

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 7 June 2019 commencing at 10.00 am and finishing at 1.40 pm

Present:

Voting Members: Councillor Kevin Bulmer – in the Chair

Councillor Nicholas Field-Johnson
Councillor Mark Lygo
Councillor John Sanders
Councillor Roz Smith
Councillor Lawrie Stratford
Councillor Alan Thompson
Councillor Mike Fox-Davies (In place of Councillor Charles Mathew)
Councillor Dr Suzanne Bartington (In place of Councillor Ian Corkin)

District Council Representatives: (voting) Councillor Dr Alaa Al Yousuf

Officers:

Whole of meeting J. Dean, S. Collins, G. Ley and S. Fox (Resources)

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, reports and schedule, copies of which are attached to the signed Minutes.

23/19 ELECTION OF CHAIRMAN FOR THE 2019-20 MUNICIPAL YEAR

(Agenda No. 1)

Councillor Kevin Bulmer was elected Chairman for the 2019/20 municipal year.

24/19 ELECTION OF DEPUTY CHAIRMAN FOR THE 2019-20 MUNICIPAL YEAR

(Agenda No. 2)

Councillor Nicholas Field-Johnson was elected Deputy Chairman for the 2019/20 municipal year.

25/19 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 3)

Councillor Mike Fox-Davies attended for Councillor Charles Mathew and Councillor Dr Suzanne Bartington for Councillor Ian Corkin.

26/19 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE

(Agenda No. 4)

Councillor Ros Smith declared a general interest on account of her being in receipt of an Oxford Brookes University pension.

27/19 MINUTES

(Agenda No. 5)

The Minutes of the meeting held on 8 March 2019 were approved and signed subject to the following amendment:

- Minute 12/19 – page 6, sentence 2 to read ‘Over the Quarter, assets had depreciated by £190m, ***a drop of over 7%*** to £2.3m’ (amendment in bold italics).

There were no Matters Arising.

28/19 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 6)

The Chairman had agreed to the following addresses to be made to members of the Committee prior to discussion on the item itself:

- Julia Spragg - on behalf of Fossil Free Oxfordshire – Agenda Item 13, Annex 2, The Investment Strategy Statement
- Jess Mallaghan and Xanthe Wells – pupils of Gosford Hill School – Agenda Item 13, Annex 2, The Investment Strategy Statement.

29/19 MINUTES OF THE LOCAL PENSION BOARD

(Agenda No. 7)

The unconfirmed Minutes of the Local Pension Board which met on 26 April 2019 were noted (PF7).

30/19 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 8)

Members had before them the latest report by the Independent Chairman of the Local Pension Board (PF8). Councillor Bob Johnston, a Board Member, addressed the report on the Board’s behalf which invited the Committee to respond to the key issues contained within it.

RESOLVED: to

- (a) note the comments of the Board in respect of the Improvement Plan, Annual Business Plan and Risk Register, and the subsequent changes made to these documents elsewhere on this Agenda;
- (b) inform the Board that the question of whether to mandate training at certain training events for Committee members was to be considered at Agenda Item 13 on this Agenda; and
- (c) note the comments of the Board in respect of future responsible investment statements.

31/19 IMPROVEMENT PLAN

(Agenda No. 9)

The Committee had before them the latest report which gave an update on progress against the objectives and milestones set out in the Committee's Improvement Plan, together with progress on the I Connect Project Plan (PF9). Becky Herman, Team Leader, Pensions Team, attended to give details, on the latest position regarding end of year returns and progress towards the issuing of this year's Annual Benefit Statements and to respond to questions from the Committee.

Mr Collins undertook to inform members of the Committee in the event that fines were issued to employers.

In response to a question from a member, Sally Fox confirmed that 36 scheme employers had now gone live with I Connect.

RESOLVED: to thank Becky Herman for her report and to note the latest position with regard to the implementation of the Improvement Plan.

32/19 REVIEW OF THE ANNUAL BUSINESS PLAN 2019-20

(Agenda No. 10)

The Committee had before them a report (PF10) which set out progress against the key objectives within the business plan for the pension fund for 2019/20. Members were informed that at this stage of the new financial year, a detailed budget monitoring report had not been included. However, any key issues identified since the budget had been agreed were noted within this report and full detail would be included in future quarterly reports.

RESOLVED: to

- (a) note the progress against the key service priorities included within the 2019/20 Business Plan; and
- (b) approve the amendment to the measures of success in respect of service Priority 5 – Improve Scheme Members Communications, as set out in paragraph 19.

33/19 RISK REGISTER

(Agenda No. 11)

The Committee considered a report (PF11) which presented the latest position on the Fund's Risk Register, including any new risks identified since the report to the last meeting.

