

## PENSION FUND COMMITTEE

**MINUTES** of the meeting held on Friday, 6 March 2020 commencing at 10.00 am and finishing at 12.30 pm.

**Present:**

**Voting Members:** Councillor Kevin Bulmer – in the Chair

Councillor Nicholas Field-Johnson (Deputy Chairman)  
Councillor Mark Lygo  
Councillor Charles Mathew  
Councillor John Sanders  
Councillor Lawrie Stratford  
Councillor Alan Thompson  
Councillor Jeannette Matelot  
Councillor Richard Webber  
District Councillor Alaa Al-Yousuf  
District Councillor Jo Robb

**District Council Representatives:** District Councillor Alaa Al-Yousuf  
District Councillor Jo Robb

**By Invitation:** Councillor Bob Johnston, Alistair Bastin and Steve Davies (Local Pension Board) and Mr Peter Davies, Independent Financial Advisor.

**Officers:**

Whole of meeting Director of Finance, Lorna Baxter, S. Collins, Sally Fox and Gregory Ley; Deborah Miller (Law & Governance).

*The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with two schedules 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 and schedule, copies of which are attached to the signed Minutes.*

### 1/20 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies for absence were received from Councillor Ian Corkin (Councillor Jeannette Matelot substituting) and Councillor Roz Smith (Councillor Richard Webber substituting).

**2/20 MINUTES**  
(Agenda No. 3)

The Minutes of the Meeting held on 6 December 2019 were approved and signed as an accurate record, subject to Minute 69/19, 2<sup>nd</sup> paragraph, last sentence being amended to read 'This recommendation had been endorsed by the Audit & Governance Committee, but would need to be ratified by Council before becoming effective.

**3/20 PETITIONS AND PUBLIC ADDRESS**  
(Agenda No. 4)

The Committee received the following public address:

Mr Pete Wallis addressed the Committee as both an LGPS scheme member and as a member of Fossil Free Oxfordshire (FFO), against the proposal in the draft policy which proposed engagement with non-Paris-compliant companies for the next three years. Although FFO felt that this was fine for most companies, they did not feel this was acceptable for fossil fuel companies as the world needed to be decarbonised and this could only happen if the world stopped producing and using fossil fuels. Fossil fuel companies therefore needed to shrink and ultimately cease to exist. FFO urged the Committee to transfer a much larger asset allocation than the suggested 5% into Brunel's passive low carbon fund, bearing in mind that Oxfordshire had committed to achieving a net-zero emission status by 2030.

He further urged the Committee to urge Brunel to make sure they had active low or zero carbon funds available and to include exclusion criteria into the Climate Change Policy, such as the Pension Fund of the Church of England which used TPI's Carbon Performance to exclude the worst polluters. Lastly, he asked the Committee to note a recent survey of 1132 Unison Members showed that 92% agreed that climate change would have a measurable economic impact within their lifetime and 84% agreed that ethics were more important than returns in investment decisions. He felt that beneficiaries of the scheme should be consulted when considering investment principals and strategy.

Mr Bond speaking as an energy strategist, explained that there was currently an energy transition going on, driven by technology and policy. Solar, wind, batteries, electric vehicles were all on extremely rapid learning curves where costs were falling by 20% per year and their costs had fallen below those of fossil fuels. There were also increasing actions coming from policy makers, including Oxfordshire County Council to prevent the use of fossil fuels and ban cars from city centres, together with an emerging market energy leapfrogging going on, led by China and India, whereby the emerging markets were going straight to renewable energy to meet new demand. The world was shifting from fossil fuels to renewable energy in the same way as two centuries ago it moved from biomass to fossil fuels and a century ago, we moved from horses to cars and twenty years ago from the newspapers to the internet.

The energy transition would lead to a significant reallocation of capital (this had been backed up by the world's largest Fund Manager). Therefore, the fossil fuel sector

was deeply at risk and was a huge super-tanker of a sector with massive fixed costs that now faced structurally declining demand and new competition for the first time in its history. It had been argued that this was a pendulum and that things would get better. However, at times of profound change, the efficient market theory breaks down. This could be argued if it was a cycle but it was a profound structural change. Since Mr Bond presented to the Workshop in November, the share price of Shell was down by 28%, the share price of BP was down 18% and the index was down by just 8%. It would be deeply irresponsible to ignore these changes, time was running out. He urged the Committee to act.

