

PENSIONS COMMITTEE

Minutes of a Meeting of the Pensions Committee held in the Luttrell Room - County Hall, Taunton, on Friday, 3 March 2017 at 9.30am

Present: Cllr G Noel (Chairman), Cllr S Crabb, Cllr James Hunt, Mr Richard Parrish, Mrs Sarah Payne and Mr Mark Simmonds.

Other Members present:

Apologies for absence: Cllr D Hill

227 Declarations of Interest - Agenda Item 2

Cllr Crabb, Cllr Hunt, Mrs Moore, and Mrs Payne declared personal interests as members of the Local Government Pensions Scheme in respect of agenda item 6.

Mr Parrish declared a personal interest as his wife was an SCC employee and a member of the fund in respect of agenda item 6. Mrs Payne also declared a personal interest as investments she held were managed by Jupiter Asset Management in respect of agenda item 6.

228 Minutes from the previous meeting - Agenda Item 3

The minutes of the meeting held on 2 December 2016 were received and approved as an accurate record.

229 Public Question Time - Agenda Item 4

The Committee heard a question from Mr Reimers, a Somerset resident, and he noted that in item 14 section 5 (Social, environmental and corporate governance ESG policy) of the draft Policies and Statements paper being considered at the meeting, the Pension Fund describes its policy of “engagement with companies to effect change, rather than disinvestment”.

He then asked 3 questions beginning by asking had there been any recent occasions when the Committee, via its Investment Manager, has “engag[ed] with oil companies on how they are assessing their business strategy”, not least when it comes to the long term security of these investments for our future pensions, never mind a safe climate for our grandchildren’s generation.

He also asked if the Committee could confirm that at the AGMs of the companies in which it invests will “vote in accordance with the Fund’s interest on investment grounds” on ESG matters, and never on ethical grounds?

Finally he noted that when he submitted a public question on the Committee’s investment policy last year, we were informed that the Committee does not have the details about the ESG basis for its complex portfolio. Did the Fund’s Investment Manager now have confidence that he was able to “recognise the

risks associated with ESG issues,” when these arise, as stated in your draft paper?

The Chairman thanked Mr Reimers for his questions and he asked the Funds and Investments Manager to reply on behalf of the Committee. In response it was stated that the Committee has not directly instructed fund managers or others to engage with any company specifically on the Fund’s behalf although we reserve the right to do so in future. We know that Standard Life Investments, as our UK fund manager, regularly engages with a wide variety of companies on a wide spectrum of ESG issues and we are happy to support their efforts. Similarly the Fund is a member of the Local Authority Pension Fund Forum, which has a specific work stream on “Carbon and Environmental Risk Management” and is engaging regularly with oil companies and other carbon intensive industries. Again we are happy to support these efforts.

Secondly it was noted that this is the Fund’s stated policy and we stand by it. It is relatively rare for ESG issues to have a specific resolution at an AGM and we also believe that in many instances the Fund’s interests on investment grounds would complement rather than conflict with an ethical stance.

Finally it was explained that when asked last year it was stated that there was no dataset on our Fund’s exposure to carbon extraction companies, that such a dataset would be open to interpretation and that we did not have the resources to undertake such work. This is still the case and the investments manager has previously provided a full list of holdings to allow anybody who wishes to undertake this work to do so. The Committee and its officers are confident that they have the necessary ability to “recognise the risks associated with ESG issues”, and we recognise that there are risks associated with the possible stranding of carbon assets and climate change, however this needs to be balanced with all of the risks that the Fund faces, alongside how best to respond to these risks and the level of constrained resources we should dedicate to mitigate these risks.

230 **LGPS Pooling of Investments** - Agenda Item 5

The Committee received a verbal update on the LGPS Regulation and Structure Review from the Funds and Investment Manager.

The Committee were advised that the submission was signed and submitted to DCLG on 17 February 2016, with 4 areas part of the submission; that following meetings with civil servants it appears they are not interested in size or cost of the pool, but very keen to talk about infrastructure, with an expectation of at least 10% of allocations allotted to it. Committee noted that the majority of the time before the July submission would be spent on the detail of the governance structure.

Committee discussed that the Government is in the process of producing legislation to force funds and noted that the expected timelines post July include a period of 9-18 months to set up the pool, with transfers to take place from April 2018.

Committee were advised that the pool is to set up a shadow board as part of the transition, for which there will be one Committee member. Sam Crabb and Mark Simmonds agreed to share this responsibility on behalf of the Somerset Pension Fund, with attendance vital at a meeting on 22nd March

231 Independent Advisor's Report - Agenda Item 6

The Committee's Independent Advisor Caroline Burton provided a verbal overview of the financial situation in the United Kingdom (UK) and Over-seas

Members briefly discussed the points raised during the overview, including evidence that businesses are deferring big decisions post the EU referendum, the Saudi Arabian oil production strategy, the global shortage of oil storage facility, the difficulties in the Far Eastern markets and the possibility of interest rate rises positively affecting the banking industries.