In response to requests from the Members, Mr Collins undertook to re-introduce the directions of travel on the report, together with the introduction of a yearly overview and a rag rating system.

RESOLVED: to note the progress against the key service priorities included within the 2019/20 Business Plan.

34/19 ADMINISTRATION REPORT

(Agenda No. 12)

The Committee had before them a report (PF12) which gave an update on those administration issues which were not covered under the Improvement Plan.

During the discussion on the consultation response with regard to changing the status of HE/FE employers, Mr Collins undertook to look into whether there could be any possible impact on specific groups and include under the equality question within the consultation response.

RESOLVED: to

- (a) note the report;
- (b) agree the proposed temporary changes to the SLA targets; and
- (c) (unanimously) agree the proposed response to the Government Consultation on Changes to the Local Valuation Cycle and the Management of Employer Risk, subject to additional wording on the equality implications, given the majority of those scheme members impacted by the proposed changes to the HE/FE employers were female.

35/19 ANNUAL REVIEW OF PENSION FUND POLICIES

(Agenda No. 13)

Prior to discussion on this item, in relation to Annex 2 – The Investment Strategy Statement - the Chairman read out a revised recommendation to the report PF13, which had been published on the Committee's Addenda prior to the meeting. This was the outcome of discussions with the Chairman, the outgoing Deputy Chairman and the Opposition Spokesperson for this Committee and was a replacement for the current recommendation (b) on the Agenda. The recommendation, as read, was as follows:

'approve the revised Investment Strategy Statement as set out in Annex 2, noting the changes as discussed in the report and

- (i) endorse the current approach and direction of travel as set out in the Addressing Climate Change Position Statement, including:***
 - the integration of consideration of environmental and social risks, as well as good governance and stewardship into all decision-making processes***
 - contributing to a more sustainable and resilient financial system***
 - ensuring all portfolios across all asset classes are carbon and climate aware***
 - decarbonising the listed portfolios, and developing measurable objectives and targets***
 - accessing positive climate impact investment opportunities. such as the 35% investment in renewable energy funds within the infrastructure portfolio***
 - active engagement with the underlying companies through asset managers, engagement and voting specialists and collaborative forums with other investors***
 - improving the transparency of reporting including carbon footprinting and fossil fuel exposure and the impacts of our engagements***

- (ii) ask Officers to set up a Climate Change Workshop in the Autumn to discuss how to further develop the above approach and contribute to the Climate Change Policy being developed by Brunel, seeking participation from a wide range of stakeholders to ensure a balanced discussion; and***

- (iii) note the view of Brunel that in light of the above approach, they do not consider a top down approach to divestment to be an appropriate strategy for its clients'.***

Before discussion on the above, and consideration of the wider recommendations the Chairman invited the speakers to give their addresses:

Julia Spragg – on behalf of Fossil Free Oxfordshire (FFO)

Julia Spragg began by stating that FFO continued to be seriously concerned about the consequences of climate change, adding that this Committee had the power to make a real difference. She cited a press report in October 2015 which stated that:

- the £2.9bn Environment Agency Pension Fund (EAPF) had become the first in the world to change its investment choices to help meet the internationally agreed target of limiting global warming to 2 degrees centigrade;
- this move would include divestment of 90% of its coal assets and 50% of its oil and gas stocks by 2020;

- the EAPF would also invest 15% of the fund in low-carbon energy, energy efficiency and other businesses that help tackle climate change by 2020 and it had already moved its £280m of global share investments to a low-carbon index;
- the EAPF's chief investment officer that said that the new policy was not a knee-jerk reaction but followed over a decade's analysis of the financial risks posed by climate change.

She stated that it was the view of FFO that the Chief Finance Officer's report at PF13 included 'a litany of reasons why it was too difficult to divest from fossil fuels...and Brunel Pension experts apparently agreed. However, the Brunel Partnership offered an active and a passive equity fund that would allow the Committee to take a step towards reducing the risk to the Pension Fund posed by climate risk.

It was the view of FFO that there was a continuing trend within the Committee to delegate more and more to the Officers whose work in the beneficiaries' interests was hugely appreciated. However, she urged the Committee not to delegate its fiduciary responsibility to the officers and 'show some leadership'. All County Council members had voted to acknowledge that there was a climate emergency and to now accept Councillor Sander's motion.