#### **4/20 MINUTES OF THE LOCAL PENSION BOARD**

(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board which met on 24 January 2020 were noted.

#### **5/20 REPORT OF THE LOCAL PENSION BOARD**

(Agenda No. 6)

The Committee had before it the latest report by the Independent Chairman of the Local Pension Board. Mr Alistair Bastin, 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.

Mr Bastin highlighted reported that the Committee welcomed the fact that 50% of funds had now been transitioned to Brunel and welcomed the inclusion of a Board Member on the Climate Change Workshop, together with the opportunity to review the draft Investment Strategy Statement at their next Meeting.

The Chairman reported that the Independent Chairman of the Local Pension Board, Mark Spilsbury was retiring from his role of Head of Pensions at Gloucestershire and therefore would be stepping down as Chairman of the Local Pension Board. The Committee paid tribute to Mr Spilsbury for his excellent work on the Board and formally thanked him.

**RESOLVED:** to note the comments of the Board and agree the appointment of the new Head of Pensions at the Gloucestershire Pension Fund to take on the role as the Independent Chairman of the Oxfordshire Pension Board following the retirement of the current Chairman.

#### **6/20 INVESTMENT STRATEGY STATEMENT INCLUDING THE FUNDAMENTAL ASSET ALLOCATION AND CLIMATE CHANGE POLICY**

(Agenda No. 7)

The Committee reviewed its Investment Strategy Statement on an annual basis and carried out a fundamental review of its asset allocation every three years following on from the tri-ennial Fund Valuation. The Committee had before it a report (PF7) which brought together the latest review of the Investment Strategy Statement including a

new annex covering the Policy regarding Climate Change, and the formal advice of our Independent Financial Adviser in respect of the fundamental asset allocation.

In introducing the report, Mr Collins explained that, due to the restrictions on the investment cycles in respect of the allocations to the private market allocations within Brunel, the Committee were asked to approve a number of immediate proposals on asset allocations effective from 1 April 2020, as well as approving the draft Investment Strategy Statement and Climate Policy for formal consultation.

The key change to the Investment Strategy Statement was the addition of a separate annex in respect of the Council's Climate Change Policy. This Policy had been informed by the Climate Change Workshop held in November, plus 2 meetings of the Climate Change Working Group established at the December meeting of this Committee. The draft Climate Change Policy should be seen as an initial position statement which would be subject to regular review reflecting the rapidly changing environment in which this initial policy has been established. In particular, the Policy itself recognised a number of shortfalls in the current availability of international accepted metrics used to assess the suitability of investments against the requirements of the Paris Agreement, and therefore included commitments to work with Brunel and others in the investment industry to establish such metrics. This will in turn would allow more specific targets to be set within the Policy in future years. The Pension Fund investment should be Carbon Neutral by 2050 and the Officer teams and their infrastructure by 2030 and therefore the Fund should be looking at more sustainable options to invest in through Brunel. The Chairman added that if the Strategy was adopted today by the Committee, it would then go out to consultation to all stakeholders.

Councillor Mathew expressed concern over the lack of knowledge of what the other members of Brunel were demanding in relation to Climate Change. Mr Collins reported that the Brunel Climate Change Policy had been signed off by 10 members of Brunel. There had been a lot of cross working and communication with Brunel and other funds in the partnership on the development of the Oxfordshire Policy and the direction of travel was consistent, although timescales varied. At the December Meeting in was intended that the Committee would receive a presentation from Brunel looking at responsible investment and climate change.

In relation to page 21 of the report, Councillor John Sanders requested that the Committee receive a report on what engagement had taken place, together with the results.

The Committee expressed the need for reliable metrics.

Jo Robb felt that the Pension Fund pegging itself to the Paris Treaty was not fast enough, especially with the up-coming reallocation of assets and requested that the document be more explicit in the language used to express that the Oxfordshire Fund were more ambitious than the 2050 objectives.

In response Mr Collins reported the Implementation Strategy would be coming to the June Meeting of the Pensions Fund with a view to setting intermediate targets and that the issue would then come to every meeting so that the Committee could look at

targets and reset them as necessary. The appropriate funds to invest needed to be in place and it would take time to shift the money. Brunel would be attending the next two meetings of the Committee so members would be able to question them on those issues.

