PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 28 September 2021.

PRESENT	Councillor Gerard Fox (Chair); Councillors Julia Hilton, Ian Hollidge, Paul Redstone and David Tutt
ALSO PRESENT	Ray Martin, Chair of the Pension Board Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Paul Punter, Head of Pensions Administration Dave Kellond, Compliance and Local Improvement Partner Michael Burton, Pensions Manager - Governance and Compliance Nigel Chilcott, Audit Manager Danny Simpson, Principal Auditor William Bourne, Independent Adviser David O'Hara, ISIO Andrew Singh, ISIO Martin Jenks, Senior Scrutiny Adviser Harvey Winder, Democratic Services Officer

30. MINUTES

30.1 The Committee RESOLVED to:

1) agree the minutes of the meeting held on 12th July 2021 were a correct record subject to adding a clarification to minute 25.3, bullet point 2 as follows: “the recommendation is to divest from the top 200 companies identified as the Carbon Underground 200 List, i.e., the top 100 oil & gas and top 100 coal publicly traded fossil fuel reserve holders globally ranked by the potential carbon emissions content in their reported reserves.”

2) clarify that the report requested under 25.5 should include a request for confirmation whether the two Absolute Return managers could meet their long-term investment strategy objectives if they were to divest from their current fossil fuel holdings.

31. APOLOGIES FOR ABSENCE

31.1 There were no apologies for absence.

32. DISCLOSURE OF INTERESTS

32.1 Cllr Tutt declared a personal, non-prejudicial interest in item 10 as the Leader of Eastbourne Borough Council.

33. URGENT ITEMS

33.1 There were no urgent items

34. PENSION BOARD MINUTES

34.1 The Pension Committee considered the minutes of the Pension Board meeting held on 14th September 2021.

34.2 The Board RESOLVED to note the minutes.

35. GOVERNANCE REPORT

35.1 The Committee considered a report providing an update on various governance workstreams completed and changes effecting the Local Government Pension Scheme (LGPS) and East Sussex Pension Fund (ESPF or the Fund).

35.2 It was clarified that all contracts for external advisers include a requirement for the external adviser to notify the Fund of any conflicts of interest. There is confidence that external advisers are compliant with this requirement, for example, Isio has a strict internal process in place to report any conflicts as soon as they arise. The Committee suggested the requirement to sign off a conflict of interest form on an annual basis would bring external advisers in line with Councillors, Board members and employees.

35.3 The Committee RESOLVED to:

1) Note the report;
2) Approve the changes to the conflict of interest policy (Appendix 1) subject to the addition of a requirement that external advisers should submit an annual conflict of interest form; and
3) Approve the changes in relation to General Data Protection Regulation (GDPR) on the Fund's Privacy notices (Appendices 3 & 4)

36. PENSIONS ADMINISTRATION REPORT

36.1 The Committee considered a report providing an update to the Pension Committee on matters relating to Pensions Administration activities.

36.2 The Committee's discussion included the following key issues:

- The Pensions Administration Team (PAT) has around 7-9 vacancies out of a Team of 35 Full Time Equivalent posts. The portion of the team focussed on business-as-usual work has only a couple of vacancies, with the majority of the vacancies falling in the project side of the team. The PAT had support from Surrey County Council, through the old Orbis arrangement up until the end of June but is now in the position of needing to outsource some one-off projects.. The vacancies have not affected the Team's ability to deliver the Annual Benefit Statement (ABS) project and maintain service levels at the standard set out in its Key Performance Indicators (KPIs), however, the PAT is aware of the risks vacancies pose to the service and is very focussed on filling these posts by the end of the year.

- East Sussex County Council (ESCC) needs a contract in place with Mercer in order for it to complete the Guaranteed Minimum Pension (GMP) Reconciliation project. This is because Mercer's existing contract was with Orbis, for the six local authorities Orbis provided pensions administration for, and Mercer cannot divulge scheme data to an 'outside organisation', which ESCC would be under the current contract. Mercer initially rejected ESCC's standard contract and ESCC rejected Mercer's, however, it is expected that agreement will be reached in the next few weeks.
- The PAT queried around 2,500 points of member data sent through from employers during the most recent ABS, around 20% of data received, and went back with queries to around 60 employers. It is expected that once all employers are on iConnect, there will be far fewer issues. There are also a number of employees listed on the system as casuals with no earning for the year who will be removed from the system before the next issuing of the ABS. The Pension Board and Committee will consider at the next meetings in November whether the fact 100% of ABS were not issued by the deadline constitutes a breach of regulations that needs to be reported to the Pensions Regulator.

