

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 5 March 2021 commencing at 10.10 am and finishing at 1.30 pm

Present:

Voting Members: Councillor Kevin Bulmer – in the Chair

Councillor Nicholas Field-Johnson (Deputy Chairman)
Councillor Ian Corkin
Councillor Mark Lygo
Councillor Charles Mathew
Councillor John Sanders
Councillor Roz Smith
Councillor Alan Thompson
District Councillor Alaa Al-Yousuf
District Councillor Jo Robb

Other Members in Attendance: Councillor Bob Johnston (Local Pension Board)

By Invitation: Catherine Dix and David Vickers (Brunel)
Ian Colvin (Hymans Robertson)
Peter Davies (Independent Financial Adviser)

Officers: Lorna Baxter, Sean Collins, Sally Fox, Gregory Ley (all Finance) and Khalid Ahmed (Law and Governance)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with a schedule of addenda tabled at 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 [agenda, reports and schedule/additional documents], copies of which are attached to the signed Minutes.

1/21 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

An apology for absence was submitted by Councillor Lawrie Stratford.

2/21 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 4 December 2020 were approved and signed as an accurate record, subject to the inclusion of Peter Davies in the list of those in attendance.

Matters Arising

Sean Collins, Service Manager for Pensions reported that in relation to Minute No. 137/20 – Provision of the Independent Financial Advice, contact had been made with colleagues at other Pension Funds regarding exploring the option of appointing a single source of independent financial advice for all Funds within the Brunel Pension Partnerships and after discussion it had been decided not to take this forward.

3/21 MINUTES OF THE LOCAL PENSION BOARD

(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board which met on 22 January 2021 were noted.

4/21 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 6)

The Independent Financial Adviser provided the Committee with an overview of the current and future investment scene and market developments across various regions and sectors.

Reference was made to page 19 of the agenda which provided details of the overall valuation of the Pension Fund as at 31 December 2020. Members were informed that there was appreciation of £200m which was attributable to equity markets being up by 8-10%. As of 31 December 2020, the highest value of assets was £2.9 billion, despite a rocky first period.

The Fund was overweight both listed equities and fixed income whilst waiting on Brunel to call down on the funds committed to Brunel on private equities, infrastructure, secured income and private debt.

The cash being held was £76m which needed to be high to meet potential calls.

Regarding the performance of the Fund; over the 12 month period performance had out-performed the benchmark by 1%, and similar out-performance of 0.7% over a three year period. However, there was a slight underperformance against the target by 1.1% in the most recent quarter.

There had been a notable performance from Brunel's Global High Alpha Equities, which was 15.4% above benchmark over the last 12 months.

A Member referred to page 24 under Private Equity and the benchmark figure of 24.2 and asked why this figure was high. The Independent Financial Adviser replied that this related to the FTSE small cap sector which had been very strong in that quarter period.

RESOLVED – That the Committee received the oral update provided, together with the tables and graphs submitted.

5/21 BRUNEL
(Agenda No. 7)

David Vickers, the recently appointed Chief Investment Officer from the Brunel Company attended the meeting and gave the Committee a presentation on the latest position on the investments through Brunel and gave his vision for future developments, with reference to the Investment Performance Reports.

Brunel's strategic objectives included:

- Offering a client driven range of products and services to ensure clients remained at the forefront of pension fund investment
- Outperforming benchmarks in long term (min 3-5 years listed, longer PM)
- Providing additional benefits (beyond financials) not available pre pooling including stewardship, responsible investment, diversification and risk analysis
- Taking a prudential approach, managing risk wherever possible through robust governance and controls
- Making fee savings, whilst maintaining performance, of £27.8m (8.9bp) by 2025
- Managing transition and operational costs to achieve breakeven by 2023 and cumulative net savings of £550m to 2036

Members were informed that Brunel currently managed c. £20 billion of assets and transitions had occurred largely in a linear fashion. Progression was good and was made at good speed. Most of the £20 billion of assets were in equity portfolios.

A Member referred to heavy investment exposure in organisations such as Apple, Microsoft, Alphabet and Google who were being investigated for the amount of tax they paid, and he questioned the ethics of this investment policy. It was suggested that Healthcare should be more prominent in the portfolio, particularly in relation to Covid 19 and the vaccines and reference was made to Tesla as another area where investment should be.