She added that the FFO believed that the evidence was very strong that moving towards lower investment in Oil and Gas companies did not result in financial jeopardy. To illustrate this she cited the 2018 annual report of the Environment Agency's Pensions Committee in which the Chairman wrote that their Investment Strategy had delivered 9.7% investment returns over the last 5 years. She understood that the comparable figure for the Oxfordshire LGPS was 8.8% and quoted the Chairman of EAPC stating:

'I am very pleased to report that we have met our climate change goals of decarbonising our equity portfolio through reducing our exposure to 'future emissions' for coal and oil and gas two years ahead of target. We have reduced both by over 90% with embedded emissions from coal reserves among active managers now reduced to zero'.

She urged the Committee to follow this example.

Jess Mallaghan and Xanthe Wells – students of Gosford Hill School

Both spoke about the lack of need for their mothers at the age of 26 to be concerned about threats to the climate, as they themselves would be. Both would be 26 in the year 2030 by which the Intergovernmental Panel On Climate Change (IPCC) stated that this was the year by which we must have reduced global emissions by 50%, to avoid 'a terrifying future of floods, famines, droughts, civil unrest, hunger and a breakdown of civilisation'.

They thanked the County Council and expressed relief that OCC had acknowledged a climate emergency and had committed to taking action. It had given them hope to hear that change was happening and that the political will was there to stop this world disaster. However, they expressed concern that investments were still being made

into fossil fuels, asking what did acting on climate emergency really mean to the Committee? They pointed out that companies like BP and Shell continued to spend money looking for new oil and gas to dig up. They added that in 2015, BP was the 11th highest contributor to emissions taking a massive 1.53% of all global emissions and Shell was the 9th highest taking an even higher amount of 1.67%.

It was their view that even if those companies were being more energy efficient in the ways in which they mined and processed the oil, or even if they were investing a tiny percentage of their revenue in renewables, they were still spending billions of pounds looking for oil and gas. It was their view that 'this would mean an irreversible chain reaction in 12 years, and game over for much of the life of our planet'.

They were therefore calling on the Committee, without political intention, to do its duty for future generations and to fight for a more sustainable and clean planet. They ended by urging divestment stating that 'if humanity was not secure first – what was the point of anything else?'

The Committee then considered the revised recommendation, as set out above.

Councillor Lygo spoke in favour of the revised recommendation pointing out that it was the Chairman, the outgoing Deputy Chairman and his own wish to gain a balance view from all stakeholders, including from Waltham Forest Council, who had themselves divested themselves of fossil fuels, from those Councils who had not divested, from representatives from young people, and from environment groups etc, in order for the Committee to decide on the future direction of travel, including how to monitor its progress. The Chairman agreed, adding that there was a fair degree of cross-party agreement on this.

Councillor John Sanders, spoke in favour of his motion to the Committee which was as follows:

'In the light of the recent Motion in Full Council on 2 April 2019 to acknowledge a climate emergency, the Pension Fund Committee is called upon to instruct officers to investigate the best possible way it can divest itself of all fossil fuel investments (ie. the equity or bond of any company which derives more than 50% of its total turnover from the extraction and production of fossil fuels) as soon as is reasonably practicable whilst mitigating any impact on the value of the fund.'

He stated that the revised recommendation was a good step forward, but stressed that, in his view, the Committee had a fiduciary duty of care to look to the future, asking where were the council targets for reducing carbon by 2019/21 and who was driving it? He added that UK pension funds held in excess of 90% of the value of the country's GDP and fossil fuel consumption which must be engaged with; evidence of this engagement should also be apparent too.

Following a discussion, Councillor Sanders' motion was put to the vote and was lost by 3 votes to 7.

The Committee then proceeded to discuss the Chairman, Deputy Chairman and Opposition Spokesperson's statement as set out above. Following amendments put forward by Councillors Stratford and Bartington, the following was **AGREED** (unanimously)(amendments shown in bold italics):

- (a) to approve the revised Investment Strategy Statement as set out in Annex 2, noting the changes as discussed in the report and
- (iv) endorse the current approach and direction of travel as set out in the Addressing Climate Change Position Statement, including:
- the integration of consideration of environmental and social risks, as well as good governance and stewardship into all decision-making processes
 - contributing to a more sustainable and resilient financial system ***in alignment with the UN Sustainable Development Goals***
 - ensuring all portfolios across all asset classes are carbon and climate aware
 - decarbonising the listed portfolios, and developing measurable objectives and targets
 - accessing positive climate impact investment opportunities. such as the 35% investment in renewable energy funds within the infrastructure portfolio
 - active engagement with the underlying companies through asset managers, engagement and voting specialists and collaborative forums with other investors
 - improving the transparency of reporting including carbon footprinting and fossil fuel exposure and the impacts of our engagements
- (v) ask Officers to set up a Climate Change Workshop in the Autumn ***to define timescales, milestones and reporting mechanisms for the above approach*** and to contribute to the Climate Change Policy being developed by Brunel, seeking participation from a wide range of stakeholders to ensure a balanced discussion; and
- (vi) note the view of Brunel that in light of the above approach, they do not consider a top down approach to divestment to be an appropriate strategy for its clients.
- (b) In relation to Annex 3 – the Governance Policy and Governance Compliance the Committee discussed the proposal put forward by the Local Pension Board at its last meeting that consideration be given by the Committee to mandating attendance by Committee members at certain training events. During discussion of this proposal, the Committee considered that a form of mandatory training was desired, however, that further thought was required and investigation carried out into this matter. It was therefore **AGREED** to refer these changes to the next meeting of Committee in September following further work;

