PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 4 March 2022 commencing at 10.00 am and finishing at 1.15 pm

Present:

Voting Members:	Councillor Bob Johnston – in the Chair Councillor Kevin Bulmer (Vice-Chair) Councillor Imade Edosomwan Councillor Nick Field- Johnson (Substitute Member for Councillor Eddie Reeves) Councillor Sally Povolotsky
Non-Voting Members:	Steve Moran (Pension Scheme Member) Alistair Fitt (Oxford Brookes University) (Remotely attended) District Councillor Jo Robb (District Councils) (Remotely attended)
By Invitation:	Tim Dickson (Client Relations Manager – Brunel) Liz McKenzie (Shareholder Non-Executive Director - Brunel) Philip Hebson (Independent Financial Adviser) David Vickers (Chief Investment Officer – Brunel)
Local Pension Board Members:	Alistair Bastin (Remotely attended) Stephen Davis (Remotely attended) Angela Priestley – Gibbins (Remotely attended)
Officers:	Lorna Baxter (Director of Finance) Sean Collins (Service Manager Pensions Insurance and Money Management) Sally Fox (Pension Services Manager) ((Remotely attended) Gregory Ley (Financial Manager- Pension Fund Investment) Khalid Ahmed (Law and Governance)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for 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 copies of which are attached to the signed Minutes.

1/22 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

An apology for absence was submitted by Councillor Eddie Reeves (Councillor Nick Field-Johnson substituted).

2/22 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 3 December 2021 were approved and signed.

3/22 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

Mr Gillott attended the meeting and addressed the Committee on behalf of the Staff Climate Action Group.

"The Staff Climate Action Group is an informal forum for OCC staff from any directorate that meets on the last Tuesday of every month to hear updates on the council's climate agenda and find ways to work together to address the climate crisis. Members of the group champion climate action within their individual teams and welcome the opportunity to focus on supporting the Pension Fund Committee to be as ambitious as possible in their endeavours to address the climate emergency.

International experts agree that burning fossil fuels created the climate emergency, therefore there is considerable interest amongst the Staff Climate Action Group in the investment decisions of the Pension Fund Committee (PFC). Thank you to Sean Collins, the Pensions Service Manager, who accepted our invitation and attended our March 2021 meeting to brief the group on the committee's progress in relation to climate risk.

We would like to congratulate the PFC for its decision last year to opt for Paris Aligned Benchmarks for 15% of the fund in passive equities, thereby effectively excluding investments in fossil fuel companies. We note that this decision to divest this part of the fund from fossil fuel (and tobacco) companies will have no financial impact on the fund. We also applaud the PFC for achieving a 17% reduction in emissions across its measurable investments, and fully support the aim to decarbonise the whole fund.

The decision over passive equities raises the question of the place of investments in fossil fuel companies in the remaining 85% of the fund. In our communications with Sean Collins, he has raised the problem of a lack of standard definition of a fossil fuel company. He mentions that Brunel continues to work with Governments and within the investment industry to develop standard definitions which will improve the level of reporting going forward, including the use of the criteria developed for the new Paris Aligned Benchmark to assess the investments held by the LGPS's active fund managers. Sean states that this benchmark excludes a number of companies based on the revenue earned from the exploration, extraction and processing of coal, oil and gas as well as a number of energy companies based on the carbon intensity of their operations.

We ask the PFC to provide a report for this group on progress with the development of definitions of fossil fuel companies, the time frame/dates for the adoption of the Paris Aligned Benchmark, and as the definition becomes clear, the funds' holdings in fossil fuel companies. In the meantime, we welcome the development of a listing of all investments on the pensions website and would like to request that we are sent such a listing.

We understand that there is also no standard definition of a climate positive company. However, we are interested in any examples of investments in such things as renewable technologies and sustainable housing particularly if this is specifically made as part of the Fund's present climate policy. Oxfordshire Fair Deal Alliance has made the climate emergency its number one priority. From recent national polls we know that there is widespread support for action. A YouGov poll earlier this year found just 12% of the UK public were in favour of fossil fuel investments from pension funds. Polling from NEST in 2020 found that 65% of pension savers believed their pension should be invested in a way that reduced the impact of climate change.