36.3 The Committee RESOLVED to note the report.

37. INTERNAL AUDIT REPORT - PENSION FUND ADMINISTRATION - PEOPLE, PROCESSES AND SYSTEMS 2020/21

37.1 The Committee considered The Pension Fund Administration - People, Processes and Systems 2020/21 Internal Audit report.

37.2 The Committee RESOLVED to note the report.

38. INDEPENDENT AUDITOR'S (GRANT THORNTON) REPORT TO THOSE CHARGED WITH GOVERNANCE AND ANNUAL REPORT 2020/21

38.1 The Committee considered by Grant Thornton (Independent Auditor) to those charged with governance, and to report on anticipated unqualified audit opinion on the 2020/21 Pension Fund Accounts.

38.2 It is recommended that no further actions are taken in regard to the issue whereby the discrepancy between the Fund Custodian's estimated value of illiquid funds as at the end of quarter 3 and the outturn value at quarter 4 reported by the fund manager is causing an immaterial breach. This method of reporting external valuations of the Fund's asset classes in the accounts is standard practice elsewhere and is part of Chartered Institute of Public Finance and Accountancy (CIPFA) best practice. It is also a common occurrence, and whilst large this time may in future be a lower value if the value of illiquid assets increases by less than 1% of the value of the Fund over the Quarter, i.e., approximately £41m – although as more assets are moved into this class, the chance of a material breach increases. Grant Thornton advised a note could be added to the accounts to explain that the latest available value will always be a Quarter behind the final report, and it is recommended this is the extent of the action that should be taken.

38.3 The Committee RESOLVED to:

36. 1) Note the draft Independent Auditor's (Grant Thornton) report to those charged with governance on Pension Fund Accounts 2020/21 (Appendix 1);

37. 2) Approve the Pension Fund Accounts for inclusion in the authorities Accounts (Appendix 2).

39. EMPLOYER ENGAGEMENT REPORT

39.1 The Committee considered a report providing updates on employer engagement activities including communications and the collection of employer and member contributions up to June 2021 which were due on 19 July 2021.

39.2 The Committee RESOLVED to note the report.

40. REPORT OF THE PENSION BOARD TO THE PENSION COMMITTEE

40.1 The Committee considered a report on the completed work by the Pension Board over the previous year.

40.2 The Committee RESOLVED to note the report from the Pension Board which covers the work completed in year.

41. RISK REGISTER

41.1 The Committee considered the Fund's Risk Register.

41.2 The Committee's discussion included the following key issues:

- There should be a risk added relating to trading issues resulting from the completion of Brexit, for example, border risks such as Northern Ireland; labour shortages; and inflation of food prices.
- The ESPF is far more advanced in how it has structured its portfolio to mitigate climate change risk compared to other Local Government Pension Schemes (LGPS) and has done significant work to lobby government through the Institutional Investors' Group on Climate Change (IIGCC). Further examination of the risk of climate change to the Fund, however, is necessary and this is due to be undertaken in the new year via climate scenario modelling. This will help determine the Fund's best strategy for mitigating risk and the risk register will be updated following this work. This piece of work will look at the impact of various models of temperature change on the financial markets and how this could affect the value of companies that the Fund is invested in, via its fund managers, and the time period over which it will pose a risk. Climate modelling is complex and the Fund's officers are currently liaising with organisations about the best approach to undertaking this work, including speaking to fund managers about how they approached climate modelling that allowed them to publish their Taskforce for Carbon related Financial Disclosure (TCFD) statements.
- There are also potential risks to the Fund from climate change indirectly, for example, the cost to the Fund through its exposure to commercial property and the potential need over the next 15 years to retrofit these assets to meet any national target to decarbonise the economy.

41.3 The Committee RESOLVED to agree the Risk Register subject to officers considering the addition of the following:

1) a risk around the transition to new trading arrangements; and

2) a review of the climate change following the climate scenario modelling.