The independent Financial Adviser, Mr Peter Davies outlined his report on the Strategic Asset Allocation, together with further modelling of options and the implications of the current cashflow projections from MJ Hudson. The report of the Independent Financial Adviser was included as Annex 2 to the report, with the Executive Summary of the report from MJ Hudson included as an appendix.

The key objectives of the fundamental review of the asset allocation were to ensure that the Fund had sufficient liquid resources to meet the pension liabilities as they fell due, and that all surplus assets were invested to ensure the appropriate level of return for any given level of risk. The asset allocation agreed should also be fully consistent with the Investment Strategy Statement, including the new Climate Change Policy.

The work undertaken by MJ Hudson which itself was informed by cash flow projections produced by the Fund Actuary found that in the short term, whilst cash flow from dealings with members was expected to go negative (i.e. total payment of pensions would exceed the current level of pension contributions), the levels involved could be met from within current cash balances and did not require a major switch to income releasing assets.

MJ Hudson identified that our current asset allocation falls somewhat short of the efficient frontier, and indeed short of the current Strategic Asset Allocation. This reflected the underweights in the private markets whilst we waited for Brunel to identify suitable investment opportunities, and those Funds to call down the committed cash. Moving towards the strategic asset allocation would both improve the potential investment returns as well as reducing risk/volatility through the greater diversification of the portfolios. MJ Hudson therefore produced a number of options which brought the asset allocation closer to the efficient frontier, either by increasing investment returns for the same level of risk/volatility or reducing risk/volatility whilst achieving the same levels of investment return.

The report and recommendations of the Independent Financial Adviser then built on the conclusions from MJ Hudson to produce a more detailed proposal for changes to the asset allocation. In bringing forward his proposals, the Independent Financial Adviser also look to ensure that any changes were consistent with the revised Investment Strategy Statement and Climate Change Policy. Included in the proposals from MJ Hudson and endorsed by the Independent Financial Adviser was a proposal to implement a new investment in the Private Debt Portfolio offered by Brunel. The Independent Financial Adviser was recommending an immediate commitment of £80m or around 3% of the Fund. This could be topped up in April 2021 to the 5% recommended in the MJ Hudson report following further detailed review of the proposal. The MJ Hudson report also recommended a 5% allocation to multi asset credit. At the present time, this portfolio was not available through Brunel, but should be developed during 2020/21. This enabled further consideration of the proposal to be made before any final decision is made.

The MJ Hudson report also proposed further increases in the allocations to Infrastructure and Private Equity. The report from the Independent Financial Adviser indicated reservations on this proposal due to the increase in illiquidity that would result. In particular, further work needed to be undertaken to assess the ability of the Fund to meet its existing commitments to the private markets and pay pension liabilities as they fall due in the event of another financial crisis of the level experienced in 2008. As the existing asset allocation already required significant allocations to the private market and infrastructure portfolios, any delay in agreeing an increase in these allocations was not seen to be critical and could be implemented in April 2021 if necessary.

In respect of ensuring consistency with the draft Climate Change Policy, the report from the Independent Financial Adviser is recommending an immediate switch of 5% of the Fund from the UK passive portfolio to the global low carbon passive portfolio. The proposal reflected the high weighting to the fossil fuel and mining sectors within the current UK passive index, and the lower levels of carbon intensity within the low carbon fund. At this stage it was not recommended to make further allocations to the low carbon or sustainable equities portfolio, until further work could be completed on developing the metrics to assess the suitability of the products against the principles established in the draft Climate Change Policy. Once this work was completed, further transitions could be proposed, or further requests could be made to Brunel for the development of additional portfolios which more closely reflect the need to align all investments with the requirements of the Paris Agreement. It should also be noted that the allocation to infrastructure to bring the actual investment in line with the current asset allocation will include a significant investment in renewable infrastructure.

Councillor Mark Lygo questioned why only 5% of the Fund from the UK passive portfolio to the global low carbon passive portfolio was being moved and not the available 7%? Mr Davies explained that he felt that 5% was a significant amount and that there could potentially be other funds the Committee wished to commit to.

District Councillor Jo Robb questioned whether 2% could be earmarked for future low or zero carbon portfolios which also addressed scope 3 emissions.

Councillor Mark Lygo moved and Councillor Kevin Bulmer seconded an immediate switch of 5% of the Fund from the UK passive portfolio to the global low carbon passive portfolio in line with the recommendation, with the remainder earmarked as requested by Cllr Robb.