From Sean's presentation we understand that the PFC's current position is that it is better to engage with companies to encourage them to change rather than divest from a whole investment sector (though the recent decision to divest its passive funds from fossil fuels may suggest a shift in thinking). Scientists say that 60% of current oil and gas reserves (and 90% of coal) must remain underground to meet the IPCC's 1.5 degree target, which means that fossil fuel companies must change their business plans and stop exploring for and developing new reserves. If the PFC's position favours engagement in rather than blanket divestment from fossil fuel companies for the remainder of the fund, the Staff Climate Action Group would like to ask for a report on the requirements being placed on fossil fuel companies to halt exploration for and development of new reserves, the timeframes for compliance and the consequences of non-compliance.

We urge the PFC to continue along a path to address climate risk in all of its investment decisions. When we asked Sean about the potential for bringing forward the 2050 target for making the fund carbon neutral, and help us to understand the barriers that would, for example prevent the fund being aligned to the council's more ambitious 2030 target (or failing that an interim target such as 2040), he responded that 'as a global investor with a wish to drive real world change to deliver a sustainable future (rather than simply aiming to de-carbonise our own investments without delivering real world change, and therefore leaving the Fund exposed to the same long term risks around the sustainability of the world as we currently recognise it) our timescales are heavily influenced by international responses.' We understand this position in relation to target dates and applaud the aspiration of the Committee for setting its sights on 'real world change' rather than simply on financial returns. In light of the latest UN report announcing a 'code red for humanity', we are keen for updates on how the Pension Fund Committee is progressing with its agenda for achieving real world change and ask that the target date for a carbon neutral fund be kept under review.

Sean Collins has mentioned ways in which the Pension Fund Committee is striving to be transparent and provide information, for example through the Pension Fund web pages. As we have already found out in our email correspondence with Sean this is a complex area with potentially huge risks and benefits, which is why we value opportunities to hear directly from Sean to ask questions for clarity. We would therefore like to ask him to attend our group to provide biannual updates to provide a feedback loop between staff and the PFC.

In summary, we would like to ask Sean Collins to attend a meeting in the near future to provide us with;

- A report on progress with the development of definitions of fossil fuel companies and climate positive companies, and the time frame for the adoption of the Paris Aligned Benchmark

- A PFC report with a clear breakdown of all holdings, with any which have been specifically invested in as "Climate Solutions" highlighted

- A report on the requirements being placed on fossil fuel companies to halt exploration for and development of new reserves, the timeframes for compliance and the consequences of non-compliance."

4/22 MINUTES OF THE LOCAL PENSION BOARD
(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board, which met on 21 January 2021 were noted.

5/22 REPORT OF THE INDEPENDENT FINANCIAL ADVISOR
(Agenda No. 6)

Mr Philip Hebson, the Independent Financial Adviser attended the meeting and presented his report.

The Committee was provided with a summary and was informed that the value of the Fund in the quarter had risen to £3.38bn, which was an increase of £160m compared to the end September value of £3.22bn. The Fund had produced a return of 5.1% over the quarter, which was 0.4% ahead of the benchmark.

Members were informed that in relation to performance against benchmark there was not any standout highlights to report in public markets. Reference was made to negative performance against the Global High Alpha Equity portfolio, which due to another poor quarter from Baillie Gifford, although performance since inception remained well above benchmark.

Over a 12-month period the Fund recorded a healthy positive relative return against the benchmark of 1.3%. The Fund had performed ahead of benchmark over the three, five and ten year periods.

Reference was made to developments in the Ukraine and the possible implications in the short term on performance of the Fund. In addition, forecasts for higher inflation and higher energy prices would impact.

Members were informed that the Independent Adviser had been provided with considerable reassurance about the thorough process in the creation of Brunel's sub funds that was followed in the appointment of the investment managers. However, Members were informed that more detailed performance information was required from Brunel which would help with the understanding of the structure of each sub fund, including performance attribution for each manager.

Discussion took place on the duty of the Committee to protect the Oxfordshire Pension Fund, particularly during this period of economic uncertainty and whether assets should be moved to more conservative commodities. It was agreed that this would be looked at the next meeting of the Committee.

RESOLVED - That approval be given to the following:

(i) allocation to Private Equity being increased from 9% to 10%,

(ii) Infrastructure increased from 3.0% to 5.0%,

(iii) Private Debt is increased from 3.0% to 5.0%,

(iv) allocation to Multi Asset (DGF) is removed (5.0% to 0%),

(v) and that Officers are instructed to make allocations to the cycle 3 private markets accordingly. The total allocation to Alternatives would remain at 33% of Fund investments.

