

(Agenda No. 13)

The Committee was provided with an update on the key administration issues including service performance measurement, the debt recovery process and any write offs agreed in the last quarter.

Members were updated on staffing, and it was noted that the team was seeking to approval to increase the establishment by one administrator post, and not by two as detailed in the report.

In relation to the performance statistics, it was agreed that preference would be statistics in chart format in future.

Reference was made to the team receiving 21 informal complaints for 2022/2023 and on the work taking place on reviewing the death process and on the death grant. There were proposed changes to the recovery of over payments to deceased pensioners.

RESOLVED – (1) That approval be given to the increase in establishment of one administrator post.

(2) That performance information be presented in a graphic format and without acronyms.

(3) That Members asked that a copy of the fire administration report be included with the fire pension board minutes with this report

(4) That approval be given to the proposed changes to the nomination process as detailed in the report.

(5) That the Committee confirmed that the proposed changes to the recovery of overpayments in cases where the pensioner has died, was acceptable.

13/23 CYBER SECURITY REPORT

(Agenda No. 14)

The Committee received the first annual report on cyber security and details on those issues identified during the review undertaken earlier in the year.

Reference was made to a key action since the review of the fund's supplier cyber security arrangements; information from the suppliers, which was reviewed by the Council's Information and Technology. Members were informed that at the time of writing the report, there was one supplier's information outstanding. This has now been received and is with Council's information and Technology for review.

Quarterly meetings have been set up with the Council's Information and Technology to ensure that the fund's processes were kept under review.

In relation to pension specific fund penetration testing, Members were informed that this would be at a cost of £3,000 to the Fund.

RESOLVED – (1) That the report be noted.

(2) That approval be given to this report being produced on an annual basis

(3) That approval be given to pension specific fund penetration testing being carried out.

14/23 EXEMPT ITEMS

(Agenda No. 16)

RESOLVED - That the public be excluded for the duration of the following items in the Agenda since it is likely that if they were present during these items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

15/23 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) REVIEW

(Agenda No. 17)

The confidential report updated the Committee on the on-going review into the future Additional Voluntary Contributions (AVC) provision to scheme members. The Committee was recommended to agree in principle the arrangements for the future provision of the AVC service.

RESOLVED – That approval be given to the recommendation contained in the confidential report.

The public was excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

16/23 BRUNEL SPECIAL RESERVED MATTERS

(Agenda No. 18)

The confidential report set out the key issues associated with the current Special Reserved Matter issued by Brunel.

RESOLVED – That the Committee supported the approval of all three elements of the special reserved matter and advised the Director of Finance accordingly.

[Councillor John Howson abstained from voting].

The public was excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

..... in the Chair

Date of signing