

## **PENSIONS COMMITTEE**

Minutes of a Meeting of the Pensions Committee held in the Taunton Library Meeting Room, on Friday 7 June 2019 at 10.00 am

**Present:** Cllr G Noel (Chair), Cllr James Hunt, Cllr J Parham, Gordon Bryant and Sarah Payne.

**Other Members present:**

**Apologies for absence:** Cllr S Coles, Richard Parrish and Mark Simmonds

**1      Declarations of Interest - Agenda Item 2**

Mrs Payne and Mr. Bryant declared personal interests as members of the Local Government Pensions Scheme in respect of agenda item 7.

**2      Apologies for Absence - Agenda Item**

**3      Minutes from the Previous Meeting - Agenda Item 3**

The Committee agreed that the minutes of the last meeting were correct and the Chair signed them.

**4      Public Question Time - Agenda Item 4**

The Chair welcomed those Members of the public who were present and invited those who had registered to speak to address the Committee.

Mr Reimers said thank you for sight of the draft response to my question for the meeting of the Pensions Committee on 8 March 2019 which was cancelled. He noted if the reference in the draft response stating that the Pensions Committee was not tied in its investment decisions, to the policies of Somerset County Council.

He wondered whether, three months on, there is now greater clarity about how Somerset County Council Pensions Committee, with due regard to its fiduciary duties, is taking the declaration by the County Council of a climate emergency on 20<sup>th</sup> February this year into account when deciding on its investments, despite its independence from the County Council itself

Most, if not all, of the other West Country Councils (as well as the Environment Agency), whose Pensions Committees are members of Brunel Pension Partnership have also declared a climate emergency. To date have any such declarations played a part in the investment decisions being made by Brunel Pension Partnership?

The Funds and Investment Manager thanked Mr Reimers for his statement and on-going interest in the work of the Pensions Committee and responded to the main points raised as follows:

It is not possible for the Committee to change its approach to any matter of policy outside of the formal decision making of Committee meetings, as the

Committee has not met the position has not changed. You will note that the matter is not on the Agenda for today's meeting but there will be a discussion regarding the future meeting workplan.

The Brunel Pension Partnership has been tasked by the founding Funds with delivering a range of investment portfolios which individual funds then get to choose from. No fund has made a formal request for a change in the portfolios offered by Brunel to meet climate considerations. Officers of Somerset CC are not aware of any informal discussions but it is possible these have taken place.

Mr Dunk made a statement about the potential future dangers of investing in fossil fuels in light of the current climate emergency and in summary he asked 3 questions of the Committee:

1. Would the Committee immediately resolve to transfer some investments to the Brunel Pension Partnership's Passive Low Carbon Equities Portfolio and look into the possibility of also investing in the Active Sustainable Equity Portfolio?
2. Would the Committee commit to phasing out pension fund investments in fossil fuels (including companies that provide services for fossil fuel extraction and delivery systems) over the next 5 years?
3. Would the Committee work with the Brunel Pension Partnership to ensure that the above target was met and work with the other Pension Fund holders in the Brunel Pension Partnership to reach a common approach to fossil fuel divestment as it would manifestly speed up the process and give Brunel the information it needed to tailor its portfolios accordingly?

The Funds and Investment Manager thanked Mr Dunk for his statement and responded to the main points raised as follows:

Q1. The Committee chose not to revisit this decision at this time. The process of moving assets to Brunel over a 2 to 3 year period is a very complex and potentially expensive undertaking. When the Committee chose the investments, it wishes to make with Brunel it also noted the complexity and potential costs and recognised that changing the investment strategy within the transition window would bring significant additional risks. The investment strategy is a key piece of committee work and will be reconsidered regularly in the future.

Q2. The Committee has not committed to the phasing out of investments in fossil fuels. ESG considerations are an important consideration within the investment strategy and the Committee will review this after the Brunel transition window and regularly thereafter.

Q3. The Committee will only seek to change Brunel activity when it does not meet the Funds agreed policies and needs, this is currently not the case. No other fund has formally asked Brunel to revisit the agreed policy of not divesting.

The Chair of the Committee thanked both members of the public for attending the meeting and asking questions. He noted that the Committee regularly

considered its investment strategy and explained that taking a decision to disinvest in fossil fuels investments or with companies that were 'ecologically sound' was not as straight forward as it seemed, as it required a judgement that would be finely balanced and quite subjective.

He reiterated that the Committee regularly reviewed its investments and was mindful of its fiduciary duties and minimising potential future risks associated with some investments. He also confirmed that the Committee, as it was currently transferring assets to the Brunel Partnership, would not discuss the issue of fossil fuels investments further at the meeting.

