

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 5 June 2015 commencing at 10.10 am and finishing at 13:10pm.

Present:

Voting Members: Councillor Stewart Lilly – in the Chair

Councillor Patrick Greene (Deputy Chairman)
Councillor Surinder Dhese
Councillor Jean Fooks
Councillor Nick Hards
Councillor Richard Langridge
Councillor Sandy Lovatt
Councillor Neil Owen
Councillor Les Sibley

By Invitation: Philip Wilde (Beneficiaries Observer)
Peter Davies (Independent Financial Adviser)

Officers:

Whole of meeting L. Baxter, D. Ross, G. Ley and J. Dean (Chief Executive's Office); S. Collins (Environment & Economy)

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.

22/15 ELECTION OF CHAIRMAN 2015/16

(Agenda No. 1)

Councillor Stewart Lilly was elected Chairman for the Municipal year 2015/16 – to the first meeting of the next municipal year 2016/17.

23/15 ELECTION OF DEPUTY CHAIRMAN 2015/16

(Agenda No. 2)

Councillor Patrick Greene was elected Deputy Chairman for the municipal year 2015/16 - to the first meeting of the 2016/17 municipal year.

24/15 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 3)

There were no apologies for absence or temporary appointments.

25/15 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE

(Agenda No. 4)

Councillors Fooks, Lilly, Owen and Sibley each declared personal interests as members of the Pension Fund Scheme under the provisions of Section 18 of the Local Government & Housing Act 1989.

Councillor Lilly declared an interest in the report relating to Agenda Item 8 on account of his son's employment in the area of earth science and exploratory geology.

26/15 MINUTES

(Agenda No. 5)

The Minutes of the meeting held on 13 March 2015 were approved and signed.

27/15 URGENT BUSINESS - MEMBERSHIP OF LOCAL PENSION BOARD

(Agenda No. 21)

Under the provisions set out in Section 100B(4) of the Local Government Act 1972 (as amended), the Chairman elect of the meeting was of the opinion that this item could be taken as urgent business because of the need for the Local Pension Board to meet prior to the next meeting of this Committee in September.

Sean Collins gave an oral report setting out the reasons for the proposal that Graham Burrow of Gloucestershire County Council be appointed Chairman of the Oxfordshire Local Pension Board.

RESOLVED: to appoint Graham Burrow of Gloucestershire County Council to the office as independent Chairman of the Oxfordshire Local Pension Board.

28/15 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 6)

Mr Peter Wallis addressed the Committee on behalf of Fossil Free Oxfordshire and in his capacity as a scheme member of the LGPS, in relation to Agenda Item 8 – Corporate Governance and Socially Responsible Investment.

He told the Committee that he had had a number of conversations with a number of his LGPS colleagues who felt as strongly as he about both the ethical and financial implications of how the Pension Fund was invested.

He pointed out that, in his view, scheme members' interests included, first ensuring the Fund could pay LGPS members' pensions on retirement by obtaining good returns and avoiding unduly risky investments; and secondly, investing in a way that protected their other long-term interests, notably giving protection from climate change. He directed the Committee's attention to the Law Commission's review which advised that Committee's may also take into account non-financial factors such as the views of members and quality of life, as long as this did not result in significant financial detriment.

Mr Wallis also expressed the view that there was a financial risk associated with fossil fuel investments, pointing out that there was evidence that portfolios containing no fossil fuel holdings could perform just as well as those that included them. He also cited a very recent article in the Telegraph which spoke of a possible draconian 'tax' on carbon emissions which would change the financial calculus for coal, oil and gas.

Mr Wallis referred to Fossil Free Oxfordshire's petition to the County Council's Cabinet in March this year which called for disinvestment from fossil fuels, referring also to the Chief Finance Officer's report which set out an alternative to disinvestment. It set out a commitment to hold fund managers to the checklist in the Carbon Trackers transition blueprint which amounted to a process of rigorous engagement with the fossil fuel industry such as to bring about a rapid change in how energy is generated and used. As a scheme member he urged the Committee to provide the evidence from the fund managers that each of the fossil fuel companies they invested in were taking management actions in light of the comprehensive risk assessment completed in line with the Blueprint Checklist and were making decisions to exclude or include companies on this basis.

In conclusion he stressed that Fossil Free Oxfordshire were not asking the Committee to sacrifice the profitability of the pension fund for their principles, but asking the Committee to move investments away from fossil fuel companies that were not carrying out their business in a manner consistent with the Transition Blueprint checklist.