In response to a question on crypto-currency and block-change technology, the Chief Investment Officer of Brunel commented that bitcoins were presently unregulated which was why money was not put into this area. However, some central banks had been in talks about using their own digital currency, so there may be developments in the future. Currently bitcoins were unregulated and were not favoured by the Government.

In relation to block-change technology, this was an interesting sector as this was technology which removed intermediaries and had the potential to revolutionise how business was carried out.

Regarding emerging markets, the Committee was informed of the following:

- Balance of investment styles across managers
- Alpha drivers based on quality and stock selection
- Country skew U/W China, positive smaller economies

- Limited exposure to Frontier Markets and Smaller Caps
- Positive sector bias to consumer, low energy weighting
- Carbon intensity is below benchmark
- Fund was ESG integrated

U/W China (Many of China's companies were state owned and were primarily run for the benefit of the Chinese Government). The Chinese economy had not suffered as a result of Covid 19 as most other world economies had.

Regarding Active UK Equity - Targeted 2% excess return, targets 0.9 - 1.1 beta. Combined quant and fundamental approaches were style neutral but with a quality tilt. The fund was underweight oil & gas sectors. As a result of Brexit and the falling exchange rate, investment in UK from overseas decreased, particularly from US investors. 80% of the FTSE revenues were from outside the UK. The portfolio was less carbon intensive than the benchmark.

Global Sustainable Equity - There were three managers which deeply integrated ESG metrics throughout the process. Exposure to "positive pursuit" companies was maximised, were primarily growth focussed and carbon intensity was well below benchmark.

Investments were taking place in people who were providing solutions.

Discussion took place on the situation in China and around the use of fossil fuels and China being the world's biggest emitter of carbon. Members were informed that one should look to divorce Chinese companies from the Chinese Government and their policies, albeit this was difficult. However, a reference was made to the commitment made by the Chinese to be carbon neutral by 2060. Also, that use of fossil fuels was not just a Chinese problem, it was also a Western problem with the USA and Europe also being large emitters. China today equated to approximately 40% of the whole emerging market index and so in this context, was impossible to ignore.

Reference was made to duplication in portfolios (10% - £126m) invested in the energy market and high equity and the Committee was informed that managers were given restrictions, but it was not unusual to see duplications.

The Committee was provided with the private market assets under management (AUM) progress highlights: -

- £3,760 million of 'new money' commitments to new investments as part of Brunel PM Portfolio offerings (cycles 1 + 2 combined). The money would be invested over the next 4-5 years
- £1,300 million of clients' existing (legacy) property assets by January 2021 (c.£135m Oxfordshire)
- PM Team and partners now responsible for stewardship of > £5,000 million of client money
- To come there was an opportunity for clients that made commitments to Cycle 2 to 'top up' their commitments in April 2021
- Cycle 3 planning would commence in early Summer 2021, to launch in 2022.

Details of Cycle 1 and 2 priorities were reported.

Discussion took place on the time it took Brunel to invest in private equities and Members were informed that Oxfordshire Pension Fund had started from a standing position in relation to this. It would take 4-5 years to get this up and running.

The Committee was informed that in cycle 2 there were total commitments of £220m with several parties engaged (Aksia, Stepstone, Neuberger/Berman). In response to a question regarding there being a greater focus on carbon metrics than eco metrics, the Committee was informed that metrics were developing all the time.

To deliver the Business Plan there would be

- Enhanced Client Reporting to develop overall presentation, content and value of these reports
- Private Market Resilience through increasing headcount and lower key person dependency
- Development of Responsible Investment (RI) Tools & Data/ Net Zero portfolios
- Reviewing passive benchmarks and creating Net Zero portfolios

RESOLVED – That the presentation given by Brunel be noted and received and David Vickers be thanked for the excellent information provided in the presentation.

6/21 EXEMPT ITEMS

(Agenda No. 8)

RESOLVED - That the public be excluded for the duration of items 9, 10 and 11 in the Agenda since it is likely that if they were present during those items there would be disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) .

