

PENSION FUND COMMITTEE – 7 JUNE 2019

BUSINESS PLAN 2019/20

Report by the Director of Finance

Introduction

1. This report sets out the progress against the key objectives within the business plan for the Pension Fund for 2019/20, as agreed by the Committee at its March meeting. At this stage of the new financial year, a detailed budget monitoring report is not included, but any key issues identified since the budget was agreed are noted, and the full detail will be included in future quarterly reports.
2. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2019/20 (contained in annex 1) and remain consistent with those agreed for previous years. These are 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.
3. Part A of the plan sets out the broad service activity undertaken by the Fund. As with the key objectives, these are unchanged from previous years. The service priorities for the forthcoming financial year are then set out in more detail in Part B. These priorities do not include the business as usual activity which will continue alongside the activities included in Part B.

Service Priorities for 2019/20

4. Five key service priorities were included in Part B of the Business Plan for 2019/20. Each of these was an extension of the 2018/19 priorities, amended to reflect the progress during 2018/19. A summary of the progress against each of the 5 key priorities is as follows.
5. Development of the Brunel Pension Partnership – There were three key elements to the work within the Brunel Pension Partnership during 2019/20, these being; reporting and assurance, the transition of assets and the delivery against the business case. Each of these can be looked at in turn.
6. In respect of reporting and assurance, the key priority for 2019/20 is seen as the development of comprehensive client reports, which will provide

assurances on the processes and performance of the Brunel company, as well as on the investment performance itself. This was seen as increasingly important as more assets transition to the Brunel portfolios and Brunel takes on its full responsibility for the selection and monitoring of the underlying fund managers. Brunel have developed the initial investment performance reports and a copy of the Oxfordshire Report for the quarter ending 31 March 2019 is attached at Annex 1. A more detailed report covering all portfolios and clients is also produced for the Client Group and the Brunel Oversight Board.

7. The Client Group are also working with Brunel to develop a series of reports to enable the Client Group and the Brunel Oversight Board to assess the performance of Brunel itself and gain assurance that Brunel has a series of robust policies and procedures and is acting in accordance with them. The reports to assess the performance of Brunel in appointing new Fund Managers have now all been agreed, and the draft quarterly reports which provide assurance on the business as usual monitoring of Fund Managers will be presented to the Client Group on 11 June 2019.
8. In respect of asset transition, Brunel are at the point of concluding the appointments to the emerging markets portfolio (though there has not been a public announcement at the time this report was written). Brunel are also progressing the global high alpha portfolio and have concluded the expression of interest stage and have shortlisted 20 Fund Managers to take through to the Invitation to Tender stage. Oxfordshire will transition the assets currently managed by UBS to these two portfolios once both are open to investment.
9. On the Private Markets, the Brunel team continue to identify new commitments in respect of the private equity, infrastructure and secured income portfolios that Oxfordshire have allocated to. Further commitments have been made to renewable energy infrastructure funds as well as a private equity impact fund linked to 15 of the 17 UN Sustainable Development Goals.
10. In respect of monitoring against the business case, the next key test will be on completion of the transition of the emerging markets and global high alpha portfolios.
11. 2019 Valuation – We have continued to work with the Fund Actuary and the major employers within the Fund to identify their key objectives from the 2019 Valuation, any key issues in terms of future LGPS membership and their attitude to risk and the balance between low and stable contribution rates. The Fund Actuary has recently completed some initial modelling work on potential scenarios for these employers, taking into account their current funding levels and membership profiles and will be setting up meetings with the employers to discuss the findings.
12. A separate piece of work has been undertaken to look at the financial covenant of all employers within the Fund as well as a risk assessment based on their current funding levels and membership profiles. These results will be discussed further with a view to determining any potential changes required to the Funding Strategy Statement including the option of introducing a second or

multiple investment strategies to suit different needs. This work also needs to consider the impact of the current position on the McCloud/Sargeant legal judgements, the cost cap mechanism which is currently on hold, as well as the Government consultation on amending the valuation cycles, introducing interim valuations and changing the status of the HE/FE employers within the Fund.

13. Data Quality - The third priority focusses on delivery of the Improvement Plan and ensuring all services are delivered to scheme members in accordance with our regulatory responsibilities and our service level agreements. Review on progress on this objective is covered in the Improvement Plan report elsewhere on this agenda.
14. Monitoring Compliance with the Fund's Policies - This fourth priority centred around the need to make more transparent the work of the Fund in delivering its ESG Policy as included in the Investment Strategy Statement. One of the measures of success was the availability of benchmark data and regular quarterly reporting.
15. The Brunel Investment Performance report included as an annex to this report is the first report to include ESG data on each of the current portfolios. More detail on the ESG data included is provided in the glossary, which is attached as annex 2 to this report. The data includes a weighted ESG score on 5 key areas, being environment, social capital, human capital, business model & innovation and leadership & governance. More detail of what is included in each of these areas is included in annex 3.
16. The data is presented by way of a spider diagram for each portfolio showing both the scores for the actual investments as well as the portfolio benchmark (not applicable for the passive funds), as well as a table showing the top 10 contributors and detractors to the overall score. Brunel have added written commentary where the momentum score shows that the company is heading in the wrong direction.
17. The responsible investment pages also show figures for the carbon intensity of the portfolio (again relative to the benchmark for the active equity portfolios) which show the total greenhouse gas emissions for the portfolio relative to annual turnover. There are also figures on the percentage of the revenues and total values of the holding which are attributable to the extraction of fossil fuels.
18. The presentation of this data for the first time is the first step in developing greater transparency about the impact of the current ESG policy and provides a benchmark against which the Committee can track questions and identify issues for follow up with Brunel and the underlying Fund Managers. This information also needs to be considered alongside the voting and engagement reports being developed by Brunel to develop a full picture of the impact of the current policy.

19. Improving Scheme Member Communications - The final priority included in the 2019/20 Business Plan is the continued development of Member Self Service. This should allow scheme members access to their records to undertake amendments to their core data and view key information on their pension benefits. The initial measure for success of this objective was specified as a reduction in the number of simple tasks being undertaken by the team, in response to paper requests. It was highlighted at the Pension Board that given the objective was to improve scheme member communications, whilst this was a reasonable secondary measure of success, the primary measure of success should be through improved customer satisfaction. It is recommended that the Plan is amended accordingly.
20. In terms of progress, as well as the Annual Benefit Statements we are now loading pensioners P60's and their monthly payslips, letters to deferred members, retirement quotes and pension estimates to the on-line system, except in cases where the Member has elected to still receive all correspondence by post. The increased use of the system is leading to increased numbers of members registered to use the system, although unfortunately across all member categories, the largest number remains those who have not replied to any communications and have neither registered for on-line use, or opted to continue to receive paper communications.

Budget 2019/20

21. At the time of writing this report we are only part way through the second month of the current financial year, and as such it is not possible to provide any meaningful detailed analysis of expenditure to date. At this stage of the year there have been no indications that any of the budget provisions agreed within the 2019/20 Business Plan are out of line with actual expenditure or income.

Training Plan

22. A Training Plan for Committee Members was not included within the Business Plan. A training programme will be developed through the year to include topical subjects which are likely to include further training on the 2019 Valuation and on interpreting the new ESG reporting data from Brunel.

RECOMMENDATION

23. **The Committee is RECOMMENDED 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 Member Communications as set out in paragraph 19.**

Director of Finance

Contact Officer: Sean Collins, Service Manager, Pensions - Tel: 07554 103465

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