

Pensions Board

Minutes of a meeting of the Pensions Board held virtually via Microsoft Teams on Friday 8 July 2022 at 10:00 am.

Present:

Cllr A Hills (Chair), Cllr A Sully, Cllr P Seib, Mr N Behan (virtually), Mr R Bryant (virtually), Ms R Ellins (virtually)

Officers Present:

Mr A Sweet - Funds & Investment Manager, SCC
Ms R Lamb - Employer and Communications Manager, Peninsula Pensions (virtually)
Ms Shirley Cuthbert – Peninsula Pensions (virtually)
Mr S Morton – Strategy Manager for Pensions Management (virtually)
Ms N Brain (virtually)
Mr N Milne – Governance Specialist
Ms T Brazier – Clerk
Mr J Hallows – Admin

116 Apologies for absence - Agenda Item 1

Mr Roderick Bryant and Ms R Ellins were not present (but did attend virtually).

117 Declarations of interest - Agenda Item 2

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

118 Minutes of the Meeting held on 18 February 2022 - Agenda Item 3

The minutes of the meeting held on 8 April 2022 were accepted as being accurate and will be signed by the Chair of the Board.

It was noted that the previous meeting was virtual, but Pension Board meetings will now be held in a hybrid format with members of the Committee or Board required to attend in person. Others including elected Members and members of the public may attend virtually via Microsoft Teams and may also ask questions virtually.

119 Public Question Time - Agenda Item 4

Mr Sigurd Reimers was in attendance but did not pose any questions or make any statements.

120 Review of Pensions Committee Papers - Agenda Item 5

The Funds and Investments Manager went through each of the reports presented at the Pensions Committee meeting on 1st July 2022.

Somerset Unitary: This will now be a standing agenda item. The Pension Fund is already unitary in nature because all councils (both County and District) are part of it; all that will be necessary is to change the name of the Council on legal documents. There is a constitutional process for refreshing the Pensions Committee and the Terms of Reference, so it was requested that any suggestions for changes be communicated to Mr Sweet. It was clarified that on 1st April 2023 the Council becomes Somerset Council by name but will not be a new entity, and that the government does not impose a name change, only the Council decides it. As a point of good governance, Mr Sweet will ask the Pensions Committee if we need to change the name of the Pension Fund.

LGPS Pooling of Investments: This is a standing item on the agenda; it may be amalgamated with the Investment Performance report. The Chair stated that after recent long-term savings conference she attended, we seemed unusual in that the vast majority of our funds were pooled; Mr Sweet responded that his understanding is that Brunel as a pool is far further advanced, and we are one of the funds in Brunel that is most pooled (three or four funds are at 90% or more). Nationally many funds are at only 20%, which governments are not happy about.

Independent Investment Advisor's Report: This is a confidential report which was presented via verbal update. It was commented by Cllr Sully that the Independent Advisor had explained very well the conflict between those wanting the best return and those wanting to achieve carbon net zero; Mr Sweet commented that this is why Brunel does not want a blanket policy regarding investments. The Chair opined that she would describe it more as a balancing act than a conflict to strive for net-zero investments by 2040, but Cllr Sully noted that doing so goes against the market returns, so shouldn't we ask pension fund members what they would like? The Chair said that the majority of the conference she attended regarded this issue, and she noted that the Environment Agency is another member of the Brunel team, so Brunel is at the forefront of the matter. It is a big ask to reach carbon neutrality in our investments by the 2040 target and by 2050 at the latest. Cllr

Sully asked what if the value of our investments continues to go down because of this; Mr Sweet responded that they will continue to monitor the situation and noted that across the board Brunel's portfolios tend to be lighter in fossil fuels, which was beneficial during Covid but deleterious currently. The Chair questioned whether it was good to reinvest in fossil fuels, while Cllr Sully said that the intent is to get the best returns and that energy companies will get 'greener' as time goes on, meaning that it is necessary to invest now while costs are lower. The Chair responded that Brunel's policy is not to divest completely, while Mr Sweet observed that the long-term trend is away from petrochemicals, even if they have been very profitable over the past nine months. He said that there are two considerations for the fund regarding the targets of 2030 (from the aligned Councils) vs 2040 (of the fund); first, we do have a fiduciary duty to consider these, although this is a balance rather than an impediment to reducing the carbon intensity of investments; and second, we need investments in a broad and diverse group of companies who are reaching net zero, which we can't directly control as few companies fit that category currently, before the fund itself can become net zero. The Chair opined that if a company doesn't at least have a path to carbon neutrality, we should divest, which is engagement with a deadline.

