PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 4 December 2020 commencing at 10.30 am and finishing at 13.20pm.

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 and Alastair Bastin (Local Pension Board)
District Council Representatives:	District Councillor Alaa Al-Yousuf District Councillor Jo Robb
By Invitation:	Faith Ward and Catherine Dix (Brunel) for Item 8 Ian Colvin and Andrew McKerns (Hymans Robertson)
Officers:	Sean Collins, Sally Fox, Gregory Ley (all Finance) and Deborah Miller (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, reports and schedule, copies of which are attached to the signed Minutes.

123/20 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies for absence were submitted from Councillor Lawrie Stratford and from the Director of Finance, Lorna Baxter.

124/20 MINUTES

(Agenda No. 3)

The Minutes of the Meeting held on 11 September 2020 were approved and signed as an accurate record.

Matters Arising

In relation to Minute No. 108/20 - Petitions and Public Address – Sean Collins reported that Brunel had drawn attention to inaccuracies contained in the address by Fossil Free Oxfordshire as recorded in the minutes, and in particular the statement "In their latest quarterly statement, Brunel had admitted that the poor performance of the Passive and Active UK Equity funds was a result of overexposure and poor performance of fossil fuel companies."

This was factually incorrect. The Market overview on page 5 of Q2 Quarterly Report said, "Oil & Gas continued to struggle as a sector, falling by -7.7% over the quarter. Significant gains from smaller companies in this sector were offset by losses at oil giants like BP. The company slashed $17.5bn off the value of its oil and gas assets after taking a pessimistic view on longer term oil prices in mid-June. BP's share price fell approximately 8% over the quarter."

The report about the UK Active Equity (page 25) - it outperformed in the quarter to June (for which the minute relates) says the opposite to the minuted statement. "The underweight to Oil and Gas benefited the Fund, with stock selection particularly strong in Financials and Consumer Services."

The Passive UK (page 22) - which just followed the index has indeed therefore followed suit - and the reports says "The oil and gas sector was the weakest of all sectors of the UK stock market over this period. This was the only negatively performing sector in absolute terms, and demonstrated a continuation of the poor performance seen in the prior two quarters, which has caused the weight of the Oil and Gas sector within the index to fall to 8.42%, down from 14.26% a year ago."

125/20 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

The Committee received public addresses from Mr Michiel Stofferis from Fossil Free Oxfordshire.

Mr Stofferis informed the Committee that he was a Dutch earth scientist and before joining Fossil Free Oxfordshire in 2018, he had worked for 35 years in the oil & gas industry, developing fields and certifying reserves.

Members were informed that Fossil Free Oxfordshire were happy that the Pension Fund was reducing emissions of their investments at a pace of 7.6% every year, yielding a 50% reduction in emissions by 2030. However, Members were reminded that this was at odds with the OCC net-zero emission target by that date, which would require a more drastic reduction target.

Mr Stofferis commented that Fossil Free Oxfordshire did not understand why the fund continued to invest in fossil fuel companies. These continued investments allowed fossil fuel companies to press on with exploration and development of new fields. These extra fossil fuels found their way to a market of consumers, whom, on the other hand, OCC required to reduce CO_2 emissions in line with the decarbonising of the fund. So, by these continued investments OCC were creating their own stranded assets and delaying the urgent energy transition.

Currently neither the Oxfordshire Pension Fund nor Brunel had targets for an annual reduction of fossil fuel reserves and yet scientific evidence of superfluous fossil fuel reserves was available in many publications. The reputed independent think-tank Carbon Tracker reported last year that there was more than 50 years' worth of proved oil and gas reserves as of end 2018.

Mr Stofferis said that as an oil and gas reserves certifier, he completely concurred with this estimate. The carbon budget that would keep us below 1.5°C global warming allowed us to burn only 13 years' worth of reserves as of end 2018. In a Paris aligned world, 75% of current reserves would be stranded and the development of new fields would be a waste of investors' money.