The motion was put to the vote and was carried nem con.

**RESOLVED:** to

- (a) approve the draft Investment Strategy Statement including the Climate Change Policy as the basis for formal consultation and
- (b) approve the interim changes to the Strategic Asset Allocation as recommended by the Independent Financial Advisor and summarised in paragraphs 39 – 45 of

his report, subject to the remaining 2 ¾% being earmarked for low/zero carbon funds which also covered scope 3 emissions.

## **7/20 2019 VALUATION AND FUNDING STRATEGY STATEMENT**

(Agenda No. 8)

Under the current regulatory framework, the Pension Fund was required to arrange for a Valuation of the Pension Fund every three years. The latest Valuation was based on the position as at 31 March 2019, with a requirement for the Fund Actuary to produce their report and certify the employer contribution rates for 2020/21 onwards by 31 March 2020. This report updated the Committee on the work to date on the 2019 Valuation and recommended the Committee approved the revised Funding Strategy Statement.

In introducing the report, Mr Collins reported that following consultation, on the whole employers were happy. The Further Education Colleges were concerned due to a proposed increase in their total contribution rates of up to 8% and a proposal to shorten the deficit recovery period to 15 years compared to a standard 20 years, reflecting the weaker financial covenant of the FE sector as a whole.

**RESOLVED:** to note the latest position on the 2019 Valuation and approve the Funding Strategy Statement.

## **8/20 ANNUAL BUSINESS PLAN**

(Agenda No. 9)

The Committee had before it a report which set out the business plan for the Pension Fund for 2020/21. The Plan set out the key objectives of the Fund, detailed the key service activities for the year, and included the proposed budget and cash management strategy for the service. The report also reviewed the progress against the key service priorities included in the 2019/20 Plan as context for setting the key priorities going into the next financial year.

Mr Collins reported that the key objectives for the Oxfordshire Pension Fund were set out on the first page of the Business Plan for 2020/21 (contained in annex 1), and remained consistent with those agreed for previous years. These were summarised as:

- To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensions Regulator
- To achieve a 100% funding level
- To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
- To maintain as near stable and affordable employer contribution rates as possible.

Part A of the plan set out the broad service activity undertaken by the Fund. As with the key objectives, those were unchanged from previous years. The service priorities for the forthcoming financial year were then set out in more detail in Part B. These priorities did not include the business as usual activity which would continue alongside the activities included in Part B.

Mr Collins sought the Committee's view regarding all members of the Committee and Board undertaking the LGPS National Knowledge Assessment Survey. The Committee agreed that it was useful tool for training.

The Committee felt that the National Knowledge Assessment had been a very useful training tool in the past and indicated that it would wish to see all members of the Committee and the Local Pensions Board undertake the training.

**RESOLVED:** to:

- (a) approve the Business Plan and Budget for 2020/21 as set out at Annex 1;
- (b) approve the Pension Fund Cash Management Strategy for 2020/21.
- (c) delegate authority 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;
- (d) delegate authority to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate;
- (e) delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations;
- (f) agree that all members of the Pension Fund Committee and Local Pension Board complete the National Knowledge Assessment Survey.

**9/20 RISK REGISTER**

(Agenda No. 10)

The Committee had before it a report which updated the Committee on the Fund's Risk Register, updating the position on risks reported to the last meeting, together with any new risks identified in the intervening period. Mr Collins reported that one new risk had been added to the register as risk number 20. The risk covered the potential implications of the current Employment Tribunals which were looking to identify appropriate remedies following the court decisions in the age discrimination cases brought by McCloud and Sargeant. It was likely that the required remedies would involve bringing a wider group of scheme members within the current protection arrangements, initially only offered to those with 10 years of retirement. This would produce a massive backlog of work and the LGPS Fund were looking for staff to carry out the work. Mr Collins reported that he had been instructed to put money into the Administration Budget to allow for a fast response to the situation.

Councillor Charles Mathew requested that further clarification be added to the Risk Register at 20 on the significant legal requirement to recalculate retrospective member benefits, presently the basis of which was not yet clear.

**RESOLVED:** to note the changes to the risk register and offer any further comments, subject to further clarification being added to Reference 20 of the Risk Register on the significant legal requirement to recalculate retrospective member benefits, presently the basis of which was not yet clear.



