PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 19 September 2023.

PRESENT	Councillors Gerard Fox (Chair) Councillors Ian Hollidge, Paul Redstone, David Tutt and Georgia Taylor
ALSO PRESENT	Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Russell Wood, Pensions Manager: Investment and Accounting Andrew Singh, ISIO Leah Worrall, ISIO Paul Punter, Head of Pensions Administration Michael Burton, Pensions Manager: Governance and Compliance Mya Khine, Pensions Accountant Paul Linfield, Pensions Communications Manager Paula Jenner, Employer Engagement Officer Dave Kellond, Compliance and Local Improvement Partner James Sweeney, Pensions Investment Officer Bekki Freeman, Solicitor Ray Martin, Chair of the Pension Board Tim Oliver, Pension Board Cllr Andrew Wilson, Pension Board Zoe O’Sullivan, Pension Board Councillor Nick Bennett Georgina Seligmann, Governance and Democracy Manager

19. MINUTES

19.1 The Committee RESOLVED to agree the minutes of the meeting held on 16 June 2023 as a correct record.

20. APOLOGIES FOR ABSENCE

20.1 There were no apologies received.

21. DISCLOSURE OF INTERESTS

21.1 Councillor Taylor declared a personal interest as a consultant who has recently liaised with The Institutional Investors Group on Climate Change on unrelated business. She did not consider this to be prejudicial.

22. URGENT ITEMS

22.1 There were no urgent items.

23. PENSION BOARD MINUTES

23.1 The Committee RESOLVED to note the minutes of the Pension Board meeting held on 06 September 2023.

24. GOVERNANCE REPORT

24.1 The Committee considered a report introduced by Michael Burton who drew the Committee's attention to the following points:

1) The Communications group has been dissolved by the Pension Board and the Pension Board recommended the McCloud working group to be absorbed into the Administration working group.
2) There are two government consultations which will conclude in October; a consultation to abolish the Lifetime Allowance (LTAs) and a consultation on Investment Pooling. A draft of the pooling consultation response will be taken to Pension Committee and officers will circulate this draft to Board members and arrange a meeting after the Committee meeting for Board comments and questions on the draft response.
3) Changes to the Pension Board were outlined and a paper will go to the 28 September Governance Committee meeting to approve Pension Board vice chair nominations and appoint to the remaining member representative vacancy.

24.2 The Pension Committee RESOLVED to:

1) note the nomination of a member representative vice chair and an employer representative vice chair for the Pension Board;

2) note the decision to dissolve the Communications working group;

3) agree the discontinuation of the McCloud working group and absorb this into the Administration working group.

25. PENSIONS ADMINISTRATION REPORT

25.1 The Committee considered a report introduced by Paul Punter who drew the Committee's attention to the following points:

KPIs:

1) The performance of the Pensions Administration team has remained consistently high, just under 95%
2) Volume of post completed in line with previous quarter.
3) June: some red and amber items due to increased work load including the backlog of data from one of the larger employers and a need to focus resources towards statutory projects; this underperformance of KPI's will continue through to the next quarter
4) Key pieces of work are prioritised to ensure no breaches will be incurred although the additional work created by B&H will be a challenge for the team.

Helpdesk:

5) The ESPF will bring the helpdesk in house from April 2024, relevant staff to be TUPED and work underway, there are no concerns with performance at this time
6) Details for the transition are still being planned however the software should be the same but this will be confirmed ahead of testing and officers advised this work will be

managed through a wider project to ensure the Fund can operate effectively once services are inhouse.

Staffing:

7) Much more settled with key vacancies filled and final interviews being conducted at the moment.

Projects:

8) 99.76% of Annual benefit statements were produced for deferred members. 95.9% of Annual Benefit Statements were produced for active Fund members which is considered a real achievement in the context of the volume of B&H data issues and the transition to i-Connect. 125 of the 141 employers' data was collected through i-Connect. There has been a technical breach as did not achieve 100% of ABS returns. Officers, Pension Board and Committee will need to consider if the failure to provide 100% of the Annual Benefits Statement is a material breach of legislation that would require a report to the Pensions Regulator to be made.
9) Process reviews are going well, will expect to finish in December. The Printing and postage service has gone live for the administration team but not for the payroll activities.

25.2 The Committee RESOLVED to note the updates.

26. RISK REGISTER

26.1 The Committee considered a report introduced by Sian Kunert who drew the Committee's attention to the following risks:

1) Risk E2 – Employer Data - has had its post mitigation likelihood reduced, changing the overall risk scoring down to an amber risk.

2) Risk A3 – Production of Statutory Returns - has had its post mitigation likelihood reduced to an amber risk. Reduced risk following last meeting discussion and the exempt risk register.

3) Risk 12: Officers recommend risk I2 – Changes to International Trade - be removed from the register. This was an update from an original Brexit risk, officers will keep the risk on the radar but not presenting as a standalone risk for reporting to the Committee.

