

## **Pensions Committee**

Minutes of the Pensions Committee meeting held on Friday 1st July 2022 at 10.00am.

### **Committee Members Present:**

Cllr S Coles – Chair, Cllr J Cook-Woodman, Cllr H Farbahi, Ms S Payne, Ms S Williams (virtually). And Ms C Burton – Independent Advisor to the Committee.

### **Other Officers Present:**

Mr A Sweet, Ms R Lamb – Peninsula Pensions, Mr S Morton (virtually), Ms S Williams (virtually), Mr J Jackson (substituting for Mr N Milne)

### **Other Elected Members Present:**

Cllr A Hill (virtually), Cllr L Leyshon (virtually), Cllr M Dunk (virtually), Cllr A Sully (virtually)  
Cllr P Clayton (virtually)

### **Pensions Board Members present:**

Mr N Behan (virtually)  
Ms R Ellins (virtually)

#### **1 Apologies for Absence - Agenda Item 1**

Apologies were received Cllr P Seib, S Cuthbert,

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

No new Declarations of Interest were reported.

#### **3 Minutes of the Previous Meeting - Agenda Item 3**

The Committee agreed and the Chair signed the minutes of the meeting held on 18 March 2022 as an accurate record.

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

The Chair welcomed two members of the public who were present and invited them to address the Committee.

The Committee first heard from Ms Jill Kemp, who read her statement and question as follows:

*On the 4<sup>th</sup> of April this year, the Secretary-General for the United Nations responded to the latest report from the Intergovernmental Panel on Climate Change (IPCC). He said that we are on a fast track to climate disaster and that if we are to keep the planet to below to 1.5 degrees of global warming, we must triple investment in renewable energy. I quote: "Climate promises and plans must be turned into reality now! It's time to stop burning our planet and start investing in the abundant renewable energy all around us. I'd like to know how each of the members of the committee feels about large amounts of money from the Somerset County Council Pensions Scheme still being invested in fossil fuels taking into account that Somerset County Council recognised that we are in a climate emergency more than 3 years ago.*

At Ms Kemp's request, the Chair, Cllr S Coles, responded verbally to her statement and question, stating that Pension Fund and its managers are obliged to get the best possible return for each member of the fund. Some of its investments in fossil fuel companies involve renewable energy as well. Divestment must be done carefully by examining how much fossil fuel investment there actually is, and it cannot be done all at one time. It is not that simple; all investments must be looked at to get the best return, without making a blanket divestment of all fossil fuel divestments. He stated that he was personally dismayed that the UK was not the world leader in wind and tidal farms as energy sources, and he would like to see more investment in those. He noted that renewables are growing but not fast enough.

Also in response to Ms Kemp's statement and question, the Funds and Investments Manager read a prepared statement on behalf of the Committee, as follows:

*At the meeting on 18<sup>th</sup> March the Pensions Committee approved a new Investment Strategy Statement which substantially increased our commitment to climate aware investing and for the first time included a target for reaching carbon net zero for our investment portfolio. It also included some adjustments to our strategic asset allocation that will immediately reduce the overall carbon intensity of our investments. This includes moving to a new "Paris Aligned" benchmark for our passive equity investments, this is a product that has only recently become available and is an innovation that Brunel, our pool partner, helped develop with FTSE Russell. Neither Brunel or the Fund favours a blanket divestment policy, often companies that are involved in fossil fuel extraction also invest*

*in climate solutions and it is important to have the flexibility to consider each company on its merits as they evolve.*

The Committee then heard from Mr Sigurd Reimers, who read his statement and question as follows:

*A number of Council Pensions schemes within the Brunel Pensions Partnership area engage with their pensioner members by various means, such as offering an annual meeting for pensioners (Devon), a briefing morning (Wiltshire), or questionnaire (Avon). I asked this Pensions Committee in 2018 whether it would be willing to offer something similar to us in Somerset. I now request that such a session be offered to Somerset scheme members. At a time of great change within Council structure it would seem like a good moment to invite scheme members to a briefing session, not only to explain some of the basics around how our Pensions are being invested, but also the dilemmas that face the Committee in making its decisions, especially in relation to Environmental, Social and Governance (ESG) issues.*

The Funds and Investments Manager responded on behalf of the Committee by saying:

*The written report to item 13 of today's agenda notes that the Pensions Board intend to review the Fund's Communications Strategy at its next meeting. Officers are happy to ensure this suggestion is included in that review. Officers of the Fund are committed to the highest levels of transparency and Mr. Reimers has received an open invitation to meet with officers either individually or a meeting with South West Action on Pensions, of which he is a member.*

## 5 **Somerset Unitary** - Agenda Item 5

The Funds and Investments Manager provided the verbal update. He noted with respect to the incoming unitary council that the Pensions Fund is largely unitary already, with the District Councils included and having a representative on the Pensions Committee. Therefore, there should be virtually no transformation of the Pensions Fund, only continuation; in fact, there was a workstream for the process, but it is no longer needed as there are no real changes to be made, aside from changing the name of the Council on legal documents. There will be a general review of governance and the Terms of Reference will be refreshed. Should any new members wish to comment on that process, please advise him.

