PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 10 September 2021 commencing at 10.15 am and finishing at 12.20 pm

Present:

Voting Members:	Councillor Bob Johnston – in the Chair Councillor Kevin Bulmer (Deputy Chair) Councillor Imade Edosomwan Councillor Nick Field-Johnson
Non-Voting Members:	District Councillor Jo Robb, District Councils (non-voting) Shelley Cook, Academy Sector (non-voting) Alistair Fitt, Oxford Brookes University (non-voting) Steve Moran, Pension Scheme Member (non-voting) Alan Staniforth, Academy Sector (non-voting)
By Invitation:	Peter Davies, Independent Financial Adviser; Andrew McKerns, Hymans Robertson; Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership

Officers:

Whole of meeting	Sean Collins, Gregory Ley (Finance) and Colm Ó Caomhánaigh (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.

32/21 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies had been received from Councillor Richard Webber.

33/21 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE

(Agenda No. 2)

There were no declarations of interest.

34/21 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 11 June 2021 were approved and signed as a correct record.

Councillor Nick Field-Johnson asked for an update on the recruitment of an Independent Financial Adviser. Sean Collins reported that the position was currently being advertised. Peter Davies continued to provide advice on a voluntary basis in the interim. It was expected that the position would be filled by the next Committee meeting.

On Item 25/21, Age Discrimination Cases in the Firefighters Pension Scheme, the Committee had requested that the Monitoring Officer attend this meeting to provide an update. However, the government guidance was not now expected to be received until October 2021.

The Chairman responded that if an extra meeting of the Committee was needed to consider the matter, he was prepared to call one.

35/21 PETITIONS AND PUBLIC ADDRESS

(Agenda No. 4)

The Committee received a public address from Ms Al Chisholm from Fossil Free Oxfordshire.

Thank you for the opportunity to address you today on behalf of Fossil Free Oxfordshire on the subject of passive investment reallocation. And thank you, as ever, for all the important work you do to look after the fund and decarbonise it.

The backdrop for your discussion is the IPCC report, which the UN Secretary General said *"must sound a death knell for coal and fossil fuels, before they destroy our planet"*

Although passive fund allocation has come to seem complicated, it's very simple. To choose the PAB fund is to choose to stop investing in fossil fuels and rapidly reduce emissions., It's simple and risk-free. Given the escalating climate crisis and the urgent need to reduce fossil fuel extraction and emissions, it's a no-brainer.

The alternative is to invest in a CTB fund. It means giving fossil fuel companies money to develop and explore for ***more*** fossil fuels, while at the same time asking other companies to burn ***less*** fossil fuel to decarbonise the whole economy. Its logic is entirely contradictory.

Known reserves contain more than enough to tide us through the transition to clean energy, and burning all known reserves would guarantee catastrophic temperature rises. Funding the sector to find more makes no sense.

Two main arguments for opting for the CTB have been made

1. A "Just Transition."
2. Engaging with the fossil fuel industry.

I'd like to address each of these in the very brief time available

1. Using the concept of "Just Transition" to justify continued investment in the fossil fuel industry is an absolute travesty. Yes, there absolutely must be a

rapid and just transition to clean energy that protects the livelihoods of those working in the fossil fuel industry, but maintaining investments in these companies under the guise of finding financial solutions to a political problem will simply delay political action, and will in the long run make the transition less just.

We only need to look at the experiences of the Ogoni people whose leaders were executed in the Niger Delta or the people who fished there until the catastrophic oil spills, to understand how companies like Shell can be relied upon to protect people's livelihoods.

Anyway, it is the Government's responsibility to ensure the just transition, not the Pension Fund Committee's, but if the Committee is concerned with justice in this transition, it might do better to invest in clean energy technology so there are jobs for oil and gas workers to go to as this transition takes place. (Incidentally, both funds will exclude tobacco, but we see no arguments for the Pension Fund to ensure a just transition for workers in that sector.)

2. The second argument is about engagement with the fossil fuel industry. It has been going on for decades. If it was working, they would have stopped exploring for and developing new oil and gas reserves and put serious money into renewables. They would stop lobbying against climate policy and trying to derail COP. None of them - not even the more progressive ones - has a Paris-Compliant business plan. Besides, the Climate Policy states clearly that the fund will not remain invested in fossil fuels purely so it can pursue engagement.

For these reasons, Fossil Free Oxfordshire urges you to transfer 100% of the passive investments to the Paris-Aligned Benchmark fund to protect the value of Scheme members' pensions from stranded assets, and to protect the planet they and their children will inhabit.

As Kimberly Nicholas, a climate scientist quoted in New Scientist says, *'There is no more important task than stabilising the climate...'* and *'What we do really really, really matters.'*

Thank you.

