

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 8 March 2019 commencing at 10.00 am and finishing at 1.50 pm

Present:

Voting Members: Councillor Kevin Bulmer – in the Chair

Councillor Ian Corkin (Deputy Chairman)
Councillor Nicholas Field-Johnson
Councillor John Howson
Councillor Charles Mathew
Councillor John Sanders

Representatives of all District Councils (voting): District Councillor Alaa Al-Yousef
District Councillor Bill Service

Officers:

Whole of meeting The Director of Finance, 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.

1/19 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies were received from Anya Greig (Beneficiaries Observer), Councillor Mark Lygo, Cllr Lawrie Stratford and Councillor Alan Thompson.

2/19 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE

(Agenda No. 2)

There were no declarations of interest submitted.

3/19 MINUTES

(Agenda No. 3)

The Minutes of the Meeting held on 7 December 2018 were approved and signed, subject to the following amendment;

To replace second paragraph of Minute76/18 with the following:

‘Mr Davies reported that with the £52m gain in the third quarter, the Fund had reached its highest ever level at just over £2.5bn. The gains in the quarter came largely from Overseas Equities, with small contributions from Private Equity, Property and Infrastructure, while UK Equities fell slightly. Subsequent falls in markets has reduced the value of Equities by some £80m at the end of November.’

There were no Matters Arising.

4/19 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

A member of Fossil Free Oxfordshire had been advised to address the next meeting when an appropriate substantive item was scheduled to be on the Agenda.

There were no further requests received from members of the public.

5/19 MINUTES OF THE LOCAL PENSION BOARD AND THE OVERSIGHT BOARD

(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board which met on 18 January 2019 were noted (PF5).

The approved Minutes of the Brunel Oversight Board, which met on 1 November 2018 were also noted (PF5).

6/19 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 6)

Members had before them the latest report by the Independent Chairman of the Local Pension Board (PF6). The report invited the Committee to respond to the key issues contained within it.

Councillor Bob Johnston, a Board Member, addressed the report on the Board's behalf. He highlighted the advice received from one of the expert speakers at the recent meeting of the Pensions Forum, which had been that Climate Change needed to be included on the Committee's Risk Register. He also reported that the Board had suggested that the Fund should consider investing in Low Carbon passive portfolio.

RESOLVED: to note the report and the key issues raised, and to inform the Board of the following responses from the Committee: to

- (a) note the comments of the Board in respect of the actions being taken to ensure that the Pensions Administration Team have adequate and appropriate resources to deliver the agreed Improvement Plan;
- (b) agree that all key reports in respect of the 2019 Valuation would be submitted to the Board for comment as appropriate; and
- (c) note its comments on the risk register and the investment in the low carbon portfolio and to consider this further at the item on the Risk Register elsewhere on this Agenda.

7/19 IMPROVEMENT PLAN

(Agenda No. 7)

The Committee considered the report PF7 which gave an update on progress against the objectives and milestones set out in the Committee's Improvement Plan and also progress on the I Connect Project Plan. Rachael Salsbury, Team Leader, Pensions Team, attended to give a detailed update on data quality and to respond to questions from the Committee.

Mr Collins reported that since the December meeting, further correspondence had been received from the Pensions Regulator on the Improvement Plan, and, following some amendments made, had stated that he was satisfied with the revised Plan and did not require any further changes. The report PF7 addressed these comments and the subsequent response from the Officers.

RESOLVED: to

- (a) note the latest position with regard to the Improvement Plan and to congratulate the officers on achieving their objective;
- (b) request Mr Collins to produce a Breaches Log to accord with the Committee's Breaches Policy for submission to each meeting of the Committee and the Board; and
- (c) request the officers to send any correspondence received from the Scheme Advisory Board or the Pensions Regulator as soon as possible to members of the Committee and the Board.

8/19 REVIEW OF THE ANNUAL BUSINESS PLAN 2018-19 AND APPROVAL OF ANNUAL BUSINESS PLAN 2019-20

(Agenda No. 8)

Members considered the report PF8 which covered the Business Plan for the forthcoming financial year, and which included the key objectives for the year, the proposed budget, and the Cash Management Strategy. Progress against the objectives set for the current financial year was also set out in order to provide the context for 2019/20.

Mr Collins undertook, at the request of the Committee, to make available to members of the Committee a breakdown of fees, manager by manager, at Brunel level. He also

agreed to supply, separately, those which related to the Managers overseen by the Committee.

With regard to paragraph 12 of the report, Mr Collins stated his intention to bring to the next meeting an update on the current work within Brunel on ESG issues within investment decision making. He further stated that Brunel was building on the current work with the responsible investment team to develop a suite of reports which demonstrated the effectiveness of the ESG policies and the impact of company engagement by fund managers. He reported that the Committee would receive a report on a quarterly basis which would afford an opportunity for the Committee to hold Brunel to account on this particular issue.

