

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 5 June 2020 commencing at 10.00 am and finishing at 11.25 am.

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 Lawrie Stratford
Councillor Alan Thompson
District Councillor Alaa Al-Yousuf
District Councillor Jo Robb

Other Members in Attendance: Councillor Bob Johnson and Mr Alister Bastin, Local Pension Board

District Council Representatives: District Councillor Alaa Al-Yousef
District councillor Jo Robb

By Invitation: Peter Davies, Independent Financial Advisor

Officers: Director of Finance, Lorna Baxter, Sean Collins, Gregory Ley; Deborah Miller (Law & Governance).

Agenda Item Officer Attending

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.

101/20 MINUTES

(Agenda No. 3)

The Minutes of the Meetings held on 3 March 2020 and 5 May 2020 were approved and signed as an accurate record.

Matters Arising

Minute 10/20 – Sean Collins reported that they had now paid the death grant to the Daughter and received no comment and had paid the death grant to the Son and had received thanks for all the hard work from the team. Officers were currently progressing the setting up of a trust fund for the Granddaughter with her family.

Minute 8/20 – Sean Collins reported that all six members of the Local Pension Board had completed the Assessment, but that only 6 out of 11 members of the Committee had completed it. The Chairman apologised for not completing the Assessment. He hoped they would still produce a realistic view of the statement of knowledge of the Committee. He had asked Sean to investigate whether there was any further training to keep the Committee up to date with relevant knowledge. Sean Collins undertook to send a link round to the online courses.

Councillor Roz Smith reported that she had completed the Assessment twice it had not worked.

102/20 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

The Committee received the following address:

Ms Al Chisholm addressed the Committee on behalf of Fossil Free Oxfordshire. She congratulated the Committee and its officers for travelling a huge distance in the Fund's response to climate change over the past year. She recognised two particularly positive elements contained in the Climate Change Policy and Implementation Plan. They welcomed the adoption of the 1.5 °C target and the important commitment to keep abreast of climate science as it developed. They also applauded the target to reduce the portfolio's GHG emissions by 7.6% each year. They further supported the proposal to invest 100% of the £250M global equity mandate in Brunel's Sustainable Global Equities portfolio with the caveat that we would like Brunel to publish the GHG emissions and Fossil Fuel exposure data for that fund.

She then highlighted two areas where they strongly believed the documents needed to be further developed if those targets were to be feasible and people were able to have confidence in them.

The first was the need for a visible plan that more clearly set out a series of actions and milestones to reach the laudable aims to make those annual emissions reductions and to invest in line with a 1.5 °C limit. The plan should give dates by which each milestone would be achieved. She called on OPF to:

1. confirm how, and by when, the 7.6% p.a. target was to be measured across the portfolios. They would like to see an outline of the methodology it proposed to use to create estimates of actual reductions; how investment metrics (which should be absolute, not relative emissions) relate to the 7.6% p.a. target and how metrics would be used to exclude investments. Any methodology used must be realistic, for example, Carbon-capture and storage scenarios should only be considered when backed up by detailed plans and committed investments.

Establishing this methodology should not be considered a prerequisite to the following elements of the plan; instead the objective should be to demonstrate the progress of the plan.

2. make a formal request of Brunel to provide funds that would enable OPF to meet its 7.6% p.a. target including zero carbon passive and actively managed funds, and ensure that Brunel is reducing GHG emissions in *all* their portfolios by at least 7% PA, as stated in Brunel's Climate Change Policy.
3. work with Brunel and the other Brunel pension funds to develop a plan to implement the funds developed in response to (1 & 2) and develop a plan to integrate those funds into the OPF portfolio.
4. reduce the emissions of the portfolio immediately by excluding obvious outlier investments and not wait until a baseline is produced for the 7.6% p.a. assessments. Any credible "engagement and selective divestment" strategy would start by excluding any fossil fuel company still exploring for or developing new fossil fuel reserves, because this fundamentally cannot be aligned with 1.5 °C warming. Recent analysis from the Transition Pathway Initiative ¹ (see graph below) demonstrated that no fossil fuel company was adhering to this scenario, and that even those in the vanguard of committing to some degree of emission reductions were far from meeting that target. No historical analysis of engagement with fossil fuel companies existed which could be used to justify continued investments in fossil fuel companies.
5. review the entire policy in 2022 including a) the effectiveness of the engagement process as stated at point 10 of the implementation plan and; b) progress on reducing GHG emissions.