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 that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

7/21 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 9)

Consideration was given to a confidential report of the Independent Financial Adviser which provided an overview of the current and future investment scene and market developments across various regions and sectors.

The public was excluded during this item because its discussion in public was 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 was considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information , in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.*

RESOLVED – That the Committee received the report, tables and graphs.

8/21 REPORT ON LEGACY FUND MANAGERS

(Agenda No. 10)

The Independent Financial Adviser provided a confidential report on the recent meetings held with Legal and General, the Partners Group and Insight.

The public was excluded during this item because its discussion in public was 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 was considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information , in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.*

RESOLVED – That the confidential report be noted.

9/21 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER

(Agenda No. 11)

The Independent Financial Adviser, Peter Davies informed the Committee he would be standing down from his role. Members placed on record their thanks to Peter for the work he carried out on behalf of the Pension Fund and wished him all the best in the future.

10/21 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 12)

Consideration was given to the latest report by the Independent Chairman of the Local Pension Board. Councillor Bob Johnston, Local Pension Board Member, spoke to the report on the Board's behalf, which invited the Committee to respond to the key issues contained within it.

Reference was made to the impending County Council elections in May 2021 and the need for a robust training and induction programme for new Committee Members after the elections. Assurance was given that induction training, specifically for new Committee Members was to take place.

RESOLVED – That the comments of the Board detailed in the report be noted and be taken into account when discussing the relevant items on this agenda.

11/21 GOVERNANCE REVIEW

(Agenda No. 13)

The Committee was provided with a report which highlighted the key findings from the recent governance review of the Fund undertaken by Hymans Robertson which set out proposed issues to include in a future improvement plan.

Ian Colvin from Hymans Robertson attended the meeting and provided a summary of the findings. Members were informed that no significant weaknesses had been identified with the current governance arrangements, however, there were ten recommendations which covered good governance.

Discussion took place on the recommendation relating to the future constitution of this Committee and Members were informed that this recommendation reflected the guidance from the Scheme Advisory Board and the significant changes to the Pension Scheme membership since the current Committee constitution was agreed.

The proposal was to widen scheme employer representation on the Committee to reflect active scheme membership but that this needed to be considered alongside the legal context of the Committee:

- Oxfordshire County Council was the Administering Authority of the Fund and was responsible for its management and performance
- The Committee was established under local government regulations and its membership should reflect the political composition of the Council as a whole, with the majority party on the Council, holding majority seats on the Committee.

The Committee discussed the potential model of the Committee which reduced the size of the Committee from the current 12 to 10, whilst increasing the representation of the scheme employers to reflect the scheme membership. It was noted that whilst the proposal was for County Council Members to have 5 voting members and the remaining 5 members to be non-voting, the Committee operated by consensus rather than formal voting.

Councillor Jo Robb referred to the recommendation which proposed consideration being given to the creation of a Governance Officer role at the Fund and Members were informed that this would be explored with Hymans Robertson and the Director of Finance to fully understand the requirement for this.

RESOLVED – (1) That the findings of the report from Hymans Robertson be noted.

(2) That Officers in consultation with Hymans Robertson be asked to provide a report to the first meeting of the new Pension Fund Committee in June 2021 on the proposals to take forward recommendations 1, 3-10 from the report.

(3) That this Committee recommends to Council, consideration of any changes to the Constitution of the Pension Fund Committee in light of recommendation 2 (below) of the Hymans Robertson report, such that these can be taken into account in establishing the new Pension Fund Committee after the May 2021 elections.

[5 voting members of the County Council, 2 non-voting members of the Academy sector, 1 non-voting scheme member representative, 1 non-voting member of Oxford Brookes University and 1 non-voting member of District Council.]

12/21 ANNUAL BUSINESS PLAN

(Agenda No. 14)

Sean Collins, Service Manager Pensions introduced the report which set out the strategic priorities and the budget for the Pension Fund for the 2021/22 financial year.

Reference was made to the four service priorities included with the plan, together with a number of key measures of success.

Discussion took place on performance fees for Brunel and the Service Manager Pensions reported that the majority of Funds did not use performance fees as it would result in higher fees. It was agreed that for the next meeting of the Committee a report be considered on the use of performance fees.