- (c) to **APPROVE** the revised policy documents as set out in Annexes 1, 4, 5 and 7, noting the changes in the documents as discussed above;
- (d) **AGREE** the delegation to the Service Manager (Pensions) the responsibility for exercising the new discretionary decisions as set out in paragraph 47 above, and the subsequent changes in the scheme of delegation to ensure it is consistent with the schedule of Administering Authority Discretions; and
- (e) note that no new changes have been made to the Scheme of Delegation and the Procedure for Reporting Breaches of Law to the Pension Regulator.

36/19 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 14)

The Independent Financial Adviser reviewed the investment activity during the past quarter and presented an overview of the Fund's position as at 31 March 2019.

Mr Davies reported that during the latest quarter, the Fund had recouped £166m of the £190m depreciation in the previous quarter, giving an overall Fund value of £2.5bn at the end of March 2019. Overall the Fund's performance over 3 years was good, out-performing the benchmark by 0.5%.

RESOLVED: to receive the tables and graphs and that the information contained in them be borne in mind insofar as they related to Agenda Items 16, 17, 18 and 19 on the agenda.

37/19 EXEMPT ITEMS

(Agenda No. 15)

The Committee RESOLVED that the public be excluded for the duration of items 16, 17, 18, 19, 20 and 21 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 was considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

38/19 EXEMPT MINUTE - LOCAL PENSION BOARD - 26 APRIL 2019

(Agenda No. 16)

RESOLVED: to note the exempt Minute of the Local Pension Board meeting which was held on 26 April 2019 (PF16).

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 was 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 distort the proper process of free negotiations with another party.

39/19 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 17)

The Committee had before them a report of the Independent Financial Adviser (PF17) which set 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. Information which the Independent Financial Adviser reported orally was exempt information.

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: to receive the report, tables and graphs and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

40/19 INSIGHT

(Agenda No. 18)

The Independent Financial Adviser reported orally on the performance and strategy of Insight drawing on the tables at Agenda items 14 and 17.

The representatives, Sherilee Mace and Matt Merritt of the Fund Manager presented their approach to investments in relation to their part of the Fund and their strategy against the background of the current investment scene.

At the end of the presentation they responded to questions from members of the Committee.

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 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 in funding the Pension Fund.

RESOLVED: to note the main issues arising from the presentation.

41/19 REPORT OF MAIN ISSUES ARISING FROM REPORTS OF THE FUND MANAGERS NOT REPRESENTED AT THIS MEETING

(Agenda No. 19)

The Committee considered a report from the Independent Financial Adviser (PF19) on the main issues arising from the officer meeting with Legal & General, in conjunction with information contained in the tables at Agenda Item 14 and the latest position on investments with Brunel.

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 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 in funding the Pension Fund.*

RESOLVED: to note the report;

42/19 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER

(Agenda No. 20)

The Independent Financial Adviser reported that no further summary was required.

43/19 APPLICATIONS FOR PAYMENT OF PENSION BENEFITS

(Agenda No. 21)

The Committee considered a report which detailed requests for payment of pensions received (PF21).

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 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.*

RESOLVED: to

- (a) note the applications for payment of benefits on grounds of ill-health report and to authorise the Service Manager for Pensions to make a decision should reports be received between meetings, following consultation with the Chairman, Deputy Chairman and the Opposition Spokesperson;
- (b) authorise payment of the pension to the person specified in the report, for the period 2018 - 2021; and
- (c) note the write-off of salary.

44/19 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

(Agenda No. 22)

No further issues were raised.

45/19 ANNUAL PENSION FORUM

(Agenda No. 23)

The Committee noted that the next Annual Forum would be held in November 2019 on a date to be decided. The focus would be on the triennial valuation.

Members of the Committee were asked to let Sally Fox know of any items which they considered would interest school employers for the Forum Agenda.

..... in the Chair

Date of signing