6/22 PRESENTATION FROM DAVID VICKERS, CHIEF INVESTMENT OFFICER AT BRUNEL

(Agenda No. 7)

David Vickers, Chief Investment Officer, Tim Dickson the Client Relations Manager and Liz McKenzie the Shareholder Non-Executive Director at Brunel all attended the meeting to present Brunel's Performance Report for Quarter ending 31 December 2021.

The Committee was informed that the situation in Ukraine would have implications on the Fund investments for the short term, and that Brunel had made the decision to not make any new investments in Russian assets, and to dis-investment from any current Russian assets wherever feasible to do so. David Vickers confirmed that this decision was made on investment/fiduciary duty grounds.

Reference was made to the need for contingency plans for the Fund's investments if the war in Ukraine spreads.

Discussion took place on the long-term impact of the sanctions against Russia and the implications on investment governance and risk of stranded Russian assets. Overall, as a long-term investor, it was believed that the Pension Fund could ride out any short-term volatility in asset values with the exception of the Russian assets previously discussed where long-term value could remain close to nil.

David reminded the Committee of the Strategic objectives for Brunel which were:-

- Offering a client driven range of products and services to ensure our 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. Total fees are £13mn lower vs pre-pooling. Total Investment Management fees are 14bps lower than the market. Targeting cumulative net savings of £550m to 2036.

The Committee was provided with Cost Transparency Initiative data for 2019-21 for Brunel compared to the market average:-

- Management Fees - 21 basic points (bps), (market average 35 bps)
- Total Investment costs - 43 bps, (market average 62 bps)
- Pool-level transaction costs 16 bps, (market average 18 bps).

Information was provided on the Portfolio launches and Members were informed there were 17 listed market portfolios and private market portfolios across 5 asset classes.

Global High Alpha:-

- Targets benchmark plus 2% - 3% excess return
- High conviction fund, 5 managers and range of styles
- Expect volatility at individual manager level
- Benchmark agnostic, fundamental stock selection
- Bias tilt against value and towards growth
- Underweight energy and utilities; low carbon intensity
- Overweight IT, consumer stocks
- Very strong outperformance since launch

Global Sustainable Equity:-

- Targets benchmark plus 2% excess return
- Originally 3 managers now 5 with deeply integrated RI metrics throughout the process
- The portfolio will use a broader strategy consideration of environmental and social sustainability to identify companies and investment themes able to succeed in the long term by contributing to society
- Maximise exposure to “positive pursuit” companies
- Primarily growth focussed
- Anti value bias, very little in Energy and Banking sector
- Carbon intensity is well below benchmark, but it is nuanced. Orsted for example has a high carbon intensity because of its turbines.

Active UK Equity:

- Targets 2% excess return
- Combines quant and fundamental approaches in its allocation via Baillie Gifford and Invesco
- Style neutral but with a quality tilt
- Fund is underweight oil & gas sectors
- Carbon intensity is below benchmark

Emerging Markets:-

- Targets benchmark plus 2% 3% excess return
- Balance of investment styles across 3 managers
- Alpha drivers based on quality and stock selection
- Country skew underweight 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

Multi - Asset Credit:-

- Targeting excess return of 4% over the risk free rate
- 3 managers
- A relatively new fund launched in 2021
- Designed to gain exposure to enhanced credit opportunities with low interest rate sensitivity
- Incorporates; High Yield, Loans, Convertibles, Asset Backed Securities, Emerging market bonds.
- Average portfolio rating BB-
- Effective duration 2.68
- Yield to Worst 4.98%
- Managers are mandated to develop their ESG reporting

Sterling Corporate Bonds:-

- Targets benchmark plus 1% excess return
- New fund launched in 2021
- 1 Manager Royal London
- RLAM's returns have been consistently driven by credit selection.
- Modified duration 7.69
- 46% of bonds are secured versus 19% on the benchmark

Passive Developed Paris aligned:-

- Passive exposure to the FTSE PAB index
- Launched November 2021.
- Index carbon exposure starting point is 50% below equivalent FTSE index
- Targets further 7% annual decline in carbon footprint.