RESOLVED: to

- (a) approve the Business Plan and Budget for 2019/20 as set out at Annex 1;
- (b) approve the Pension Fund Cash Management Strategy for 2019/20;
- (c) agree to delegate authority to the 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;
- (d) agree to delegate authority to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate;
- (e) agree to delegate authority to the Director of Finance to borrow money for the pension fund, in accordance with the regulations; and
- (f) note the intention of Mr Collins to bring to the next meeting in June, an update on the current work ongoing within Brunel on ESG decision making.

9/19 RISK REGISTER

(Agenda No. 9)

The Committee had before them a report (PF9) which presented the latest position on the Fund's Risk Register for consideration.

At its meeting in January 2019, the Local Pension Board had identified that the risk to investment returns from poor management of ESG issues, in particular climate change, was not fully reflected in the current Risk Register. They had asked the Committee to consider adding a risk relating to reductions in investment performance, with the cause specifically relating to the failure to properly account for climate change in making investment decisions. The impact of the risk was seen by the Board as a fall in funding levels, requiring an increase in employer contributions. The Board felt that the risk could be managed by switching assets between the current allocation to passive equities to the passive low carbon portfolio.

The Committee considered the views of the Pension Board alongside the advice from Officers contained within the report, which suggested that the risk to investment returns stemmed from a failure to properly account for all ESG issues in making investment decisions, rather than just issues associated with climate change. Officer advice was that a mitigation based on switching an allocation to a low carbon portfolio was also too narrow.

RESOLVED: to

- (a) note the Risk Register; and
- (b) note the recommendation from the Local Pension Board and to inform the Board of its decision to add a wider ESG related risk to the risk register rather than include a separate line for Climate Change, to be mitigated through the current ESG Policy and improved reporting. However, to assure the Board that this issue would be monitored carefully and would be revisited if the situation changed and mitigation was required.

10/19 ADMINISTRATION REPORT

(Agenda No. 10)

The Committee received a report (PF10) which gave an update on those administration issues not covered under the Improvement Plan.

Sally Fox, Pensions Manager, presented the report and responded to questions which centred particularly on the measures being taken to tackle the ongoing recruitment problem within the Team.

RESOLVED: to note the report, in particular the payment of £3,100 compensation following a stage 2 determination under the Adjudication of Disagreements Procedure.

11/19 GOVERNMENT CONSULTATIONS

(Agenda No. 11)

The Committee considered a report (PF11) which provided an update on recent government consultations and regulation changes and which invited the Committee to approve responses to consultations on pooling guidance and pension protections on out-sourcing.

RESOLVED: to:

- (a) approve the consultation response in respect of pooling guidance as contained in Annex 1;
- (b) approve the consultation response in respect of pension protection as contained in Annex 2;
- (c) note the changes introduced under the LGPS (Miscellaneous Amendment) Regulations 2018, and ask for a further report on the implications once the process and costs become clearer; and
- (d) note the position in respect of the cost capping mechanism and consider it further as part of the 2019 Valuation process.

12/19 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 12)

The Independent Financial Adviser reviewed the investment activity during the past quarter and presented an overview of the Fund's position as at 31 December 2018.

Mr Davies reported that the graphs and tables reflected the transition to Brunel who were now responsible for the management of 34% of the Fund's assets. Over the quarter, assets had depreciated by £190m, or a 3% drop to £2.3bn. This depreciation had come almost entirely from Equities. At the end of February 2019, around half of this depreciation had been recouped. Bonds had kept their value in the quarter. Mr Davies added that the scene was now revealing the cyclical nature of the market and the fourth quarter saw the long overdue fall in Equities, to the extent that they were now reasonably valued.

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 15, 16, 17, 18 and 19 on the agenda.

13/19 EXEMPT ITEMS

(Agenda No. 13)

The Committee RESOLVED that the public be excluded for the duration of items 14, 15, 16, 17, 18 and 19 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.

14/19 EXEMPT MINUTES

(Agenda No. 14)

The exempt Minute of the Local Pension Board meeting which was held on 18 January 2019 was noted (PF14).

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

15/19 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 15)

The Committee had before them a report of the Independent Financial Adviser (PF15) 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.

16/19 UBS GROUP

(Agenda No. 16)

The Independent Financial Adviser reported orally on the performance and strategy of UBS drawing on the tables at Agenda items 12 and 15.

The representatives, Malcolm Gordon and Anthony Sander 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.

17/19 WELLINGTON

(Agenda No. 17)

The Independent Financial Adviser reported orally on the performance and strategy of Wellington drawing on the tables at Agenda items 12 and 15.

The representatives, Nicola Staunton, Ian Link and Travis Miley, 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.

18/19 REPORT OF MAIN ISSUES ARISING FROM REPORTS OF THE FUND MANAGERS NOT REPRESENTED AT THIS MEETING

(Agenda No. 18)

The Committee considered a report from the Independent Financial Adviser (PF18) on the main issues arising from the reports from Adams Street, Insight and Legal & General, in conjunction with information contained in the tables at Agenda Item 12.

