

Somerset Pensions Board

Minutes of a meeting of the Pensions Board held at County Hall, Taunton on Friday 21 October 2022 at 10:00 am.

Present:

Cllr A Hills (Chair), Mr Roderick Bryant, Mr A White, Ms R Ellins, Mr N Behan – UNITE
Cllr S Coles, Cllr M Murphy (online), Cllr A Kendall (online) Cllr P Seib (online) Cllr J
Cook-Woodman (online), Cllr S Dyke (online).

Officers Present:

Mr A Sweet - Funds & Investment Manager, SCC
Michelle Cusack (online) Ms Shirley Cuthbert – Peninsula Pensions (online)
Mr S Morton – Strategy Manager for Pensions Management (online)

125 Apologies for absence - Agenda Item 1

Apologies were received from Cllr A Sully.

The board were reminded that substitutes are not permitted. Cllr Sully has expressed interest in stepping down from the Board and replaced by Cllr Leyshon. This is yet to be confirmed.

126 Declarations of interest - Agenda Item 2

The Chair noted that there is a standing declaration of interest for all Board members. There were no new declarations.

127 Minutes of the Meeting held on 8 July 2022 - Agenda Item 3

The minutes of the meeting held on 8 July 2022 were corrected at section 123 changing 'permutation' to 'commutation' and were subsequently accepted as being an accurate account of the meeting.

128 Election of Chair of Pensions Board - Agenda Item 4

Cllr A Hills was proposed as chair by Mr A White and seconded by Ms R Ellins. All voted unanimously in favour. Cllr Hills was elected as Chair.

129 Public Question Time - Agenda Item 5

A question was submitted by Mr Sigurd Reimers who was in attendance at the meeting:

Question: *The Government is currently consulting on plans for a new*

Sustainability Disclosure Requirements (SDR) regime, in its document Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risk.

Is our Pensions Board involved in this process, and will it be disclosing what opinions it holds on this broader issue, referred to in the introduction to the Government document?

“SDR will be broader than financial risk, extending to environmental impact (including disclosures based on definitions contained in the UK Green Taxonomy), and over time, to factors beyond climate, including broader sustainability factors such as environmental and social considerations”.

The Chair invited the Funds and Investments Manager – Mr Anton Sweet to read his prepared response ahead of discussion. The Officer stated that his response would also be covered under item 6 – ‘Review of Pensions Committee Papers’ on this meeting’s agenda where discussion may be more appropriate. It was also agreed that Mr Reimers would receive the response by email.

Response: The Fund is supportive of the Government’s proposals to improve the level of disclosure of non-financial information regarding the LGPS’s investments. The Fund has already publicly stated it will meet the eventual regulations in full as a minimum standard.

The Chair thanked Mr Sweet for his response and asked whether Brunel feed back into the consultation process on behalf of the Board. The Officer replied this does not happen on behalf of the Board. As a government consultation, this is open to anyone and if the Somerset County Council (SCC) Pension Fund wished to make a response, then that could be arranged. Brunel could make a response to the consultation in their own right, but not on behalf of the underlying funds. Committee members could also respond individually. Any response on behalf of SCC would require prior approval and would be circulated to board and committee members for sign-off. If the timescale did not allow formal sign off from both bodies, then approval would be sought from Chair of the Pensions Committee as the decision-making body.

Mr Nigel Behan – UNITE, asked if individual submissions from committee members in a personal capacity would be appropriate. Mr Sweet replied that this would be technically possible but he would be disappointed if this was felt necessary as it would indicate a lack of agreement amongst the Board and Committee members.

presented at the Pensions Committee meeting on 16 September 2022.

LGPS Pooling of Investments (item 6): Now that the transition is complete, it was suggested in future, this review is combined with the review of investment performance paper. The Board were in agreement.

Review of Investment Performance (item 8): It was confirmed that SCC does not hold any Liability Driven Investments (LDIs) which are mainly used for corporate schemes to protect investments from volatility. In the context of LGPS, volatility is not a major concern. LDI does incur a cost in terms of lost performance, another reason this is not done. The benchmark return for the September quarter was -2%. The fund performed ahead of this with a return of -0.5%. Relative performance is good, outperforming benchmark figures by nearly 1.5% for the first 6 months of the financial year. In the context of performance to the 2025 valuation, performance is not good and there is unlikely to be a sustained rebound in the foreseeable future. Markets outside of the US remain low. Questions were invited.

It was asked that in the light of the very recent volatility, if there is sufficient protection of the fund in spread of investments. Mr Sweet replied that the current activity is not expected to change the long-term outcome as investments should be considered over a 10-20 year time frame. It was asked if investment in the current under-valued emerging markets had been considered. Mr Sweet stated that emerging markets are a source of growth, however investment in these markets are likely to show greater volatility due to the influence of the Chinese economy and it's emergence from COVID. It was suggested that information on investments in emerging markets such as China and Brazil, could be presented to the Board. A member suggested a bolder approach in emerging markets considering a relatively low current allocation of 3.75%. Mr Sweet stated there were volatility concerns, as well as Environment, Social and Governance (ESG) concerns. The Chair suggested a review of investment in emerging markets in one to two years time ahead of a new investment statement in 2024-25.

A member asked how quickly funds could be moved if required considering the turbulence in the domestic economy. Mr Sweet stated that the unknown is the length of the UK economic downturn. The member continued to ask whether green investments should be considered more favourably considering the fuel price rises caused by the Ukraine War. Mr Sweet stated that 'crises' can be relatively frequent, however the UK economy is now more greatly influenced by world events to inter-dependency on international

trade.