Private Market Progress highlights - AUM

- £4bn of ‘new money’ commitments to new investments as part of Brunel PM Portfolio offerings (cycles 1 + 2 combined)
- Money will be invested over the next 4-5 years
- £ 1,300 million of clients’ existing (legacy) property assets by Jan ’22(c.£ 150 m Oxfordshire)
- PM Team and partners now responsible for stewardship of > £5bn of client money

<u>To come:</u>

- Opportunity for clients that make commitments to Cycle 3

Information was provided on Oxfordshire's investments into Brunel cycle 1 PM Portfolios.

- Portfolios fully committed to underlying funds
- All funds committed to have reached final close and are fully focussed on investing capital raised over the next 3-4 years
- PE benefitting from secondary and co investment fund exposures
- Infrastructure has a skew towards new renewable energy assets which will take time to construct, hence are held at cost until they reach commercial operations More direct infrastructure investments have picked up pace
- Secured Income fully drawn down, strong performance to date

Information was provided on Oxfordshire's investments into Brunel cycle 2 PM Portfolios.

- Infrastructure; General strong; Renewables slower than plan, but picking up
- Private Debt draw downs picking up; expect to be 25% invested by end Q1'22
- Very strong early Private Equity portfolio performance; draw downs increasing
- Secured Income expected to be fully invested by end H1'22; strong performance to date

Details of Cycle 3 proposed portfolios: (2022-2024) were provided.

Details on Brunel's Climate Change policy was reported with targets of Net Zero for financed emissions for investments by 2050, or before. Net Zero on operational emission by 2030, or before.

RESOLVED – (1) That Brunel be thanked for the presentation and the information provided.

(2) That because of turbulence in the market and the uncertainty in the world economy, Brunel be asked to submit a further report to the next meeting of the Committee providing an update on the situation.

7/22 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 8)

The Committee was provided with a report of the Local Pension Board which was introduced by Alistair Bastin.

Reference was made to the issue of cyber security as an area for the Pension Fund Committee to consider being prioritised as part of the development of the Annual Business Plan for 2022/23.

Members were informed that following the meeting of the Board, Cyber Security was highlighted at the Annual Business Plan and Budget workshop held on 4 February 2022 and it was agreed that this should be covered as part of the developing governance improvements under the new Governance and Communications Team Leader.

The report was noted.

8/22 REVIEW OF THE ANNUAL BUSINESS PLAN 2021/22, AND THE ADOPTION OF THE ANNUAL BUSINESS PLAN AND BUDGET FOR 2022/23

(Agenda No. 9)

The Committee was provided with an update on progress against the key priorities set out in the Annual Business Plan for 2021/22. The report sought the Committee to adopt the Annual Business Plan and Budget for 2022/23 following the Workshop attended by members of both the Committee and Local Pension Board on 4 February 2022.

Sean Collins reported that there were four service priorities included in the 2021/22 Plan and he set out the latest position on each one.

Progress on the Implementation of the Climate Change Policy – There had been a lot of work in this area. This would be carried forward to 2022/23. There would be a review of the December 2021 Carbon Emission figures once published.

On delivering further improvements to the governance arrangements of the Fund – Members were informed that all key measures of success against this priority had been delivered with the exception of the appointment of the new Governance and Communications Team Leader which was in progress.

Reference was made to other Pension Fund Committees who hosted meetings where Pension Fund Scheme members were provided with an opportunity to ask questions on the Fund. Officers undertook to look into this.

On further improving the data management arrangements between the Fund and scheme employers and scheme members, the outstanding work in this area relates to the implementation of the remedy to age discrimination identified in the McCloud case. Members were informed that this work was progressing, however, central guidance was still awaited before the project plan could be finalised and the assessment of the data requirements finalised with policy decisions required by this Committee.

On reviewing the reporting arrangements with Brunel following the transition of the majority of Fund assets to Brunel portfolios – Brunel were currently taking this forward. There would be a short training session for the Committee on the assurance process to build confidence that the long-term performance of the investments should be in line with the portfolio specifications.

Reference was made to the Service Priorities for 2022/23 which was discussed at the workshop which was held on 4 February 2022.

RESOLVED – (1) That the progress against the service priorities for 2021/22 be noted.

(2) That approval be given to the Business Plan and Budget for 2022/23 as set out in Annex 1 of the report.