There followed a question and answer session with the speaker and his colleagues from Fossil Free Oxfordshire. Issues explored were as follows:

- A member of the Committee asked if there was a need to take action overnight given that as time went on and the fossil fuel industry declined, there would be a rapid pace of change to find new alternatives. A Fossil Free spokesperson responded that the petition presented to the County Council's Cabinet asked for change over a 5 year period.
- In response to a question from a member of the Committee asking if, in their view, it would drag performance down if the Fund was to shift to investment in renewable energy, the Committee were informed that Fossil Free Oxfordshire were not asking for 'like for like' investment in fossil free technologies.
- A Committee member asked if there would be a detriment to medicine and other household treatments if investment was to cease in fossil fuel technology, given the heavy contribution by fossil fuel companies to their realm. A spokesperson responded that burning fossil free oil was indeed an excellent resource and had many uses, but that this was a very short-term view, and future generations would be horrified to know that this generation had opened itself up to spoiling the climate.
- A Committee member asked how representative was Fossil Free Oxfordshire of the general Oxfordshire public. A spokesperson responded that there were no other industries that carried the risks of stranded assets.

Furthermore that they were not asking the Committee for a judgement on ethical issues.

29/15 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

(Agenda No. 7)

Following the above question and answer session with the speaker and his accompanying supporters from Fossil Free Oxfordshire, the Committee now had before them the report of the Chief Finance Officer which had been produced with regard to the significant media interest in the issue of the Committee's investment in fossil fuel companies and in light of the action taken by the Committee at its December 2014 and March 2015 meeting. The report (PF7) covered the main issues raised and asked the Committee to review its Statement of Investment Principles accordingly, and to determine whether any changes were necessary.

Members of the Committee agreed that it had been useful to hear and to discuss the counter arguments to the Committee's view that its sole responsibility was to invest in the best interests of the Fund's employing bodies and beneficiaries, whatever the views of each member were on climate change. They also agreed that they had in fact taken the matter up with its investment managers, two of whom had reported at length on the subject at previous meetings and the Committee had also had the legal opinion before them from Nigel Giffin QC. Members did, however, feel that they had perhaps not conveyed this action sufficiently to the public.

Following their discussion, the Committee welcomed the views of Fossil Free Oxfordshire, but **RESOLVED** to:

- (a) strongly support the officers recommendation which was to note the content of the report, and endorse the current Statement of Investment Principles in respect of Corporate Governance and Socially Responsible Investment; and
- (b) accept that greater care would be taken in the future to inform the public of action taken to make the Committee aware of the issues involved, as detailed in the report PF7, including the challenge to Fund Managers on their individual investments.

30/15 MANAGEMENT OF PENSION FUND DEFICITS

(Agenda No. 8)

The Committee discussed their approach to the management of the Fund's deficit, in light of the focus placed on this issue by the Shadow Scheme Advisory Board (PF8).

RESOLVED: to

- (a) note the report;
- (b) ask the officers to work with the Fund's Actuary, Barnett Waddingham, to provide a detailed cash flow forecast based on assumed pension liabilities and

known plans of the main employers; and to allocate the sum of £4,500 to cover the costs of the report; and

- (c) provide reports to future meetings of this Committee setting out the cash flow projections, and any implications for the current investment strategy and asset allocation.

31/15 EMPLOYER MANAGEMENT

(Agenda No. 9)

The Committee considered a report (PF9) which discussed the Committee's approach to the management of employers within the Oxfordshire LGPS Fund. The report built on the employer risk report which had been presented to the last meeting, and it set out the additional indicators to assess the quality of the record keeping within the Fund and the performance of individual employers.

RESOLVED: to

- (a) note the report;
- (b) approve the performance template as contained in Annex 1 as the basis for future reports to this Committee; and
- (c) review the Administration Strategy on a regular basis to ensure it supports the developing approach to employer management.

32/15 FUTURE MANAGEMENT ARRANGEMENTS

(Agenda No. 10)

The Committee had before them a report (PF10) which looked at the potential implications for the management arrangements for the administration and investment functions in light of the new agenda for the service and the transfer of financial services to the Integrated Business Centre in Hampshire.

The Committee asked for a diagram of the new structure to be submitted to the next meeting.

It was **AGREED** to note the report and to endorse the proposed changes in management arrangements as outlined.

33/15 ANNUAL REVIEW OF FUND POLICIES

(Agenda No. 11)

The Committee had before them the Fund Policies and Strategy Statements for annual review (PF11).