Review of Investment Performance: Stock markets in general were down in the quarter referenced in the report. Brunel fund managers tend to overweigh growth stocks and quality stocks, a strategy which was not rewarded in this period as there was a notable underperformance last quarter. Underperformance in the short term can be expected; it is most important to view the performance over the three-to-five-year period. Pooling first occurred in 2015, with Brunel coming onboard in 2017, and the movement of our investments to them beginning in 2018. The Chair asked what our funding level currently is; Mr Sweet responded that he could not report that now as the actuary is doing those calculations at the moment, but he will report this in January—at the last calculation in 2019 the figure was 86%. The current target for 100% funding is 2038. The Chair enquired if it was unusual to be fully funded; Mr Sweet responded that he is not convinced that our fund is fully funded and that Scottish funds are typically better funded than English funds. There are four actuary firms with different methods of calculating, so one cannot really compare, but we are below the median. Cllr Sully asked why we do not pool nationally; Mr Sweet responded that within the government and civil services this might be favoured by some, but in his view this would not necessarily lead to better returns or lower employer contributions. The government has not pushed this idea as it is a non-vote-winning issue, and the LGPS has an investment fund while others like civil servants do not—they are unfunded and just pay the government, who then pays out.

Review of Administration Performance: Rachel Lamb reiterated that Peninsula Pensions is a shared service with Devon's and Somerset's LGPS; they have two targets against which to measure themselves. The first is internal, where they strive to action 90% of work within 10 days; the second is external (the Occupational and Personal Pensions Scheme Disclosure Regulations 2013) entailing minimum administrative timescales. The report contains figures covering the last quarter and also the last fiscal year, and the statistics are broken down according to high (retirements and survivor benefits), medium, and low priority work. They achieved 80% completion within targets overall and 96% on high-priority work. It was asked if there could be a breakdown of the type of complaints received, rather than the total number listed in the report; it was agreed to provide this later to Mr Sweet, but it was noted that there are first-stage complaints, which are more general and simple, and second-stage complaints involving internal disputes which are more complex and detailed. Ms Lamb will arrange for this breakdown to be provided in future reports and will also arrange for a glossary to be provided to the Committee and Board within two weeks, while Mr Sweet will distribute the Peninsula full risk register to the Board.

Business Plan Update: The Chair enquired if the Board's Business Plan is intertwined with that of the Committee; Mr Sweet responded that it is based on what the Committee wishes to look at, based on what he has told them is required.

Finance and Membership Statistics Update: No comments.

Review of Pension Fund Risk Register: No comments.

Policies and Statements: Mr Sweet explained that as a matter of good practice after the elections, the Committee was asked to re-adopt these; most were unchanged, although a few tweaks were made to the Scheme of Delegation. All were re-adopted by the Committee.

Knowledge and Skills: Mr Sweet stated that he is checking if it's acceptable to seek external bodies to evaluate and assess the knowledge and skills of the Pensions Committee and Board; he said that the assessment is a regulatory requirement. After the assessment, the Committee and Board can express their opinions on what type of training providers they would like, which could be combined or separate. It is the Pension Fund that will pay for the training. Mr Sweet observed that he is not qualified to do the assessment; afterwards, once the training requirements are identified, he could provide training in-house, or Brunel could do so by attending our meetings, or our outside

partners might do it for free, or the actuary could do so at a low charge, or ultimately a commercial provider/webinar/conference could be used. He believes that Barnett Waddingham actuaries will probably conduct the knowledge test.

The Board noted the Committee papers.

121 Review of Pension Fund Risk Register - Agenda Item 6

The Chair noted that this has not changed since the last meeting. Cllr Sully reiterated that he wants the best return for people in the pension fund, regardless of whether the investments are carbon neutral; the Chair said that climate change is a risk. Mr Sweet stated that the long-term risk will be re-assessed after the valuation exercise; there is also a risk around the competence of the Pensions Committee and Board, which will be reassessed after evaluation of knowledge and skills. Cllr Sully noted that we don't actually manage our fund ourselves; Mr Sweet replied that the reference is to administration of the Pension Fund, but he will check the wording to ensure its accuracy.

122 Business Plan Update - Agenda Item 7

It was noted that the next Pensions Committee meeting is scheduled for 16th September, while the next Board meeting will be held on 21st October. Mr Sweet stated that he will put an item on the next agenda for October regarding rotation of the Chair for the Pensions Board. The Chair wants to consider Brunel's carbon metrics report and ESG at that meeting as well. Mr Sweet stated that he encourages having one significant item per meeting in addition to the standing items, as the Business Plan is a living document that changes. There are no significant items as yet for April and July 2023. Cllr Sully enquired about local investment; Mr Sweet replied that the government put out the levelling up White Paper, and we were promised a consultation by autumn, but he is now not expecting it this year, given the recent resignation of the government. Therefore, it will be discussed at the appropriate time. He added that in the government's agenda, 'local' means within the UK; previously we directly held shares in some companies, but there was the problem of potential conflicts of interest. His advice would always be that any investment be made via a third-party funds manager. Brunel has invested our funds in two housing investments. He had a conversation last week with Brunel where it was decided that Brunel should re-identify our current

investments that might qualify for the government's levelling up criteria; Brunel will do this at the fund level.