36/21 MINUTES OF THE LOCAL PENSION BOARD

(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board, which met on 9 July 2021 were noted.

37/21 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 6)

The Committee was provided with a report by the Independent Chairman of the Pension Board.

Sean Collins noted that the Board was back up to full strength with the appointment of Elizabeth Griffiths and Marcia Slater. The Board's annual report was included as an Annex.

Sean Collins also highlighted with regard to the Board's regular reports on investment management fees that the Board had asked to ensure that we get value for money for the fees paid. This was likely to be relevant to the discussion later in the meeting on the passive allocations. One Member of the Board drew particular attention to the difference in fees between active and passive fund managers.

38/21 PASSIVE EQUITY ALLOCATION

(Agenda No. 7)

Before considering the report setting out the new passive options developed by Brunel in conjunction with FTSE Russell and Legal and General Investment Management in response to the requests from Client Funds for suitable alternatives aligned to the Paris Agreement, the Committee reviewed a slide presented by Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership demonstrating the levers pushing the weighting of different companies up and down. She noted that both the Paris Aligned Benchmark (PAB) and the Climate Transition Benchmark (CTB) require analysis to see if companies have breached the global compact or OECD guidelines.

Sean Collins, introducing the report, noted that the two benchmarks meet the requirements of the Institutional Investors Group for Climate Change Net Zero Framework. The first bullet point under Paragraph 7 was no longer correct. For both funds, the reduction in fossil fuel reserves now matches their reduction in carbon emissions – 50% for PAB and 30% for CTB.

Sean Collins also explained that the exclusion of tobacco was there because it was part of the EU taxonomy. It was felt important to go with a standard, otherwise everyone was measuring things in different ways.

Highlighting the main differences between the two benchmarks, Sean Collins, described the PAB as more ambitious, involving immediate reductions in the fossil fuel areas.

FTSE does not have a UK Paris-aligned benchmark as it could not be sufficiently diversified. The Working Group believed that UK investment would be better pursued through active mandates and that any passive mandates should be with the Developed World.

The Working Group also agreed that retaining 15% passive was delivering better value for money and the new benchmarks were achieving much of what you would get from active anyway.

Officers favoured the CTB as being more aligned with the current Investment Strategy Statement. However, others on the Working Group favoured the more ambitious PAB. They were agreed that there was no point in allocating less than 5% to either fund.

The Chair asked firstly if there was agreement to go with passive funds. Members of the Committee agreed.

Members expressed support for the PAB for the following reasons:

- It was the simplest and most practical approach from the point of view of the funds.
- Given the latest UN report, it was better to go with the more ambitious fund.
- Both funds were targeting the same return so that was not a factor.

Faith Ward noted that both funds excluded thermal coal and tar sands.

The Chair proposed that 15% be allocated to PAB. This was seconded by Councillor Bulmer and agreed by the Committee.

RESOLVED: to allocate the 15% passive equities to the Paris Aligned Benchmark.

39/21 CLIMATE CHANGE REPORT

(Agenda No. 8)

The Committee considered the report setting out the Fund's current arrangements for managing the climate change risk in accordance with the Task Force for Climate Related Financial Disclosures (TCFD) Template.

Gregory Ley summarised the report which also described progress in the first year since the adoption of the Climate Change Policy.

Of the four key areas identified by the Task Force, the only gap identified related to scenario analysis which needs more work. There have been discussions with Brunel around solutions.

The key target in the policy was a 7.6% emissions reduction per annum. The fund actually achieved a 17.7% reduction in 2020. The metrics also show a 30% reduction in reserves exposure over the year.

In summary, a very good start had been made in achieving the aims of the policy and the decision on the previous item would help going forward.

Members welcomed the report, describing it as a real credit to the Committee and to the officers who have worked so hard to achieve this.

RESOLVED: to note the report.

40/21 GOVERNANCE REVIEW

(Agenda No. 9)

The Committee had before it for consideration a report updating progress against each of the 10 Recommendations made in the Independent Governance Review completed by Hymans Robertson. The Committee was asked to agree a way forward.

Sean Collins introduced the report. He recommended that the meeting consider each of the 10 Recommendations in turn.

1. Develop a fund specific conflicts of interest policy

In response to questions from Members, Sean Collins suggested that there should be an annual governance review. Andrew McKerns, Hymans Robertson, confirmed that they have recommended the same format for a conflicts of interest policy across a number of Local Government Pension Schemes and that Hymans Robertson have regular discussions with the Pensions Regulator.

Recommendation a) to adopt the Conflict of Interest Policy set out in Annex 1 was proposed by the Chair and seconded by Councillor Bulmer. The recommendation was agreed.

2. Review the Constitution of the Pension Fund Committee to widen Scheme Employer Representation.

It was agreed that there was no further action required as the Committee's membership had been changed to comply with this.