Members also considered some proposed amendments as submitted by Councillor Nick Hards and shown on the Addenda.

RESOLVED: (on a motion by Cllr Richard Langridge duly seconded and carried nem con) to:

- (a) note the main changes within the policies as set out in the report;
and
- (b) approve the revised policy documents as set out in Annexes 1 – 7 to this report, subject to the further changes below;
 - (i) the correction to the table within the Statement of Investment Principles on page 49 of the papers, to Chief Finance Officer, as the Investment Manager for quoted private equity trusts;
 - (ii) to amend the paragraph on Monitoring and Review in the Statement of Investment Principles (page 51 of the papers) to read “The individual fund manager’s performance, current activity and transactions are monitored on a quarterly basis by the Independent Financial Adviser and the Officers to the Fund, and all issues of concern reported directly to the Committee. Quarterly reports from all managers are made available to the Committee, who can raise any issues they wish to follow up. All Managers formally report to the Committee once a year, spread over the four quarterly meetings, with the Committee retaining the right to request more frequent attendance if they have matters of concern. The investment management performance of the Fund as a whole is reviewed annually by the Committee, supported by a presentation by State Street Global Services”;
 - (iii) to amend the wording of the paragraph on Custody and Stock Lending within the Statement of Investment Principles (page 52 of the papers) to delete the reference to hedge funds, and add a reference to the diversified growth fund to the exceptions of assets not held by the Custodian;
 - (iv) to amend the Governance Compliance Statement Principle F (page 61 of the papers) to read that the Fund arranges an Annual Pension Fund Employers Forum, rather than holds, to reflect the fact that the Forum may be cancelled due to lack of employer interest; and
 - (v) to amend paragraph 9 of the Early Release of Benefits Policy Statement to delete the words “doubtless by all current fund employers”

34/15 EMPLOYER UPDATE

(Agenda No. 12)

The Committee had before them a report (PF12) covering the key operational issues around individual employer membership of the Fund, including any new applications for admissions and cessations.

RESOLVED: to

- (a) note the position regarding the previous applications;
- (b) note the position regarding new applications for admission;
- (c) note the position regarding closure of scheme employers; and
- (d) confirm the intention that, in the event that Abingdon & Witney College was to cease operations before the completion of the reimbursement arrangements set out following the transfer of adult learning staff, to transfer notional assets from Abingdon & Witney College to the County Council, as set out in paragraph 12 of the report.

35/15 WRITE OFFS

(Agenda No. 13)

The Committee had before them summary details of the amounts written off in the last quarter in accordance with Financial Regulations of the Fund (PF13).

RESOLVED: to note the report.

36/15 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 2015.

Mr Davies noted that the overall value of the Fund had risen by £96million over the last quarter.

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

37/15 EXEMPT ITEMS

(Agenda No. 15)

The Committee RESOLVED that the public be excluded for the duration of items 16, 17, 18, 19, and 20 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.

38/15 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 16)

The Committee considered a report of the Independent Financial Adviser (**PF16**) which gave 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 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 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: to receive the report, tables and graphs and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

39/15 INSIGHT INVESTMENT

(Agenda No. 17)

The Independent Financial Adviser reported orally on the performance and strategy of Insight Investment drawing on the tables at Agenda Items 14 and 16.

The representatives, Sherilee Mace and Steve Waddington presented their approach to investments in relation to their part of the Fund and their strategy against the background of the current investment scene. They also gave their views on the future investment scene.

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

The public were 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: to note the main issues arising from the presentation.

40/15 REPORT OF MAIN ISSUES ARISING FROM REPORTS OF THE FUND MANAGERS NOT REPRESENTED AT THIS MEETING

(Agenda No. 18)

The Independent Financial Adviser reported orally on the main issues arising from the officer meetings with Baillie Gifford, Legal & General, Wellington and Partners Group in conjunction with information contained in the tables (Agenda Item 14).

The public were 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: to note the main issues arising from the report.

41/15 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER

(Agenda No. 19)

The Independent Financial Adviser reported that no summary was required.

42/15 ADDITIONAL VOLUNTARY CONTRIBUTION (AVC) SCHEME - ANNUAL REVIEW

(Agenda No. 20)

The Committee considered a report (PF20) which gave the annual review of the Fund's Additional Voluntary Contribution (AVC) Scheme, reviewed the performance of Prudential as the scheme manager, and the individual funds available to members.

The public were 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 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.*

RESOLVED: to note the report and to confirm the continued use of Prudential as the Council's AVC provider.

PF3

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..... in the Chair

Date of signing