A member suggested that high alpha funds should inevitably react to market changes faster than more passive funds, and that actively managed funds are likely to perform well in the next 18-24 months and that a balance of funds should be maintained.

Review of Administration Performance (item 9): Questions were referred to Mrs S Cuthbert. Discussion was held on complaints and concern about the timings of the issue of estimates. Guidance is available on 'transfer-outs' to advise where this may involve potential scamming and possible refusal to release funds where this is deemed an irregular transfer. Tighter controls are now in place. In addition, a glossary of terms has been compiled and will be circulated. Pension Awareness Week will run from 31 October with web links for further information as well as videos, information sessions and other resources for employees and information for employers.

A question was asked about the level of confidence of energy security and the likelihood of blackouts. It was confirmed the Devon County Council (DCC) have a generator for use in such a scenario to protect services such as payroll. Any blackouts are expected to last for 2-3 hours maximum so are unlikely to affect output significantly as work hours would be adjusted to meet energy supply. Any power outages are likely to be known in advance so challenges to business continuity can be managed. SCC and DCC both have Business Continuity Plans in place. Changes to work patterns since COVID have been significant which may now aid business continuity. Office space and energy supply would be prioritised for critical tasks.

Business Plan Update (item 10): It was reported that expected LGPS regulations anticipated from government continue to be delayed. These include new disclosure requirements regarding climate metrics. There will be a requirement to produce an annual climate risk report. It is believed that Brunel are already collecting the necessary data for this...

The Carbon Metrics report is not yet available from Brunel. Brunel are working hard to reduce carbon intensity however reassurance is required from previous reports to quantify this. The Chair requested that Brunel be chased for their response to the request made in April 2022 for this data to ensure informed decision can be made.

Finance and Membership Statistics (item 11): Data for the quarter to June and the previous quarter indicate that the full year projection remains realistic within the broader context.

Review of Pension Fund Risk Register (item 12): This will be discussed later on this agenda.

Pension Fund Annual Report (item 13): The Board were encouraged to read the report in full to aid overall understanding. The Committee have approved this subject to Auditors comments. The substantive findings do not appear to be a cause for concern. Audit opinions will follow when County Council audit findings are finalised. Preliminary results for the whole valuation from all employers will be known early in the new year. The deficit has reduced from 2019, partly due to good investment performance. Employers will be engaged in early November regarding the meeting with the Actuary to give employers the opportunity to engage directly.

Knowledge and Skills (item 14): Following discussions, a draft knowledge and skills questionnaire has been received from Barnet Waddington to understand the skills base and knowledge gaps of the Board and Committee. All members are requested, and expected, to complete so that training can be devised either as whole group, small group or one-to-one sessions. This will be funded by the Scheme to ensure decision-making is from a position of accurate and up to date knowledge and skills.

The Board noted the Committee papers.

131 Review of Pension Fund Risk Register – Agenda Item 7

There will be full review in 2023 in addition to ongoing quarterly reviews. The Investment Strategy Statement states three yearly review of the Risk Register. The review will identify current risks and the mitigations.

The Covid Risk Assessment remains in place and a Power Outage Risk Assessment will be completed. Consideration will be made of the need for a broad civil contingencies risk assessment.

132 Business Plan Update - Agenda Item 8

There is an outstanding item to undertake a detailed review of the investment report and the derivation of the investment performance statistics. IT was requested that maximum drawdown and standard deviation are also discussed as part of this. It was agreed that this would take place at the April meeting to allow a review of the 2022 Valuation results at the January meeting. Dates of future meetings will be advised once the committee structure of the new unitary authority is known. There was discussion about venues and timings of meetings.

133 Review of Environmental, Social and Governance (ESG) Investment Arrangements – Agenda Item 9

Mr Sweet referred to the report and invited questions.

It was asked how the results from Brunel compare in the wider context. Mr Sweet stated that Brunel's drive toward reducing carbon intensity and other social and governance aspects of their activities was strong.

The Local Authority Pension Fund Forum (LAPFF) ensures transparent governance and discussion about corporate governance. As a large investor, the Environment Agency continue to push hard for greener investments and SCC are able to benefit from this lobbying.

It was suggested that a specific allocation is made to green funds. There was discussion about a county-specialism such as solar energy production in Cornwall or tidal, carbon extraction, green hydrogen production from renewables. A move away from property investment towards energy infrastructure was also discussed as well as the need for the energy production site to be close to the energy demand, or alternatively investment in energy storage including microgrids.

It was stated that one of the major pension companies, Legal and General, invest in social housing which will be particularly important where rising inflation makes home ownership unaffordable. It was suggested that social housing is an appropriate investment for LGPS and provides a reasonable return.

134 Any Other Items of Business – Agenda Item 10

The Chair invited Mr Sigurd Reimers to read his second statement. Mr Reimers stated that one way of measuring a pension company's commitment to ESG is via their voting records and how often and effectively ESG arrangements are questioned and challenged, including evidence of these. Brunel partners may also request a vote at the AGM. Voting records are available on Brunel's website and are made available quarterly for both active and passive funds adhering to the legal fiduciary duty.

All passive investments are now aligned with the Paris Agreement on Climate Awareness. If companies do not take the appropriate action, then they will be squeezed out by other companies who are acting appropriate in term of ESG.

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It was explained that ESG benefits can often be difficult to quantify and gave the example of investment in Siemens who invest in wind turbines.

The next meeting of the Pensions Board will take place on 20 January 2023.

The Chair thanked all members for attending.

The meeting ended at 12:33pm