3. Review the Terms of Reference for the Pension Fund Committee and Pension Board, to clarify roles and improve communication between the two bodies.

It was agreed that the deficiencies in communication between the Committee and the Local Pension Board should be overcome by the decision, already made, that the Chair attend meetings of the Board and that no amendments to the Terms of Reference were necessary.

4. To reduce key person risk and to support the findings of the Good Governance Project, the Committee should consider the establishment of a Governance Officer role. This role would be to support the Service Manager (Pensions) and service delivery of the Fund.

It was proposed to appoint a governance officer as well as a small team to support communications, training etc. There would be a budgetary implication from this decision but it would most likely fall into 2022.

Councillor Bulmer proposed recommendation b) and it was seconded by Councillor Edosomwan. The recommendation as agreed.

5. Review the agenda content for the Pension Fund Committee and Pension Board. Consider and implement an annual business meeting for the Fund.

Hymans Robertson had proposed a governance matrix and calendar to help the committee to plan its agendas across the year and focus on key issues. Officers proposed that there was a need to reduce the focus on short-term investment performance and have a more in-depth review of investment performance once a year. Hymans Robertson had also proposed holding a separate annual business meeting.

Councillor Bulmer stated that he was unconvinced of the need for a separate annual business meeting given that the business plan did not change much from year to year.

The Chair proposed to adopt recommendation c) on the basis that the annual business meeting be tried for one year as an experiment. Councillor Bulmer seconded the proposal and it was agreed.

6. Review the process for risk review at the Fund.

Sean Collins noted that the risk process is reviewed by the Committee and Board at every meeting. He recommended that there was no further action required and this was agreed by the Committee.

7. There should be a quarterly comparison of the progress on the business plan against the risk register.

Sean Collins reported that changes had been made to ensure the business plan and the risk register were aligned. He suggested that this be noted and kept under review. This was agreed by the Committee.

8. Sign off evidence should be provided by the Chair and the Committee to the Funds Annual Business Plan

Sean Collins stated that, because the plan and budget were discussed at a Committee meeting and its adoption was minuted, it was felt that no further action was required. This was agreed by the Committee.

9. The Fund should set up a single storage site for all key documents related to the Fund easily accessible to members of the Committee and the Board.

Sean Collins reported that this was in progress. Hymans Robertson's Focal Point system was being set up to hold all relevant documents and members of the Committee and Board would be given accounts to access them. It was agreed that there was no further action required by the Committee.

10. Develop a mandatory training policy including an escalation process where members of the Committee and/or Board fail to engage appropriately.

Sean Collins described the procedures proposed to ensure that members were engaged in training and that it was effective. There would also be an escalation procedure in response to any lack of engagement. He updated the report's record of training to say that all of the Board and all but one member of the Committee had completed the knowledge assessment tool. It was the intention to tie the training programme to the Committee's and Board's agendas in order to provide training at the best time.

Members asked for guidance on the best order in which to take training. The Chair recounted that the most recent assessment he had undertaken was the toughest yet – especially on the accountancy side.

Andrew McKerns responded that the type of questions had changed somewhat this year and he was happy to take the feedback.

The Chair proposed recommendations d) and e). This was seconded by Councillor Bulmer and agreed by the Committee.

RESOLVED: to

a. Adopt the Conflict of Interest Policy as set out in Annex 1;

b. Agree the job description for a new Governance Officer role as set out in Annex 2, and agree the establishment of the new position;

c. Agree the comments on the future agendas for the meetings of the committee to be based on the key roles and responsibilities of the Committee as set out in annex 3, and in particular the proposal to focus on a review of investment performance annually, and the need for a separate annual business meeting <u>– agreed on a one-off experimental basis</u>;

d. Agree the proposals to amend the current Training Policy to include an annual assessment and an escalation procedure to cover cases on non-engagement with the Policy;

e. Ask Officers in conjunction with Hymans Robertson to amend the draft Training Programme as set out in Annex 4 based on the results of the initial knowledge assessment and bring the revised programme back to the December meeting for approval.

41/21 REVIEW OF THE ANNUAL BUSINESS PLAN
(Agenda No. 10)

The Committee received a report setting out the latest progress against the key service priorities set in the business plan for the Pension Fund for 2021/22 and was asked to note it.

Sean Collins summarised the Red and Amber ratings. Work had yet to progress on robust arrangements to assess the effectiveness of the Engagement Strategy and Voting Process in advance of the 2022 Stocktake which was why this was rated Red.

Assessing investments in climate solutions was rated Amber as there was still a need to identify suitable metrics and benchmarks. Customer Satisfaction was rated Amber as they were struggling to get enough feedback.

RESOLVED: to note progress against each of the key service priorities as set out in the report.