There were existing tools to reduce exposure to fossil fuel reserves: instead of using antiquated benchmarks, such as FTSE, benchmarks fit for the challenges of the 21st century were needed. Climate Transition Benchmarks (CTBs) and Paris Aligned Benchmarks (PABs) already existed. Not only did these benchmarks insist on a 7% annual reduction in emissions, but they also insisted on big reductions in fossil fuel reserves (PABs require more than 50% over 10 years). For example, TPI in cooperation with the Church of England have developed the FTSE TPI Climate Transition Benchmark. Since the beginning of the year this benchmark was being used by the Church of England for a £600 million fund, reducing the exposure to Fossil Fuel Reserves by 69%.

If Oxfordshire Pension Fund was to be aligned with the Paris Agreement, the same approach was required. And this could only be done, if Brunel started using more modern Climate Transition benchmarks or even better Paris-Aligned benchmarks, so that exposure to fossil fuel industries was reduced.

In conclusion, OCC were urged to require that Brunel adopted these benchmarks for all your portfolios to enable you to implement your climate policy.

126/20 MINUTES OF THE LOCAL PENSION BOARD

(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board which met on 23 October 2020 were noted.

127/20 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 6)

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.

Reports considered at the September meeting of this Committee included reports on the quarterly review of progress against the annual business plan, the risk register, the administration report and the report on the governance review.

Councillor Bob Johnston reported that a common theme on discussions related to the Board's overall concerns about the governance arrangements for the Fund. In respect of the report on the review of the annual business plan, the Board commented that in their view the performance reports presented to the Committee needed to be better presented to highlight areas of concern, and improve the focus on areas where action was required.

In relation to the risk register, reference was made to the risk of insufficient skills and knowledge amongst members of the Pension Fund Committee particularly in light of the impending County Council elections due in May 2021, and the likelihood of change in membership of the Committee as a result. There was a need for a robust training and induction programme for after the elections to enable Members to be sufficiently skilled to carry out their duties.

The Chairman of the Committee asked that the requirement of a training and induction programme be a recommendation for the newly constituted Committee to agree. Sean Collins reminded Members that it had been previously agreed that new Members of the Pension Committee had to undertake either the LGA Fundamental Course or the Pension Regulator on-line course as part their induction onto the Committee.

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

128/20 ANNUAL BUSINESS PLAN

(Agenda No. 7)

Consideration was given to a report which set out the progress against the key service priorities included in the 2020/21 Annual Business Plan for the Pension Fund as agreed at the March meeting of this Committee.

Reference was made to the 4 Key Service Priorities for 2020/21. Members were informed that the report had been amended as a result of comments made at the Pension Board meeting. The report had therefore been amended to show the position against each of the service priorities in tabular form, with Officers assessment of the progress against each of the measures of success shown using a traffic light system.

Work against the 2020/21 business plan has been undertaken largely in line with the agreed budget with just a couple of major exceptions forecast at this time. Reference was made to the table in the report which showed the actual expenditure during the first half of the financial year compared to budget, as well as an end of year forecast.

RESOLVED: That the progress made against the key service priorities and the budget as set out in their annual business plan for 2020/21 be noted.

129/20 IMPLEMENTING THE CLIMATE CHANGE POLICY

(Agenda No. 8)

The Committee was provided with a report which provided a quarterly update on delivery against the agreed Climate Change Policy Implementation Plan.

Members were informed that further to the decision of this Committee at its meeting held on June 2020, to move the full UBS global equity mandate to the Brunel Global Sustainable Equities that the transition had taken place at the end of September 2020 with settlement occurring in early October.

The sustainable equity portfolio focused on companies that were part of the solution to material sustainability challenges. As such, the portfolio should help to deliver on the Fund's Climate Change Policy both through an immediate reduction in the emissions of the Fund's investments and contributing to solutions that avoid dangerous climate change scenarios.