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

The Committee considered this report that provided an update on the Council's work to adhere to the "Local Government Pension Scheme (LGPS): Investment Reform Criteria and Guidance" published in November 2015 which required the pooling of the Fund's investment assets with other LGPS funds from April last year.

Members were reminded that for the purposes of pooling the Council had aligned itself with 9 other funds in South West England and was working with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd, (BPP).

It was reported that £507.8m of passive assets were transferred from management by the internal team to Brunel (sub-managed by LGIM) last July and £436.5m of active UK equity assets were transferred from management by Aberdeen Standard Investments to Brunel (sub-managed by Aberdeen Standard Investments, Baillie Gifford and Investec) last November.

It was also noted that the Private Markets team was now fully established and had taken some initial commitments from funds, but not Somerset at this stage. Preparations for the move of the Fund's property assets from LaSalle to Brunel were also underway.

In response to a question it was stated that it was anticipated that the Brunel Pensions Partnership would allow the fund to make significant savings over time with the Pension Fund estimated to make savings of £27.8m in the period to 2036, after costs. A significant portion of the likely costs were front loaded, and it was anticipated that the Fund would breakeven in 2024.

The report and update were accepted.

## **6 Independent Investment Advisor's Report - Agenda Item 6**

The Committee's Independent Advisor 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: the overall downward trajectory of the economic position; the U.K. interest rates; difficulties in the global motor industry as both diesel and petrol engine

production continued to fall sharply; the possibility of a Brexit dividend and the impacts of a further extension to the date of the U.K.'s departure from the European Union.

The Independent Advisors update was accepted.

## **7 Review of Investment Performance - Agenda Item 7**

The Committee considered this report on the performance of the pension fund investments for the quarter ended 31 March 2019 and related matters.

The Funds & Investments Manager provided an overview of the report, including the performance of the individual fund managers against benchmarked performance. It was noted that at the end of the quarter the value of the Fund stood at £2.170bn.

The Committee agreed to accept the report.

## **8 Review of Administrative Performance - Agenda Item 8**

The Committee considered this report from the Head of Peninsula Pensions detailing a review of the Administration's performance. The Committee were informed of: the overall improvement in performance; the remaining backlog of work; the recent Peninsula staffing recruitment and restructure.

There was a brief discussion of the report and the Committee noted the variance of performance against some existing targets and it was stated that the team was currently looking at benchmarking against other pension administration teams to help inform its review of target setting.

The report was accepted, and it was requested that the next report provide an update on the review of target setting.

## **9 Business Plan Update - Agenda Item 9**

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 a meeting work plan of proposed items of business.

It was noted that work on the LGPS pooling work within the Brunel Pension Partnership continued and would be highlighted in a separate report. Following year end, at 31 March, Officers have completed the production of the draft accounts by the required 31 May deadline and external Audit work has commenced.

It was also noted a full review of the Fund's risk register had been scheduled for later in the year and added to the business plan. Attention was also drawn to an item added to the business plan to reflect the previously agreed position of reviewing Ethical, Social and Governance (ESG) investment issues following the completion of the transfer of listed assets to Brunel, this was envisaged to be during the second half of 2020.

The report and attached business plan and meeting workplan were accepted.

10 **Budget and Membership Statistics Update** - Agenda Item 10

The Committee considered this report about the position of the pension fund budget at 31 March 2019 and related matters. Members also considered the outturn position for the full year of the financial year to 31 March 2019 against budget, as set out in Appendix A to the report.

The Funds and Investments Manager highlighted: the changes in the membership statistics; and the Surplus of £50m in the full year accounts.

The Committee agreed to accept the report.

11 **Review of Pension Fund Risk Register** - Agenda Item 11

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

It was noted that a more thorough review of the risk register had been suggested, with the Committee working with the Pension Board to review all the risks currently on the register and consider risks not currently covered and this had been added to the workplan for the end of 2019.

There was a brief discussion about PF2 and it was explained that an actuarial valuation was currently being undertaken and it was thought this might see a change from the last valuation when the Fund was 77% funded to a new valuation of around 90%.

The report was accepted.

12 **Voting and Engagement Report** - Agenda Item 12

The Committee considered a report which provided information about the voting and engagement activity of the Fund's investment managers for the six-month period to 31 March 2019.

There was a brief discussion about PIRC advice and executive remuneration and remuneration voting details provided in the report were noted. It was noted that following the movement of the passive global equity portfolio last July and the UK active equity portfolio in November 2018, the Brunel partnership was now responsible for voting on a significant proportion of the Fund's equity assets, and Brunel's stewardship policy and voting records could be found on their website.