The second respect in which, in their view, further work was required, related to Point 30 in the Investment Strategy which they believed was based on two false premises. The first was the implication that scheme members would not support an ethically informed decision to exclude fossil fuel investments from their pensions (yet you report majority support for blanket divestment from those who responded to the consultation exercise). They believed that scheme members deserved to have a voice in this process but were not successfully reached by the consultation, so they called upon the Committee to proactively seek their views on investing in fossil fuels. They believed such a consultation would reveal support for immediately excluding from the fund any companies that continue to explore or develop new fossil fuel reserves. The second was the implication that considering ethical issues was at odds with "the best long-term financial interests of the Members." Climate change threatened the stability of the entire financial system, so acting on this ethical issue was entirely consistent with protecting scheme members' long-term financial interests.

The Chairman thanked Ms Chisholm for her address and confirmed that the timescale matter had been considered and would be addresses during their discussions later in the Agenda under the Investment Strategy.

103/20 INVESTMENT STRATEGY

(Agenda No. 5)

In March, this had Committee reviewed its Investment Strategy Statement and completed the fundamental review of its asset allocation following on from the triennial Fund Valuation. For the first time, the Investment Strategy Statement included a Climate Change Policy as an annex to the document.

As required under the relevant Regulations and guidance, the Committee agreed to consult all key stakeholders on the draft Statement approved at the March meeting. This process was undertaken over a 6-week period from the beginning of April to the middle of May. The Committee now had before it a report, which set out the key issues raised in the consultation responses and recommended the Committee to approve the final Investment Strategy Statement including the changes to the draft Statement set out in this report.

In the view of the number of the consultation responses highlighting key issues in the implementation of the Climate Change Policy rather than any specific changes to the Policy itself, it was felt that the report needed to be considered alongside the Climate Change Policy Implementation Plan included on today's agenda.

The Chairman indicated that it was his intention to take item 5 and 6 together, as they were interrelated. This was agreed by the Committee

In introducing the report, Mr Collins set out the approach they took to the consultation. All possible steps had been taken to reach all members of the scheme including, sending out the consultation to all employers asking them to share it with all scheme members. Officers also made the consultation available on the Website and notified scheme members by newsletter. 27 responses had been received and the responses were set out in Annex 2.

The vast majority of consultation responses had talked about the Climate Change Policy which was expected as it was the main new area of the consultation. The main areas of the consultation were set out in Annex 1. The vast majority of the consultation responses were very supportive of the policy and the direction of travel. The main comments were in relation to it be strengthened slightly to make it more explicit in certain areas.

The report sets out the four main key response areas. There was agreement that the Paris Agreement should be used as a benchmark, together with a comment about tightening up targets on that. There were more people wanting blanket divestment in fossil fuels, although those who accepted the position, wanted greater clarity around the engagement targets that were being set and the sanctions that would follow. Metrics were also provided, and these were set out in the report. Other issues that people raised were also included in the report. These were set out in terms of what had been done in terms of changing the Investment Strategy Statement and Policy; the issues we thought were issues of detail rather than issue of principle had been set out in the implementation plan. There were also a few details that they thought they could not respond to and those were also set out in the report.

The Investment Statement Strategy and Climate Change Policy set out at Annex 3, showed track changes where changes had been made as a result of the consultation, including the strengthening the commitment section to make it clear that we are targeting the 1.5 maximum increase in temperature. On reflection, he acknowledged that the original draft was not very clear on that point.

There was also comments around interim targets, so they had amended that section to talk about the requirement for interim targets and that would be covered later in the implementation plan. They had also strengthened the section on engagement to make it clear that within the implementation they would be setting targets and they would also be setting sanctions. They also intended to improve the risk management arrangements to make them more robust, so that there would be an opportunity to pick up unintended consequences of any investments and to ensure any risks were properly balanced.

The issues that they had felt unable to respond to were around the lack of understanding around the council's fiduciary duty which was paramount. That did not mean that ethical issues were not taken into account, and the policy made it clear that in particular they took account of climate change risks, because there could be significant financial risk resulting from climate change. They had not changed the policy in terms of blanket divestment as he believed nothing new had been raised. A couple of responses indicated that they would wish to see more individual member choice in the selection of investments. The scheme was a defined benefit scheme, so the risk was not taken by members, but by the employers and taxpayers, which was why it was a Committee decision on how the allocation was made.

One response was regarding the court case brought by the Solidarity campaign in respect of Government Guidance which they had disputed. The court ruled in favour of the Solidarity campaign and stated that government couldn't provide guidance to tell us that we had to invest in line with government foreign policy and government defence policy. The court had said that the guidance was going beyond the power that the government had. As a consequence, officers had deleted the line from the Investment Strategy Statement which was in line with the previous guidance.

Councillor Jo Robb questioned whether there were any defined benefits schemes that offered that kind of choice to individual members? Mr Collins responded that he was not aware of any.