123 Communications Policy – Agenda Item 8

Mr Sweet stated that we are required under LGPS 2013 regulations to publish a Communications Policy; this was drafted some time ago and is divided into five sections (introduction, members, employers, elected Members, general information). The Chair said that she had attended a webinar regarding a proposed three-year "pension engagement season" from September to September. She opined that most pensioners don't understand how their money is invested or how schemes work, so they are open to scams or bad decisions. Such a pensions 'season' would be held to encourage pensioners to look into and learn about their own pension details. The next year of the 'season' will be focused on the LGPS and government pensions, while the final year will look at how pensions are invested. The Chair asked Rachel Lamb of Peninsula Pensions if they will be involved with this proposal, suggesting that Peninsula should reach out to fund members and monitor whether there is a spike in people asking questions, logging onto the website, etc. Rachel Ellins stated that, as Payroll Manager at the Council, we engage with external providers for webinars, so she will ask them about the three-year pension engagement season and how these providers will engage with it. This information needs to reach the right people.

Cllr Sully asked if someone who retires with only a few years of pension could cash it in and receive a lump sum; Ms Lamb responded that this depends on the level of triviality, i.e., the monetary amount of the pension; if it regards one fund, the level is £10,000, while if it involves more than one fund, the level is £30,000.

Mr Sweet pointed out that our pension fund, unlike most commercial schemes, is required to provide an annual pension statement showing the benefits. We also utilise a tracing service named Target for those cases where a pension is due to be paid but has not been claimed. Also, the Peninsula Pension team provides scheme information on the website for pension fund members, including information on pension transfer scams. The Chair asked if there was a webinar or other forum that assists in explaining the annual pension statement, as sometimes it's hard to understand what a pension is worth, permutations, etc. She opined that we need to make it as simple as possible. Ms Lamb of Peninsula responded that they use feedback to improve their services, and Ms Cuthbert, also of Peninsula, pointed out that they have a video on the website relating to annual benefits statements, which will be

updated soon by a member on her team, who also carries out one-to-one discussions with LGPS members and also employers, and they also have a monthly pensions line to employers. The Chair proposed that it could be useful at the annual employers meeting to provide information on what is available to their employees. It was asked if a link to the annual benefits statement informational video was or could be included in the employers bulletin; Ms Cuthbert replied that there currently is not, but they will look into this for member self-service statements.

Mr Reimers, a member of the public attending the meeting, was invited to speak by the Chair and he stated that as a pensioner all of this was beneficial to him, but he wanted to make three points:

- BP and Shell were not reducing their fossil fuel investments.
- There is a fiduciary duty towards young people who have an increased risk in the future.
- Other counties with their investments with Brunel, including Devon and Avon, consult with and engage the pension members/beneficiaries.

The Chair agreed that we need to hear the members' questions, not just provide information, and that other Councils are doing much more than SCC. She suggested that we could do the same as Devon because we are a partner with them in Peninsula Pensions. We need to review the Communications Policy while bearing in mind all of this, as well as the pension season; we cannot rely on pension members seeking information on their own, since pensions are complicated and informed decisions require more understanding. Mr Sweet pointed out that we need to be careful, since as a fund we cannot provide advice, but SCC as an employer may be able to do more. The Chair suggested that this topic needs to be on the agenda for the employers meeting, but Mr Sweet reminded that this cannot occur during the pension engagement season timeframe, as the actuary needs to speak at the employers meeting as to the final results of the valuation. The Chair asked, then, if there could be other engagement with employers during the pension season. Cllr Seib observed that all are told to seek advice but are not told what they need to ask and what they need to find out. The Chair said that links to government-provided guidance can be furnished, while still not being accused of giving financial advice; these can be made available to employers, who can make them available to employees, and the Chair strongly suggests that the Pensions Committee do this. Ms Lamb advised that Peninsula puts a reference and link to 'Moneyhelper' at the bottom of all their email correspondence and on their website. The Chair commented that certainly by next year's annual employers meeting we will be able to provide feedback on the pension season.

124 Any Other Items of Business – Agenda Item 9

There was no other business. The next meeting of the Pensions Board will take place on 21 October 2022.

The meeting ended at 12:00 pm

CHAIR