**10/20 ADMINISTRATION REPORT**

(Agenda No. 11)

The Committee had before it a report which updated members on scheme administration and date issues.

In relation to paragraphs 2 – 3 of the report, Mrs Fox reported that there had been two resignations, with potentially another. Recruitment to replace the staff had already started and in view of the end of year work, one team member had been seconded from benefits to the employer team until August 2020.

In relation to paragraphs 9-17 of the report, Mrs Fox drew to the Committee's attention two Death Grant cases for decision. On the first case, unfortunately due to an administrative error, permission was sought from the Committee to agree that the fund should pay £12,671.65 tax, which had resulted from a death grant being paid late and therefore incurring 45% tax charge.

The second case requiring a decision from the Committee was that of a member who had died in service on 21 September 2019, who had not registered any next of kin details on file including an 'expression of wish' form.

However, the employer subsequently provided the name and contact details for a daughter who duly completed a pension declaration form stating that she was the only person with an interest in the death grant payable from the fund. However, during several telephone calls it found that there was also a son, living in Australia. Initially, the son informed Pension Services that he did not have any interest in receiving part of any death grant payment but later conversations revealed that this decision was based on incorrect information supplied by his sister and so he then made declaration as an interested party. He also included a granddaughter (daughter of deceased sister) on this declaration.

The member's will leaves her estate to be split between the five grandchildren when they attain the age of 25. The death grant does not form part of the estate and was payable at Pension Fund discretion. This was a significant amount in excess of £100,000, and there were various options in how payment could be made:

- 50/50 split between sister and brother
- A percentage paid to sister and brother with the remainder being split between grandchildren
- Payment split equally between grandchildren only

It should be noted that the fund had been advised that the initial claimant has paid £700 in respect of funeral costs out of her own funds. The Committee was asked to consider how the Death Grant should be paid.

The Committee requested that in respect of the first case, measures be put in place to ensure that the oversight did not happen again and that the importance of taking written notes be reiterated to the staff. Mrs Fox reported that they were reviewing all

other cases to check death tasks and that staff has been reminded of the importance of accurate recording.

For the second case, Councillor Mathews felt that the death grant should be a 3 way split to include the granddaughter in her own right. District Councillor Jo Robb felt that the middle option of a percentage paid to the sister and brother with the remainder being split between the grandchildren was the fairest option.

Councillor Mark Lygo moved and Councillor John Sanders seconded the first option of a 50/50 split between sister and brother.

The motion was put to the vote and was carried by 7 votes to 3 (Councillor Charles Mathew requested that his dissent be recorded).

**RESOLVED:** to:

- (a) note the report;
- (b) agree the Fund meets the tax cost associated with the late payment of death grant arising from administrative error as set out in paragraph ~~11-12~~ 10-11;
- (c) (by 7 votes to 3, Councillor Charles Mathew requesting that his dissent be recorded) agree a 50/50 split between sister and brother payment of the death grant for the case set out in paragraphs ~~13-18~~ 12-17;
- (d) confirm changes to administration strategy as set out in paragraph ~~34~~ 31-33.

## **11/20 EXEMPT ITEMS**

(Agenda No. 12)

***The Committee RESOLVED that the public be excluded for the duration of items PF13, PF14 and PF15 in the Agenda since it was likely that if they were present during those 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 outweighed the public interest in disclosing the information.***

## **12/20 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS**

(Agenda No. 13)

The Committee had before it a report of the Independent Advisor setting out an overview of the current and future investment scene and market developments across various regions and sectors. The report itself did not contain exempt information and was available to the public. The Independent Financial Adviser also reported orally and any information reported orally would be exempt information.

*The public should be 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 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:** to receive the report, tables and graphs, to receive the oral report, to consider any further action arising on them and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

**13/20 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION**

(Agenda No. 14)

The Independent Financial Advisor reviewed the investment activity during the past quarter, presented a summary of the Fund's position as at 31 December 2019, and highlighted any key performance issues, with reference to the attached tables and graphs.

**14/20 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER**

(Agenda No. 15)

The Independent Financial Adviser gave a final word regarding Legal & General and reported that he had no further information to add to his report.

**15/20 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT**

(Agenda No. 16)

Nothing to note at this meeting.

..... in the Chair

Date of signing .....