42/21 RISK REGISTER

(Agenda No. 11)

The Committee had before it a report presenting the latest position on the Fund's risk register, including any new risks identified since the report to the last meeting. The Committee was asked to note the report.

Members expressed the opinion that they needed to do more than simply note the report. Sean Collins agreed that a stronger wording was required to reflect exactly what the Committee was required to do to take ownership.

The changes to the Risk Register were agreed.

43/21 ADMINISTRATION REPORT

(Agenda No. 12)

The Committee considered the report updating the key administration issues including service performance measurement, the debt recovery process and any write offs agreed in the last quarter.

Sean Collins noted that the report included a request to extend the Service Level Agreement targets as the team was struggling to meet them. The team was confident that this would be the last extension they would need. He also updated the committee on the annual benefit statements which had been a difficulty in the past. 100% of the deferred benefits and 99.5% of the active benefits statements went out by the 31 August deadline.

In response to Members' questions about late data from scheme employers, Sean Collins agreed that the escalation procedure was not as robust as it should be and this was being addressed.

The Chair asked for it to be noted that the Committee would like to see a more robust escalation procedure for recalcitrant employers.

On Recommendation d), Sean Collins reported that Audit had asked if the annual benchmarking work should be restarted. The officers' concern was that it was of little use given the difficulties in comparing performance between funds. There were other informal ways in which information was gathered.

Councillor Bulmer noted that there was a lot of useful information in the reports from Brunel.

The Chair proposed that an annual benchmarking exercise not be undertaken. This was seconded by Councillor Bulmer and agreed by the Committee.

RESOLVED to

a) Agree to a further extension of the reduction in SLA target, to be reviewed at the December meeting;
b) Agree to the proposed changes to communication policy;
c) Note the amounts written off by the Pension Services Manager; and
d) Agree not to undertake an annual benchmarking exercise.

44/21 ANNUAL REPORT AND ACCOUNTS 2020/21

(Agenda No. 13)

The Committee was asked to note this report presenting the Annual Report and Accounts for the Pension Fund and highlighting any issues raised by external audit.

Gregory Ley reported that the audit on the main financial statements was still ongoing but they had not identified any issues as of earlier this week. The budget outturn on Agenda Page 143 showed a £700,000 underspend, largely due to vacancies in administration staff.

The other point to particularly note was the failure by Prudential to provide information that should be included on Agenda Page 192. The team was checking with Audit whether this would prevent the signing off of the statements by the statutory deadline. Prudential had referred themselves to the Pension Regulator so it was well known that this problem existed.

Sean Collins noted that many local authorities has missed the deadline last year and were likely to this year. This was a national problem. He would confirm if they had referred the matter to the Pension Regulator.

Andrew McKerns confirmed that a number of funds had reported Prudential to the regulator.

It was agreed to note the reports.

45/21 ANALYSIS OF RELATIVE INVESTMENT PERFORMANCE TO MARCH 2021

(Agenda No. 14)

The Committee considered a report summarising the findings of the annual review of the investment performance of the LGPS Funds carried out by PIRC.

Peter Davies introduced the report. It showed slightly above median performance over the last year but slightly below over the last three years. This was largely due to the poor performance of the equity portfolio.

He highlighted the performance of Bromley which showed the potential rewards of active funds and non-indexed positions. It was also notable that global equities did better than UK equities.

In response to questions from Members, Peter Davies confirmed that the Bromley approach had a higher risk.

Councillor Nick Field-Johnson noted the strong performance of private equities. He had long argued that the fund should increase the proportion in private equities. Given the poor performance of property – and especially commercial property – he suggested that 2% be moved from property to private equities.

Peter Davies noted that the percentage in private equities will rise anyway due to the new investments by Brunel. It was currently 9% but would rise by just under 1% per year.

46/21 EXEMPT ITEMS

(Agenda No. 15)

RESOLVED: that the public be excluded for the duration of items 16 and 17 in the Agenda since it is 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 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.

47/21 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 16)

The Independent Financial Adviser provided the Committee with an overview of the current and future investment scene and market developments across various regions and sectors.

The information reported was noted.

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.

48/21 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 17)

The report set out an overview of the current and future investment scene and market developments across various regions and sectors. The Committee thanked Peter Davies, Independent Financial Adviser for the work he carried out in his role.

The report was noted.

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.

49/21 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT
(Agenda No. 18)

With this report the Committee was invited to raise any issues concerning Corporate Governance and Socially Responsible Investment.

Councillor Jo Robb asked if it was appropriate to raise with the Local Authority Pension Fund Forum (LAPFF) the issue of certain companies seeking to sue governments that were bringing in climate measures under the Energy Charter Treaty. Gregory Ley responded that he was happy to do that.

.... in the Chair

Date of signing ....