(3) That approval be given to the Pension Fund Cash Management Strategy for 2022/23.

(4) That delegated authority be given to 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.

(5) That delegated authority be given to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate.

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

9/22 CLIMATE CHANGE ENGAGEMENT POLICY

(Agenda No. 10)

The Committee was presented with a report which sought approval to an Engagement Policy and requested that officers used this as the basis for negotiations with the Brunel company and the other 9 Funds within the Brunel Pension Partnership in developing an Engagement Policy for the Partnership as a whole.

Members were informed that it had been agreed that the Climate Change Working Group could undertake a further review of the potential practical impacts of implementing the draft policy and report back their findings and any proposed revisions to the draft Policy to the June meeting of this Committee.

RESOLVED – That approval be given to the draft Climate Change Engagement Policy as included as the Annex to the report and officers be instructed to work with the Climate Change Working Group and Brunel to assess the practical implications of the Policy using the latest available data and report back to the June Committee.

10/22 RISK REGISTER

(Agenda No. 11)

The Committee was presented with the latest position on the Fund's risk register, which included new risks identified since the report to the last meeting of the Committee

Discussion took place on a previous decision made by the Committee in September 2019 in relation to the membership of the Committee, skills and knowledge and continuation training of Members. Inadvertently, the recommendation of this Committee did not get submitted to Council.

Members asked that in relation to the proposal for this Committee not to have substitute Members, that the Governance Review be asked to look at this to enable substitute Members to be appointed as long as they have training to enable them to have the required skills and knowledge required.

Discussion took place on recent world events such as the Russian invasion of Ukraine, the energy price crisis and the impact on the Pension Fund and long-term investments.

The Committee agreed that this needed to be monitored in relation to the Risk Register.

Members were informed that the amendments as requested by the Local Pension Board in relation to the inclusion of Cyber Security Policy (Risk 16 -Loss of Key Systems) and (Risk 17 – Breach of Data Security) had been added to the Risk Register. Discussion took place on resilience planning and that this should be looked at.

RESOLVED – That the Committee noted the changes to the risk register and accepted that the risk register covers all key risks to the achievement of their statutory responsibilities, and that the mitigation plans, where required, are appropriate.

11/22 ADMINISTRATION REPORT

(Agenda No. 12)

Consideration was given to a report which update the Committee on the key administration issues including service performance measurement, the debt recovery process and any write offs agreed in the last quarter.

Members noted that performance had improved, however there were still pressures on the Team with only two vacancies of the four being filled.

In relation to contribution monitoring, the Committee noted that APCOA who had failed to make their deficit payment would be referred to the Pension Regulator, if payment was not received by 7 March 2022.

RESOLVED – (1) That the Committee determined that no further information was required to ensure they are in a position to monitor that service standards are consistent with their responsibilities under the Regulations.

(2) That approval be given to the current standards being at an acceptable level and that full Service Level Agreement be reached by April 2022.

(3) That approval be given to the write off of £37.48, as detailed in the report.

12/22 IMMEDIATE DETRIMENT AND THE FIRE FIGHTERS PENSION SCHEMES

(Agenda No. 13)

The report updated Members on the decision taken by the Chief Fire Officer and Director of Finance regarding the implementation of the Immediate Detriment Framework in line with the delegation from the December meeting of this Committee.

RESOLVED – That the Committee noted the decision of the Chief Fire Officer and Director of Finance under powers delegated by the Committee at their December Meeting.

13/22 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT
(Agenda No. 14)

The report 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.

Noted.

14/22 EXEMPT ITEMS
(Agenda No. 15)

RESOLVED - That the public be excluded for the duration of the following items in the Agenda since it is likely that if they were present during these 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 outweighs the public interest in disclosing the information.

15/22 CESSATION OF A SCHEME EMPLOYER
(Agenda No. 16)

The Committee was asked to determine their approach to the Cessation Debt in respect of the cessation employer detailed in the confidential report.

RESOLVED – That approval be given to option 3, as detailed in the report.

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.

16/22 ADMINISTRATION REPORT
(Agenda No. 17)

The Committee was asked to review the actions taken to date to make payment of a death grant to a child and to determine how payment should be made.

RESOLVED – That approval be given to the monies being paid to the father to use in the interests of the child, with appropriate legal conditions applied.

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.

.. in the Chair

Date of signing **...**