No questions were raised, and the Committee noted the verbal update.

## 6 **LGPS Pooling of Investments** - Agenda Item 6

The Funds and Investments Manager presented the report, noting that it is a standing item on the agenda. He pointed out that the Pensions Fund partners with Brunel, who invests 93% of the Pensions Fund. Currently Brunel is doing two main pieces of work to be aware of: They are doing a review of their own strategy as a company, which involves input from clients and owners such as ourselves; this includes preparing for an anticipated consultation from DLUHC around the future of pooling and the leveling up agenda. Second, Brunel's policy regarding climate, which was set out in 2019 with a commitment to review it after three years; this is Brunel's policy but has a symbiotic relationship with clients' policies in that it need to reflect their ambitions as well.

The Chair then invited members to pose questions. It was asked how our net zero target compares with Brunel's; it was replied that Brunel has expressed a commitment to reduce by 7% each year to reach net zero. This will be reviewed, and it is not known if it will dovetail specifically with our target of 2040. The targets of clients will vary between 2040-2050, so there is a broad alignment.

It was asked how much influence we have over Brunel; Brunel has to ask our opinion, but they act independently and on behalf of 10 different owners. Legally, we have a tenth in the voting, but it is a very collaborative environment. Clients are currently in broadly the same place as discussed, perhaps moving at a slightly different pace, but all are keen to ensure that the climate policy is delivered by 2040-2050. This applies not only to fossil fuel investments but every investment with respect to the carbon footprint. Brunel is very keen to move this agenda forward.

The representative for the Somerset Brunel Oversight Board stated the Environment Agency is also part of Brunel, and they are keen to speak to us at a future meeting to discuss their views and actions. The Chair declared that it would be very good to ensure that this happens.

It was asked what will happen to the 7% of external investments not managed invested by Brunel. It was responded that one thing we would like is for the government to be clear what they want with respect to the leveling up agenda, but it is preferred that it be invested through Brunel. The 7% largely entails legacy assets that need to mature naturally before moving across to Brunel, although part of it is cash which will always stay outside Brunel.

It was asked why we cannot start now (before the government guidance is received) with respect to investing the 7%, given that we can already say what we want to deliver in Somerset, especially regarding farming, health and wellbeing, education, etc where there is growth every year. It was replied that we will respond to the government consultation

through Brunel, and that yesterday we and Brunel decided to begin work on identifying current investments that will meet the leveling up guidelines. We will be looking into and identifying the portfolios that we already have, such as housing, as part of the process. The Chair agreed that it would be good to start the work even before receiving the guidelines.

The Committee noted the report.

#### **7 Independent Investment Advisor's Report - Agenda Item 8**

The Independent Advisor gave the verbal update. Looking at the performance numbers, there have been poor returns because there are so few fossil fuel investments and because growth stocks have been badly hit. There are exceptional circumstances at the moment and there is a bear market; we will see higher interest rates, the heat needs to be taken out of economies, and an increase in fossil fuels is needed. It is a very unpleasant phase, and long term we need to sit it out. We cannot just say to Brunel that we want something different; Brunel has expert managers who make analyses and decisions.

The Committee noted the verbal update.

#### **8 Review of Investment Performance - Agenda Item 9**

The Funds and Investments Manager presented the report. He noted that it is a very detailed report, with a section for each portfolio's performance over different time periods. The first portfolio, for example, is Legal and General, who are one of the managers employed by Brunel; when they are tasked with "investing passively", this means they are asked to match the benchmark and neither exceed it or fail to meet it. The fees on this are quite inexpensive. The benchmark was achieved consistently over the three-year period, with a performance of 14.8% per year. The second portfolio is Brunel Global High Alpha, which involves five separate fund managers and deals with global equities; there was an 8% loss for the quarter, which is a high underperformance relative to the benchmark. The loss was due greatly to underinvestment in fossil fuels and mining. Brunel fund managers favour quality stocks, i.e., companies with stronger balance sheets and steady revenues, and these have had strong underperformance. This portfolio has both a benchmark and a target; over the three years from 2019-2021 the benchmark was outperformed.