The Committee accepted the report and the Funds and Investments Manager noted that as more assets were pooled he would consider the most appropriate way of providing this information.

### 13 **Proposed Changes to LGPS Regulations - Agenda Item 13**

The Committee considered this report presented by the Funds and Investments Manager that provided an update on proposed new regulations at various stages of development or implementation within the Local Government Pension Scheme (LGPS).

A recent review by the Government Actuary Department (GAD) had determined that the costs of the LGPS were now below the target rate. To address this, the Scheme Advisory Board had proposed the following improvements to the Scheme, which had been implemented on 1 April 2019:

- Removal of Tier 3 Ill Health;
- Minimum Death-in-Service lump sum of £75,000 per member (not employment);
- Enhanced Early Retirement factors for all active members from 1st April 2019 to be applied to all service;
- Revised member contribution rates and bandings, which take account of varying tax relief:
  - a) a 2.75% contribution rate for salaries between £0 and £12,850;
  - b) an expansion of Band 2, which will now include salaries between £12,501 and £22,500, and a contribution rate reduction from 5.8% to 4.4%;
  - c) an expansion of the 6.8% contribution band from £45,200 to £53,500.

Members attention turned to the 3 main areas highlighted in the report for consideration, those being: the period review of the cost of public sector pensions; the review of the Fair Deal provisions that govern the protections afforded to staff when they 'TUPE' between employers; and the review of the length of the actuarial cycle and related changes.

There was a discussion of the proposed changes and the Funds and Investments Manager answered questions and provided more information. It was noted that the actual cost of benefits against the projected cost of benefits had resulted in the scheme being 'cheaper' to employers than projected. It was also proposed to extend the period between actuarial valuations from every 3 years to 4 years, although there would be flexibility to do an interim valuation if required.

The Committee accepted the report, noting proposed changes to exit payments and Further Education establishments.

### 14 **Resources Review, Budget Setting and Committee Objective Setting - Agenda Item 14**

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 at 5.4%, and that the current resources were adequate.

The report was accepted.

**15 Cash Management Strategy - Agenda Item 15**

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 and the Committee agreed to:

Adopt the Cash Management Strategy;

Adopt the revised Counterparty strategy for the investment of sterling cash balances;

Re-appoint the in-house team to manage the cash balances on a segregated basis.

**16 2020 Meeting Dates - Agenda Item 16**

The Committee considered this report and agreed the following dates for meetings in 2020.

- Friday 6 March 2020 at 10.00 am at County Hall, Taunton;
- Friday 5 June 2020 at 10.00 am at County Hall, Taunton;
- Thursday 17 September 2020 at 2 pm at County Hall, Taunton;
- Friday 4 December 2020 at 10.00 am at County Hall, Taunton.

It was noted that meetings were currently being held in the Taunton Library meeting room, due to County Hall being refurbished, and the location of next year's meetings would be confirmed in due course.

**17 Policies and Statements - Agenda Item 17**

The Funds and Investments Manager advised Members that he had reviewed this topic and had agreed with the Chair of the Committee to defer this item to a future meeting.

**18 Exclusion of Press and Public - Agenda Item 18**

The Committee agreed to pass a resolution under Section 100A (4) of the Local Government Act, 1972 that the press and public be excluded from the remainder of the meeting on the basis that if they were present during the

business to be transacted there would be a likelihood of disclosure to them of exempt information of the following description:

The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.

Also the Committee agreed that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

**19 Review of Independent Investment Advisor - Agenda Item 19**

Members considered this report regarding the continuing arrangements to employ an Independent Advisor (IA) for the Committee. It was reported that since her initial appointment in 2002 the IA had attended all Committee meetings, providing advice to the Committee as requested. The mid-term of each Council quadrennium had been selected to the review arrangements, and this was the third formal review of the contract.

An Internal Audit report on the Fund's governance arrangements in 2009 recommended that the role of the independent advisor be reviewed by this committee at least once every 4 years. The contract is open ended and it was confirmed that 3 months' notice would be required, on either side, to terminate the arrangement.

Members confirmed they were happy with the regular agenda item when the IA provided the Committee with a report and an overview of the financial situation in the United Kingdom and abroad and this had continued to be well received at each meeting.

It was suggested that Officers and the IA review the arrangement once the Committee's interaction with the Brunel partnership had become clearer after assets had been transferred. It was also thought that it would be helpful if the IA be involved when considering future arrangements.

The Committee was agreed that the IA had fulfilled the role as requested and that the contract should be renewed.

**20 Any other urgent items of business - Agenda Item 20**

There were no other items of business.

**(The meeting ended at 11.37 am)**

**CHAIRMAN**