42. WORK PROGRAMME

42.1 The Committee considered its work programme.

42.2 The Committee RESOLVED to agree its work programme.

43. INVESTMENT REPORT

43.1 The Committee considered a report providing an update on the investment activities undertaken by the Fund.

43.2 The Committee's discussion included the following key issues:

- Isio is monitoring Longview's performance closely, however, their performance is not unexpected as their portfolio does less well when technology stocks are high and interest rates are low. The fund manager has had a couple of senior team changes and a junior member left too, which is not a problem at the moment, however, if there are further departures there could be a need for a review of the situation.
- WHEB has underperformed due to not holding sectors like oil and gas that have performed well in the past Quarter. WHEB's benchmark is the MSCI World global equity index. Wellington is using the same benchmark and has not performed as poorly, which shows that despite both being chosen as global impact funds that tilt away from fossil fuels, they have different stock selections, which is beneficial for the risk exposure of the Fund.
- The UBS infrastructure fund has performed poorly in the past quarter in part due to the fine imposed on Southern Water, which comprises a substantial element of the fund in which ESPF has £30m invested. Since its inception, the performance of the fund has been 4.3%, which is lower than many other funds in the portfolio. The strength of the secondary infrastructure market at the moment is very buoyant and the Fund could conceivably sell the UBS infrastructure fund without needing to provide much of a discount.
- UBS are due to set up an index run by Osmosis within the ACCESS pool and transfer the ESPF's passive market cap fund into it, as agreed by the ESPF in June. Osmosis has been working with UBS to come up with a solution where UBS remains the manager within the ACCESS Passive offering, in accordance with the requirements of LGPS pooling, whilst using the Osmosis index to ensure ESPF gets the exposure it wants. However, there have been delays to this process and issues remaining between both parties that means that it will not be completed during October as planned. Further discussions between ESPF, UBS, Osmosis and Isio may be needed to continue to move the process forward.

- The ACCESS pool has commissioned Minerva to develop a high-level set of Environmental, Social and Governance (ESG) principles for all of the 11 LGPS funds in the ACCESS pool to sign up to. There is confidence these will not be lowest common denominator principles and that individual funds generally appear to want to improve their current ESG commitments. ESPF will not need to replace its own ESG investment principles with those of the ACCESS pool if they are less robust.
- All LGPS funds remain sovereign entities but are expected by the Ministry of Housing Communities and Local Government (MHCLG) to make any new investments within their pooled fund unless investing in the pooled fund would compromise the fund's investment principles, or prevent it from achieving its investment strategy, and there is an asset type or product that is only available outside of the pool. Evidence would also need to be supplied that any outside investment is not too costly, or will not take too long to divest from should a similar product become available within the pool. ACCESS is not as developed as other pools, so the Fund took this approach of investing outside the pool when it invested in the ESG focussed equity funds WHEB, Wellington and Storebrand, as ACCESS had no equivalent products within its sub-funds. The MHCLG would also expect individual Funds to influence investments within their pools as a first course of action so that they are able to fulfil their investment strategies and deliver economies of scale through pooling. To this end, there is some evidence that other funds in the ACCESS pool may be interested in the global impact funds that ESPF invested in.
- The Statement of Responsible Investment Principles (SRIP) must be refreshed each year to reflect any decisions taken during the year, however, it is not possible to review in full each year. The Committee discussed reviewing the SRIP on a triennial basis starting from the completion of the triennial valuation of the Fund, the climate simulation work, and the agreement of the ACCESS ESG principles. This work is expected to be completed by the end of 2022.

43.3 The Committee RESOLVED to:

1) note the report; and
2) Approve the changes to the Investment Strategy Statement (appendix 4); and
3) Agree to review the Statement of Responsible Investment Principles (SRIP) on a triennial basis from the end of 2022.

44. <u>EXCLUSION OF THE PUBLIC AND PRESS</u>

44.1 The Committee RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

45. <u>INVESTMENT REPORT</u>

45.1 The Committee considered a report providing an update on the investment activities undertaken by the Fund.

45.2 A summary of the discussion is set out in an exempt minute.

45.3 The Committee RESOLVED to agree actions which are set out in an exempt minute.

46. BREACHES LOG

46.1 The Committee considered a report providing an update on the Fund's Breaches Log.

46.2 The Committee RESOLVED to agree the recommendations as set out in the report

47. EMPLOYER ADMISSIONS AND CESSATIONS

47.1 The Committee considered an update on the latest admissions and cessations of employers within the Fund.

47.2 The Committee RESOLVED to note the report.

48. INDEPENDENT ADVISOR PROCUREMENT REPORT

48.1 The Committee considered a report providing an update on progress of the procurement of an Independent advisor for the Pension Committee.

48.2 The Committee RESOLVED to agree the recommendations as set out in the report

The meeting ended at 2.32 pm.

Councillor Gerard Fox (Chair)