The Chair then invited questions from the Members. It was stated that since March 2020 the UK property market has seen an increase, so could the Pensions Fund results please be explained; also, could the Committee please have more information regarding the benchmarking so that the Committee can decide on the best investments. It was replied

that Brunel has 25 portfolios, 11 in which our Pensions Fund is invested. Committee members are provided with details of the performance of all of the Brunel portfolios outside of our formal committee papers to allow them to compare them all. He advises Committee members to look at the long-term trends over 3-5 years, not the quarterly results. With respect to UK property, our investment is principally in commercial property, although we have just added one residential property fund with another pending. With respect to benchmarks, one needs to be mindful that a fund manager can change a portfolio for stocks quickly and easily, but this is not so for commercial property; long experience has shown that managers in this field in particular struggle to outperform, and it is not realistic to expect them to outperform the benchmark. The Independent Investment Advisor added that there has been a problem in the longer-term statistics with quite a lot of people investing in Europe during a time when UK property was expensive. Regarding differentiation of performance, it is possible to outperform if a fund has considerable new money coming in and investments can be 'slanted' to a preferred sector, but when it involves property in the ground, it is difficult to create a portfolio that is very different from the benchmark long-term. It was asked why land was not mentioned along with commercial and residential property, given that the government's leveling up agenda wants Somerset farming to perform, as regards production and export, to a level of £250 billion by 2030, which is missing from our investments. It was also noted that the UK is importing 40% of its food, so there is a need to begin work on this area now. It was responded that Brunel offers an infrastructure fund in which some of those projects fit, e.g., a greenhouse with heat generated by sewage works, but it does not appear that UK farming/agricultural is very involved with institutional investors, as such funds don't exist. It may be possible in future to create such funds, such as international forestry funds, if these opportunities evolve. We cannot invest in these in the UK at the moment, because land owners need to want institutional investment before it can happen. Brunel is looking into it, and it is part of the investment discussion.

The Funds and Investment Manager added that Section 15 of this report is a summary of the whole fund result, which was a loss of 4.1% for the quarter as well as underperformance relative to the benchmark. Over 3 years, we are slightly ahead of the benchmark; we are in a period where figures have been around 7-9% over the last decade. The actuarial target is 4.9%, with overperformance over the last 3 years.

The Committee noted the report.

## 9 **Review of Administration Performance**- Agenda Item 7

The Funds and Investments Manager commented that the report was written by Daniel Harris representing Peninsula Pensions, who has now left the post and has been replaced by Rachel Lamb, who was welcomed today to the Committee. She observed that the

focus of this report is on the administration of pensions and that Peninsula Pensions is a shared service for both the Devon and Somerset pension funds. Their performance is measured against two targets: The first is their internal target of completing 90% of their work within 10 working days; the second is the legislative timescales, which entail minimum requirements which are slightly less rigorous. Peninsula classifies their work as high priority, medium priority and low priority; high priority includes retirement disbursements, deaths, and survivors' benefits. The result against the internal target for the quarter for all work was 86%, with the target for the financial year being 88%; the outturn for the high-priority area was 96%. There were 16 compliments recorded for the last quarter and 131 for the year, along with complaints. The chart in the report shows the work received, work completed, and work outstanding.

The Committee noted the report.

#### 10 **Business Plan Update** - Agenda Item 10

The Funds and Investments Manager noted that this is a standing item on the agenda, and that the plan serves to present topics in an organised manner over the year. There are a number of items where government consultation is expected, such as leveling up, the Climate Related Task Force financial disclosures; and the government's response to legal challenges regarding age discrimination in schemes (the remedy for which is still in draft form) while the guidance on post-55-year-old leavers being made redundant is also expected to be revised. He is working on the accounts of the Pensions Fund that will be a formal part of the Annual Report which will be presented to the Committee at the September meeting. He is also working with the actuary on the 2022 valuation exercise including funding and employer contribution rates, which will be presented in December with the actuary attending. Appendix A shows matters which need discussion going forward; he will start populating the work plan himself but is open to suggestions from Committee members for either of the next two meetings. He will be inviting Brunel to attend a meeting to speak regarding climate, which might occur once Brunel is ready to present their new climate agenda. In response to the Chair's question, he will have the Annual Report completed by September for the Committee to approve, as there is a regulatory requirement to produce the report by 1<sup>st</sup> December and have it signed off by the auditors (this deadline for sign-off has been missed by the auditors the past two years). There is an oddity in that that the auditors' report on the accounts goes to the Audit Committee formally, not the Pensions Committee, although the Funds and Investments Manager will report the findings to the Pensions Committee.