Mr Gregory Ley then introduced Item 6 (Climate Change Policy Implementation Plan). In introducing the report, he explained that the Implementation Plan before Members was in respect of the revised Policy document following the consultation. Paragraph 2 of the report set out the key target from the implementation plan which was to reduce annual emissions by 7.6% which linked back to the 1.5 temperature goal of the Paris Agreement.

Paragraph 5 onwards of the report set out the actions that were the immediate priorities to deliver the 7.6% reduction. Paragraph 6 required a decision from the Committee regarding what to do about the transition of the Global Equity portfolio currently managed by UBS. Initially, it was planned to put it into the global core Brunel Fund, but there was now a proposal around the sustainable Global Equities

portfolio. At Annex 1 there was a report from the Independent Financial Adviser, recommending a 50/50 split between the two portfolios. The Committee were also able to change that percentage.

The report further made a commitment to continue to work with all the stakeholders who had been involved throughout the process and had proved to have been extremely helpful.

Councillor Nick Field-Johnson queried if officers could explain the concerns around the passive equity low carbon fund, and what alternatives were being explored.

Mr Ley responded that the passive low carbon had already been decided at the last Committee and that now the suggestion was to move into a 'no carbon fund'. The Chairman explained that the problem currently, was that there were no 'no carbon funds' for the Committee to move the money into.

Ms Jo Robb asked sought clarification as to how discussions were going with Brunel relating to the 2.5% the Committee had earmarked for low carbon fund that recognised Scope 3 emissions. Mr Ley responded that they were waiting for the Implementation Plan to be approved so that they could then have detailed discussions with Brunel about what they were trying to achieve.

Councillor John Sanders questioned whether it was likely that the net zero emissions timescale target of 2050 would brought forward from 2050? The Chairman indicated that it was very difficult to say at this current time, but that it was under constant review, with a view to moving faster in the future.

Councillor Roz Smith questioned how the carbon reduction targets right across the board were being assessed to check they were being met? She hoped once there was all the data, they could move quicker to divest from fossil fuels.

The Chairman reiterated that the Investment Strategy would be reviewed every year and therefore the target could be reviewed every year. Mr Ley confirmed that Brunel would be responsible for providing the information to enable the Committee to assess performance against targets. They already received some carbon metrics through from Brunel, but it was only the listed equities portfolios. There was still work to be done on finding a metric for the other portfolios, bonds and other markets. There was nothing at this stage to cover the whole market.

All investments would be moved to Brunel and Brunel would be leading on monitoring. Metrics still needed a lot of improvement and the Council would be working with Brunel with regard to developing the kind of metrics needed to meet out climate change policy and investment strategy. Brunel would produce regular reports backs on how investments were going together with data as part of the regular performance reports.

Ms Jo Robb questioned whether it was known when the metrics would be available and sought an assurance that the metrics would be transparent in terms of Scope 1,2, and 3 emissions. She also questioned being able to make the 7.6% reduction whilst they remained invested in carbon intensive assets. Mr Collins was unable to

comment on timescales, however, Ftse had developed an index for sovereign bonds. The Corporate Bonds would be picked up by the same indices as the equities. There was measurement of property through GRESB. We will be continually improving the metrics over the next couple of years.

Ms Jo Robb further questioned how the Committee felt about the suggested specific date for a review and in particular the Fossil Free Oxfordshire suggested date of 2022? Mr Ley commented that they had undertaken to do an Annual Review so all policies would be fully reviewed by 2022, which was also consistent with the stocktake planned by Brunel .

Councillor Lygo questioned when the Committee would be meeting with Brunel, to enable the Committee to ask more detailed questions around divestment. Mr Collins confirmed it would be at the December Meeting. Councillor Lygo proposed and it was AGREED that the Committee at its September Meeting agree the questions to put forward to Brunel so that Brunel had the answers for the Meeting. The Chairman requested that the Committee send their questions into Mr Collins or Mr Ley.

Peter Davies, Independent Financial Advisor referred the Committee to Annex 1 which set out where the funds equities were currently invested, as a lot had changed since the end of December and to access the sustainable global equities fund. He pointed out that it did have a slightly different bias in its make-up to the world index, so he was suggesting that the marginal increase in risk was the reason for only putting half of the UBS money into it, but he would be happy to go along with the officer recommendation of all the UBS money going into the sustainable global equities fund.

The Chairman felt that the Committee should go with the 100% as there was minimal difference in risk between the two portfolios. Councillor Mark Lygo indicated that he would be happy to second that proposal.

Councillor Roz Smith indicated that she would also be in support of moving 100% and asked the Chairman to put the recommendation to the Committee.