Members were reminded that at the Committee meeting held on 11 September 2020 approval was given to the Fund joining two investor groups focused on addressing climate change. These were the Institutional Investors Group on Climate Change (IIGCC) and Climate Action100+ (CA100+).

Both groups goals align with those set out in the Fund's Climate Change Policy and provide research on climate related issues that would assist the Fund in further developing its policy and implementation plan.

Meetings have been held separately with Fossil Free Oxfordshire and Brunel where a number of issues were discussed including the continuing work by Brunel in piloting the IIGCC Paris Aligned Investments Initiative which it was hoped would provide a methodology of ensuring investment portfolios were aligned with the Paris Agreement. Members were informed that it had been agreed that the focus of the presentation by Brunel at this Committee should be on development of metrics, portfolio development and governance, engagement approach, and scenario testing.

On the 17 November 2020 the Climate Change Working Group met. One issue discussed was the terms of reference for the Group. The group felt that this should be agreed by Committee based around developing the climate change policy and developing/delivering the Implementation Plan.

Reference was made to fossil fuel reserves metrics which it had been agreed at the September meeting would be investigated, together with the potential to set targets. It had been agreed that this was a useful measure to monitor and Members were informed that Brunel did provide reserves measures in their annual carbon report to the Fund. However, in terms of setting a target for reductions, officers believed this would be difficult as unlike the emissions target there was not a science-based reduction requirement for reserves.

Also, in any case having reserves per se did not conflict with the Fund's climate policies. The burning of those reserves caused emissions and should be picked up by the Fund's emissions target. The relevance regarding reserves was how these were

valued in determining a company's value; the risk to the Fund was that the price attached to reserves was too high given that some reserves were likely to be unusable if the Paris Agreement was to be met. With this is mind, and in order to meet the Paris Agreement, large volumes of existing reserves cannot be burnt and there was an expectation that reserves should not increase further.
Officers reported that this metric would be regularly reported on and explanations provided for significant movements. This position would be kept under review and target would be adopted if there were developments in this area.

A general discussion took place around not having a policy on reducing fossil fuel reserves with District Councillor Jo Robb expressing concern at this. Assurance was given that targets would be adopted should developments in this area materialise. It was agreed that the issues raised in relation to fossil fuel companies including capital expenditure would be taken forward and discussed further at the Climate Change Working Group.

It was noted that Faith Ward had been appointed the Chair of the Institutional Investors Group on Climate Change.

The Committee was provided with a presentation on Brunel's Responsible Investment from Faith Ward, Chief Responsible Investment Officer from Brunel. It was agreed that the PowerPoint presentation would be sent to Members.

Faith responded to a number of questions from Members of the Committee and one question each from Alistair Bastin and Andrew Finney on behalf of the Pension Board and Fossil Free Oxfordshire respectively, as agreed in advance by the Chairman.

RESOLVED: That:

(a) the report be noted;

(b) approval be given to the purpose of the Climate Change Working Group as set out in Annex 1 of the report;

(c) it be agreed that there would no target set for fossil fuel reserves levels; and

(d) comments on the priorities for the work of the Climate Change Working Group be forwarded to the Service Manager for Pensions.

130/20 RISK REGISTER

(Agenda No. 9)

Consideration was given to a report which updated the Committee on the Fund's Risk Register, provided details of the position on risks reported to the last meeting and which added in new risks identified in the intervening period.

Reference was made to the Pension Board meeting of 23 October 2020 which welcomed the addition to the Risk Register of the legal risks associated with the implementation of the Restriction on Public Sector Exit Payments Regulations 2020 in advance of the appropriate amendments to the LGPS Regulations, as agreed by this Committee at its September meeting. The report noted the subsequent legal advice obtained by the Scheme Advisory Board on behalf of all Funds and recommended that the Committee endorsed the approach included in this advice.