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:

(a) to note the report;

(b) (agreed nem con with Councillor Charles Mathew abstaining) that, with regard to a concern raised by the officers, to request the Director of Finance, following consultation with the Chairman, Deputy Chairman and Opposition Group Spokesperson to take action if it is deemed necessary following investigation; and

(a) as part of this process, to request Mr Collins to bring a report back to Committee and, if it is deemed necessary, to write to members of the Committee to glean any other concerns for inclusion into the report.

19/19 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER

(Agenda No. 19)

The Independent Financial Adviser had no further issues to add.

Mr Collins was asked for information regarding the timetable for the transfer of the remaining funds to Brunel which would include the length of time the Fund was to remain with various fund managers; and when new decisions would be made regarding which fund managers would be chosen to manage particular pension funds. He reported the following:

- the Emerging Market Pension Fund had been sent out to tender that week with a deadline of 22 March. It was hoped that with due diligence, that managers would be chosen by mid-June, to transition in mid - September;
- the High Alpha Global Equities Pension Fund was due out to tender the following week, with appointments expected by the end of August/September this year. Transition would occur in November this year;
- Core Global Pension Fund would be sent out, it was believed, in early 2020; and
- The final date for transitions for listed assets was currently scheduled as August 2021.

RESOLVED: to note the report.

READMISSION OF PRESS AND PUBLIC

20/19 CORPORATE GOVERNANCE (VOTING REVIEW)

(Agenda No. 20)

The Committee received a report (PF20) which provided information on the voting records of the Fund Managers which had been exercised on behalf of this Fund; and which asked the Committee to determine any issues it wished to follow up with the specific Managers, or in general.

RESOLVED: to note the Fund's voting activities.

21/19 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

(Agenda No. 21)

It was **AGREED** (nem con with the abstention of Councillor John Howson) that

- (a) Mr Collins would send out the following written statement to members of the public who wished to challenge the Committee on its policy in respect of corporate governance and socially responsible investment.

Oxfordshire Local Government Pension Scheme

Pension Fund Committee Position on Responsible Investing, including matters relating to Climate Change

The formal position of the Pension Fund Committee on responsible investments are included the ESG Policy section of the Fund's Investment Strategy Statement, which is available on the Fund's website at:

<https://www.oxfordshire.gov.uk/business/pensions/pension-fund/about-fund>

and is repeated as an Annex this paper. This document is reviewed annually, with a fundamental review undertaken every three years in line with the Tri-Ennial Valuation of the Fund and a review of the Funds Asset Allocation. The next review is due to complete in March 2020. In line with the guidance, the views of interested stakeholders will be taken into account in completing the next review.

The current position, which explicitly recognises the financial risks associated with environmental, social and governance (ESG) issues including climate change, was developed with the support of the Chief Responsible Investment Officer at the Brunel Company and previously at the Environment Agency Pension Fund. She is internationally recognised as an expert in this field, and a regular award winning for her work in the area of responsible investment.

A key element of the current policy is to avoid blanket decisions, such as the dis-investment of all fossil fuel companies, but to make investment decisions on the merits of each individual case, and engage directly with companies to ensure they are acting to mitigate key risks. The Committee believes that such a policy both enables them to best meet their fiduciary duties, as well as contributing to the development of a sustainable future for all. The policy allows differentiation between those fossil fuel companies who are working hard to reduce their carbon emissions and switching to renewable sources of energy, and those who have buried their head in the sand.

The Committee have been challenged not only on their policy not to divest in all fossil free companies, but also why they don't make an allocation to the passive low carbon and/or sustainable equity portfolios managed by Brunel. It is the Committee's view that they cannot meet their fiduciary duty by blanket decisions that all fossil fuel companies are bad, and all low carbon companies are good. Each investment is examined for investment potential and risks to achieving that potential. This allows the Committee to select those fossil fuel companies who are building a sustainable future through cleaning up their processes and increasing resources developing renewable alternatives. It also allows the Committee to avoid those low carbon companies who are failing to manage other key ESG risks, including the wider risks associated with climate change. The ability to engage with companies as an active manager, with the ultimate sanction of dis-investing if the company fails to respond positively to the engagement is also seen as a key benefit of the current policy.

The main area the Committee wish to develop is the reporting on company performance on ESG issues to enable them to validate their current policy and

ensure that the Fund Managers are complying with the policy and that their engagement is effective. This work is being undertaken in conjunction with the Chief Responsible Investment Officer at Brunel, alongside the other Funds within the Brunel Pension Partnership, and it is hoped to have the first ESG report at portfolio level available as part of the quarterly performance report to 31 March 2019; and

(b) to note the piece contained in the 2018 Quarterly Engagement report of the Local Authority Pension Fund Forum (LAPFF) which referred to corporate governance and socially responsible investment (included on the Addenda to this meeting).

22/19 ANNUAL PENSION FORUM

(Agenda No. 22)

There were no issues to report.

..... in the Chair

Date of signing