RESOLVED – (1) That the progress against the service priorities for 2020/21 be noted and approval be given to the setting of benchmarks for carbon emissions for the equity and fixed income portfolios based on December 2019, and Brunel be commissioned to undertake the work necessary to establish figures for the legacy portfolios held at that time.

(2) That approval be given to the Business Plan and Budget for 2021/22 as set out at Annex 1.

(3) That approval be given to the Pension Fund Cash Management Strategy for 2021/22.

(4) That delegated authority be given to the Director of Finance, in consultation with the Chairman of the Committee, 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 and that these be reported back to the Committee.

(5) That delegated authority be given to the Director of Finance, in consultation with the Chairman of the Committee, to open separate pension fund bank, deposit and investment accounts as appropriate, and that these be reported back to the Committee.

(6) That delegated authority be given to the Director of Finance, in consultation with the Chairman of the Committee, to borrow money for the pension fund in accordance with the regulations.

13/21 RISK REGISTER

(Agenda No. 15)

Consideration was given to a report which updated the Committee on the Fund's Risk Register, including any new risks identified since the report to the last meeting.

Discussion took place on the latest position on existing risks and new risks detailed in paragraphs 7 – 14 in the report and Councillor Jo Rob referred to the risks which had been identified in the Hymans Robertson Governance Review and the Committee was informed that these would be incorporated into the next Risk Report which would be submitted to the June meeting of the Committee.

RESOLVED – That the changes and update provided on the Risk Register be noted.

14/21 ADMINISTRATION REPORT

(Agenda No. 16)

The Committee was provided with a report which provided an update on the key administration issues including the iConnect project, service performance measurement and any write offs agreed in the last quarter. In addition, the Committee was asked to approve amendments to the Funding Strategy Statement following the recent consultation on amendments reflecting the changes in Regulations in respect of employer exits from the Fund.

The Committee was provided with details of the staffing position, particularly relating to the three administrator vacancies. The Chairman referred to the possibility of resource sharing with other Pension Funds aligned to Brunel. It was agreed that this be explored with a report submitted to the next meeting of the Committee.

Reference was made to the Service Level Agreement (SLA) where five subjects had not been met last month, based on a combination of factors, but being mainly due to inexperienced team members. The Committee was asked for a temporary reduction in SLA targets to 75%, to be reviewed at the next Committee meeting.

Members were also provided with an addendum to the report which sought consideration to amending the Scheme Pays Policy which allowed members to make backdated applications, for voluntary scheme pays elections, to the Fund, providing the Fund has the legal authority to accept these.

Discussion took place on the proposal and concern was expressed at the potential financial implications of this if there were further requests. Members agreed that the Scheme Pays Policy should not be amended to allow members to make backdated applications, for voluntary scheme pays elections, to the Fund. Councillors Jo Robb and Roz Smith abstained from voting on this decision.

RESOLVED – (1) That the report be noted.

(2) That approval be given to a temporary reduction in service level agreement targets (down to 75%) and this be reviewed at the next meeting of the Committee.

(3) That a report be submitted to the next meeting of the Committee on possible resource sharing with other Pension Funds aligned to Brunel.

(4) That approval be given to confirming the changes to the Funding Strategy Statement as detailed in the report.

(5) That approval not be given to the request to amend the Scheme Pays Policy which would allow members to make backdated applications, for voluntary scheme pays elections, to the Fund.

15/21 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT
(Agenda No. 17)

There was nothing to report.

16/21 REVIEW OF THE COMMITTEE'S ACHIEVEMENTS
(Agenda No. 18)

The Chairman of the Committee introduced a report which outlined the achievements of the Committee in the last four years.

Particular reference was made to the achievements in relation to the climate change agenda, which included a successful Climate Change Workshop which had been attended by a number of key stakeholders from all parties, including academic research, the investment industry, the Committee and Board, scheme member representatives and Fossil Free Oxfordshire. The Committee noted that there would be a communications release next week regarding the work on Climate Change.

The Chairman thanked Members and officers for the work which had been carried out.

RESOLVED – That the achievements of the Committee over the last 4 years be noted.

..... in the Chair

Date of signing