The recommendation was put the Committee and was AGREED by 10 votes to 0, with 1 abstention.

Councillor Charles Mathew abstained on the basis that he thought the Committee should not be going to 100% without knowing all the facts and without knowing the effect of the decision, particularly at this very unstable time.

Councillor Corkin acknowledged how far the Committee had come on the issue to very angry presentations and protests to mutual understanding and agreement through working in partnership with stakeholders. He commended officers for all their work.

Councillor Mark Lygo expressed the importance of continued joint working with the stakeholders and reiterated that there would be further workshops in the future to promote and welcome joint working. He lamented the fact that there had not been comms around the issue.

Mr Alaa Al-Yousef expressed the continuing importance of attending conferences to keep up to date with the industry.

Councillor Ian Corkin undertook to pick up the comms issue.

RESOLVED: (nem con) to consider the responses to the recent consultation exercise and approve the changes to the draft documents as set out in the report and incorporated in Annex 3.

104/20 CLIMATE CHANGE POLICY IMPLEMENTATION PLAN

(Agenda No. 6)

The Committee had before it a report, which set out how the Pension Fund plans to implement its Climate Change Policy (hereinafter referred to as 'the Policy'). The key commitment of the Policy was to transition investment portfolios to net-zero Greenhouse Gas Emissions (GHG) by 2050, consistent with seeking to limit the temperature increase to 1.5°C above pre-industrial levels. The actions in the implementation plan had been developed to work towards delivery of this commitment. The Policy required the Fund to establish intermediate targets in pursuit of the commitment. The discussion and debate on this item was taken under item 5.

RESOLVED: to

- (a) adopt the Climate Change Policy Implementation Plan; and
- (b) (on a motion by Councillor Mark Lygo, seconded by Councillor Kevin Bulmer and carried by 10 votes to 0, with 1 abstention) to determine committing 100% of the UBS portfolio to the Sustainable Global Equities portfolio.

105/20 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 7)

The Committee had before it a report 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. The Independent Financial Adviser will also report verbally, and any information reported orally will be exempt information.

Mr Peter Davies, Independent Financial Advisor in introducing his report, referred the Committee to the table at page 1 of the report, the economic consensus forecasts had been downgraded quite a bit since writing the report, and the UK consensus now stood at -8.7% for this year and the USA slightly lower at -3.8%, and the eurozone -8%, but those were very sensitive to as when lockdown was relaxed and Government support received etc.

Markets had recovered quite a lot since the end of March and in round numbers if the overall fund fell by £370m in the first quarter (13.5%), then at the moment it had recovered a half of that (£185m) since so the position was not looking anywhere as near as bad as at the end of March, but was nevertheless a fall since the start of the year of 7% which was very substantial in historical terms.

The big test would come when Government support such as Furlough pay was tapered off and Government funding to companies had been fully invested and which companies would still be going concerns come the Autumn. It would take some time to see what the total effects were and that was true of the listed market and the bond market and also through the private equity market. Looking at the companies they were invested in, there was not a big exposure to the leisure industries, not through Adam Street and very little through the listed portfolio, but there will still be a case where companies are in difficulties and it would be a while before the Committee saw the extent of that.

Councillor Nick Field-Johnson questioned what the Committee's outgoing were going to be and what the liability of the fund would be over the next 5 years and over the next 10 years to ensure we had ample coverage. He asked whether the Committee could have a brief report on this matter.

Mr Collins reported that the Committee had received a report on that as part of the Asset Allocation report back in March. M J Hudson had carried out a piece of work to look at the matter. At the time, they were basing it on what their projections of what the Asset Allocations decisions would be. That now needed to be updated. The figures from the Actuary suggest in the main that the contributions received were more than sufficient to pay for the pensions going out for the next five years. The key question was the investments they were making in the private markets and how quickly that money was called and where the money for that would come from. He had been in discussions with other officers regarding this issue and it was felt that there were significant cash reserves that would help them meet those demands, but were working with Brunel and would update the M J Hudson figures and get a report sent out to all members of the Committee.

Councillor Roz Smith expressed her concern in relation to the property market and the level of unemployment in the UK and USA, and wondered if Peter had a view on how the dollar was going to hold up and the effect on the Ftse share price?

Mr Davies reported that the dollar had been a bit weaker recently, but not dramatically, and that the dollar was still the reserve currency. Even when the US was in recession as were all the other major economies, he didn't believe there would be a run on the dollar, he believed it would remain the stable currency. He believed more a more worrying issue was the supply chains restocking and the maximum would now be just in case. Although the property market was suffering the industrial market was very strong.

RESOLVED: to receive the report.

..... in the Chair

Date of signing