The impact of risk 13 regarding the skills and knowledge of the Members of the Pension Fund Committee had been amended to add the potential loss of Professional Investor Status under MIFID II, in line with the recommendation of the Pension Board. This was important as loss of professional investor status if it was deemed that Members did not have the required skills and knowledge, would severely limit the investment options available to the Committee.

Further details were provided in the report on the latest position on existing and new risks.

RESOLVED: That:

(a) the changes to the risk register as reported be noted; and

(b) the Committee confirms the short-term policy not to award an unreduced pension under Regulation 30 (7) where the associated pension strain cost would result in the total exit costs payable by the scheme employer breaching the £95,000 exit cap.

131/20 ADMINISTRATION REPORT
(Agenda No. 10)

The report updated the Committee on the latest position on administration issues.

Members were informed that in relation to staffing, two senior Administrators had been recently appointed with one successful applicant being an internal candidate which meant an internal position needed to be filled.

Paragraphs 5 to 11 of the report summarised data collection. Members were informed that the annual data return was due to be submitted to the Pension Regulator in the next week or so. The current data quality scores were: Common data – 95.5% completeness and accuracy and for specific data 97.8%.

In relation to work in progress, the report covered up to October and included some areas which had fallen out of specification. As at the end of November all matters were now in specification apart from Transfers In, which just missed the specification of 95% by 1%.

In relation to the low level of complaints, Members were provided with the background to the one complaint which had been upheld.

The Committee was informed that in relation to End of Year and Production of Annual Benefit Statements (ABS), 99.59% had been issued to active scheme members and 99.3% to deferred scheme members.

Reference was made to annex 4 of the report which provided details of suggested changes to the Funding Strategy Statement which would be sent out for consultation with scheme employers.

RESOLVED: That:

(a) the report be noted; and

(b) approval be given to the draft changes to the Funding Strategy Statement as set out in Annex 4 of the report as the basis for consultation with scheme employers.

132/20 ANNUAL REPORT AND ACCOUNTS

(Agenda No. 11)

The Committee had before it the Annual Report and Accounts 2020 for noting and feedback.

RESOLVED: That the report be noted.

133/20 EXEMPT ITEMS

(Agenda No. 12)

RESOLVED: that the public be excluded for the duration of items 13,14,15,16 & 17 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.

THE REPORTS RELATING TO THE EXEMPT ITEMS WERE PUBLIC. ANY EXEMPT INFORMATION WILL BE REPORTED ORALLY.

134/20 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 13)

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

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 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.*

RESOLVED: The Committee received the report, tables and graphs, and the oral report, and considered any further action arising on them and bore the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

135/20 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 14)

The Committee was provided with the Independent Financial Adviser review of the investment activity during the past quarter, with a summary of the Fund's position as at 30 September 2020, with highlighted key performance issues, with reference to Tables and Graphs, the Investment Performance Reports produced by Brunel, and the Annual Report on Private Equity.

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 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.

RESOLVED: The Committee received the performance reports, tables and graphs.

136/20 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER

(Agenda No. 15)

The Independent Financial Adviser reported that that there was nothing further to report.

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 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.

137/20 PROVISION OF THE INDEPENDENT FINANCIAL ADVICE
(Agenda No. 16)

The current contract for the Independent Financial Adviser (IFA) to the Committee expired in February 2021. The report set out the key areas where the Committee continued to receive advice from the IFA and invited the Committee to determine what arrangements they wished to see put in place going forward.

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 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.

RESOLVED: That the recommendations contained in the report be agreed, subject to asking officers to run a procurement exercise to appoint an independent financial adviser or company of financial advisers, with a maximum contract period of 5 years, subject to a break clause at the end of year 2 and a 12 month notice period; and for Officers to explore the option of appointing a single source of independent financial advice for all Funds within the Brunel Pension Partnership.

138/20 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT
(Agenda No. 17)

This item provided the opportunity to raise any issues concerning Corporate Governance and Socially Responsible Investment which need to be brought to the attention of the Committee.

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 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.

.... in the Chair

Date of signing ....