The Committee noted the report.

**11 Finance and Membership Statistics Update - Agenda Item 11**

The Funds and Investment Manager presented the update, which he noted was a standing item on the agenda. There are just shy of 70,000 members; the trend is for the number to remain fairly static but with a steady increase in people retiring faster than passing away, while the number of deferred Pensions has also been rising. This information involves a “financial projection” rather than a budget and covers 2021-2022. Contributions coming in are around 9% above expectations, while management expenses are more than predicted.

The Committee noted the update.

**12 Review of Pensions Fund Risk Register – Agenda Item 12**

The Funds and Investments Manager noted that as best practice the Pensions Fund maintains a separate risk register from Somerset County Council. There have been no changes to the register.

The Committee noted the report.

**13 Policies and Statements – Agenda Item 13**

The Chair advised that there were a number of policies and statements for the Committee to review. The Funds and Investments Manager noted that as best practice, the new Pensions Committee with its new members is to formally review and adopt the following:

- Funding Strategy Statement – This ensures that there are sufficient assets to meet the funding of pensioners; it was adopted initially in September of 2021 and needs review every three years, but there were also new governmental regulations regarding deficits that needed to be included in our statement.
- Investment Strategy Statement – This entails how we intend to invest our assets in various Brunel portfolios, including a view on ESG, fossil fuel investments, and carbon net zero. This strategy was first produced in 2017, refreshed in 2021, and approved at the last Committee meeting after changes with Brunel were implemented.
- Governance Compliance Statement – This is a checklist of what we should do; the guidance has not been refreshed for a long time. We easily meet the requirements, but it may be reviewed next autumn after the unitary is formed.
- Pensions Committee Scheme of Delegation – This is not a requirement but is extremely useful, an example of which is the full delegation to SCC officers of the collection of contributions, which the Pensions Committee then reports on. This scheme has been tweaked slightly with respect to how we work with Brunel, as it said that the Fund is required to follow Contract Standing Orders but doesn't use



Purchase Orders, because the Funds and Investments Manager personally sight off all invoices. Also, with respect to spending at certain levels which are normally signed off by the Cabinet/ Executive, the Pensions Committee does not report to the Cabinet/ Executive and only works with the Section 151 Officer. The Committee will be made aware of any contracts.

- Pensions Committee Training Policy – One part of this is the assessment of knowledge and skills; this policy may be review later as we go through that process.
- Communications Policy Statement – There is a requirement to communicate with stakeholders including the Board and the membership, and this policy is the same version as before; the Chair of the Pensions Board wants to review it at the next meeting, and it may evolve over the next six months.
- Pensions Administration Strategy – This is not required under the regulations; for the most part it is a Peninsula Pensions document that codifies their approach to their work, their relationship with employers, etc., which is very important. It was adopted in 2015, and we attempt to keep it aligned with Devon’s strategy.

The Chair proposed that all documents be adopted; the Committee noted the report and adopted all policies and statements presented.

#### 14 **Knowledge and Skills** – Agenda Item 14

The Funds and Investments Manager presented the report. He stated that there is a need to assess what the Pensions Committee and Pensions Board members know or do not know. He is requesting their permission to speak to external parties with respect to delivering the assessment, which will likely be in the form of a questionnaire. The assessment serves the purpose of honestly assessing what Committee and Board members need training on. As we identify what is needed, we can determine how to provide it, whether it is through Brunel, the actuary, external providers, our officers, or Peninsula Pensions.

It was asked with respect to Section 8.1 of the Board’s Terms of Reference if the reference to Councillors serving a four-year term will be amended. The Chair noted that all Councillors had been elected until 1<sup>st</sup> April 2023 and will serve the four years from that point, so it may need to be changed. It was added that the Board doesn’t generally have Councillors (only one), so that will go through the Constitution Committee as a Term of Reference; the Funds and Investments Manager will ensure that the wording is appropriate. It was also noted that while Councillors are appointed to committees annually, it has been requested that Pensions Committee and Board membership is retained and is as continuous as much as possible. There is District representation at present, which will probably be morphed into an additional Councillor, but the person themselves need not change.

(Pensions Committee – 1 July 2022)

The Committee noted the report and agreed to the request.

15 **Any Other Business of Urgency** - Agenda Item 15

There was no other business.

(The meeting ended at 11.59)

**CHAIR**