232 Analysis of Performance - Agenda Item 7

233 Business Plan update - Agenda Item 8

The Committee considered this report that provided Members with a business plan of topics, to ensure the Committee met its responsibilities and considered all necessary issues, and also a meeting workplan of proposed items of business.

The Committee discussed the need at the end of June or early July to sign off two submissions, one on behalf of the fund, one of behalf of the pool. The Committee agreed to accept the reports

234 Budget and Membership Statistics update - Agenda Item 9

The Committee considered this report about the position of the pension fund budget at 31 December 2016; the projected outturn position for the full year; and full year budget were shown in Appendix A of the report.

There was a brief discussion of the report and the information it contained, including that there had been a small increase of transfers in and a greater number of transfers out and as a result there was a little less investment income. It was also noted that fund managers had carried out less trading than usual.

The Committee agreed to accept the reports

235 Employer Body update - Agenda Item 10

Members considered this report that provided the Committee with information about the current status of employing bodies within the Fund.

It was noted that there were 116 employers with active members in the Fund – 61 scheduled bodies, 25 resolution bodies and 30 admitted bodies, 6 of which are open to new members.

There was a brief discussion of the report, including the recent passing of a resolution by the Parrett Drainage Board to join the fund, which includes approximately 5 employees and the possibility of a further reduction of the annual allowance to 25%

The Committee agreed to accept the reports

236 Review of Pension Fund Risk Register - Agenda Item 11

The Committee considered and discussed the Pension Fund's risk register. Members reiterated the importance of considering the register at every meeting to review and monitor each risk and approve changes as necessary.

There was a discussion of the risk register and the Committee noted that there had not been any changes to the register. The Committee sought and received assurances from Officers that plans were in place to address all of the 9 identified risks and the report was accepted.

237 Cash Management Strategy - Agenda Item 12

The Committee considered this report that sought approval for the management of the Fund's cash and the strategy and counter party strategy. It was noted that since 1 April 2010 the pension fund cash had been managed by the Council's investments team on a completely segregated basis.

During the discussion Members considered the Cash Management Strategy attached as Appendix A to the report and the revised Counterparty criteria for the investment of sterling cash balances attached as Appendix B to the report.

There was a discussion about the Cash Management Strategy and the Committee agreed to approve the Cash Management Strategy; the Counter party strategy; to re-appoint the in-house team to manage the cash balances on a segregated basis and to appoint an external cash manager.

238 Resources Review, Budget Setting and Committee Objective setting - Agenda Item 13

The Committee considered a report that asked Members to consider the set objectives for the fund, the resources necessary to attain those objectives and a definition or measurement mechanism for success.

There was a discussion of the report and the Committee agreed the proposed budget and to maintain the absolute return target for the fund, and that resource were adequate. The report was accepted.

239 Policies and Statements - Agenda Item 14

The Committee considered a report that advised Members the Pension Fund is required to maintain a significant number of policies and statements in accordance with LGPS regulations.

The Funding Strategy was considered in draft form in June 2014 and following a 6 week consultation period earlier this year, no changes have been made.

Following a brief discussion the Committee approved the strategy.

240 Review of Administration Performance - Agenda Item 15

The Committee considered this report that provided progress on the performance of Peninsula Pensions, the shared service that provides benefits administration to the Somerset and Devon Pension Funds.

It was noted that the team for 2014/15 issued 88% of work within target, though backlogs of work in some areas were building up. In 2015/16 the team issued 71% of work within target seeing a reduction; however, there was a backlog of 11,000 Deferred Benefit calculations which were cleared during this period.

There was a discussion of the table within the report (Annexe A) that showed performance relating to the Somerset Fund only for this financial year. The report was accepted.

241 2018 Meeting Dates - Agenda Item 16

The Committee considered this report that proposed meeting dates for the following calendar year, Officers believe that this course aids all stakeholders to ensure the dates are kept clear and therefore propose to continue with these arrangements.

The Committee agreed to approve the following proposed dates for 2018:-

- Friday 2nd March 2018 at 10.00 am at County Hall, Taunton
- Friday 8th June 2018 at 10.00 am at County Hall, Taunton
- Thursday 20th September 2018 at 2 pm at County Hall, Taunton
- Annual Meeting, Morning of Friday 21st September 2018, arrangements TBC
- Friday 7th December 2018 at 10.00 am at County Hall, Taunton.

242 Any other urgent items of business - Agenda Item 17

There being no other business of urgency the Chairman thanked all those present for attending and for their hard work and throughout the quadrennium.

(The meeting ended at 11.10 am)

CHAIRMAN