4) A new risk has been added, Risk 19: Money purchase AVC – which relates to the Additional Voluntary Contributions (AVC) options available to members and reflects the requirement of the Fund to provide a suitable AVC offering to scheme members. An LGPS fund has an obligation to ensure members have an AVC option so must ensure an appropriate provider. This is not a high risk however it should be brought to the Committee's attention and more detail will be shared at the next meeting including some data on the uptake of AVC's amongst pension fund members.

26.2 The Committee discussed the pooling risk in the light of the consultation and the exempt risk register. The consultation refers to failure to comply with guidance and highlights that

Pooling is considered to be area which could see invention from the Secretary of State. Officers consider the Fund to be in a similar position to others and that there are formal steps to bring processes in line with the guidance.

26.3 The Committee RESOLVED to review and note the Pension Fund Risk Register.

27. INVESTMENT REPORT

27.1 The Committee considered a report introduced by Sian Kunert and Andrew Singh who drew the Committees attention to the following points:

1) Lots of work has been undertaken on the efficacy of divestment and engagement and associated financial and legal considerations and a detailed report has been produced as requested.
2) The Carbon footprint report will come to the next meeting as a new service provider has been sourced. The report will look different to previous provider and there will be data continuity issues as data has been brought in line with anticipated national LGPS guidance. It was noted that data will evolve each year.
3) Officers noted that there has been negative press around the climate scenario modelling. This will have to be done however officers do not want to commission a report which does not meet the needs of the Committee or support the strategy and would like to get a better sense of how to approach this and make best use of the data. Work is being undertaken by the LGA and scheme advisory board who will publish a response to the government consultation.
4) The Stewardship report is submitted annually and takes time to compile so can feel out of date once published. The Impact Assessment is one of the criteria of good stewardship and feeds into that.

Performance report:

5) The Committee received an overview of the quarter which is considered to have been largely positive. Opinion is that inflation has peaked and is reducing and should stabilise in time. The market is trying to predict interest rates, when this is more widely understood things will settle. Unemployment data was slightly weaker and wage inflation was also a factor.
6) The Committee considered the performance of the different fund managers and noted there were various contributing factors. Performance is similar to the last quarter. Newton and Ruffer had a weak quarter as they are both positioned for a more muted market. WHEB and Wellington do not hold tech stocks which performed well this quarter. Both WHEB and Wellington are approaching the 3 year point with the Fund.
7) The Wellington investment has recently been rated amber which is to monitor. The advisers do not suggest any action to be taken, but they will monitor the strategy for the next 12 months. The lead portfolio manager has stepped back to manage another mandate, there has been an experienced member of the portfolio team promoted to lead portfolio manager with ultimate control on decision making, it is not anticipated that the portfolio will change with the new manager but it’s prudent to monitor the situation. , The Committee will consider an update at the next meeting. There is scheduled training due to take place in the coming month which will provide an opportunity for dialogue with them.

8) Ruffer have underperformed in the last quarter however the Committee noted its positive long-term performance. There have been some personnel changes at the company. Positioned for a more muted market outlook. There were a narrow set of stocks that drove the value in this quarter and Government bonds and equities did not perform well.
9) Newton have under-performed and the environment has been volatile, not yet at point of looking to review the mandate, close monitoring though in the meantime. UBS infrastructure has also performed badly.
10) Harbour Vest and Adams Street, both private equity managers, 1 year numbers are quite negative but over 3 to 5 years are significantly positive. The valuation of their assets is different to more liquid assets. They tend to lag public market valuations and there are fewer transactions taking place for valuation purposes.
11) ISIO undertook some exploration with managers, for the July strategy day, to see how realistic the valuations were. If a valuation is above 25% they would be concerned but current valuations are all in comfort range.
12) The Committee discussed concerns that the Fund has become more volatile recently agreed and that it would be beneficial to see assessment of the Fund across different trading periods to identify what the increased volatility may have arisen from.
13) ACCESS have reviewed and communicated views to officers regarding whether to convert to the sustainable version of the M&G fund, more information will be shared with Committee when available.
14) Baillie Gifford have received some negative press however the sub-fund ESPF invests in is Paris aligned which is fossil fuel free.

27.2 The Committee considered the Strategy review and noted the following points:

15) The Strategy was discussed at the July workshop and a relatively minor adjustment to strategy in the current year has been recommended.
16) The view of the consultant for the recommended change is supported by the Actuary though further changes would need a collaborative discussion between the actuary and the consultants. A funding update was received on 18 September, there has been a fall in asset value from where the actuary thought they should be under the valuation modelling, but this is not currently a concern.
17) The significant change following triennial valuation is the risk to the Fund with regard to the cashflows due to the inflation linkage to liabilities and the small reduction to contributions allowed to some employers. The Fund will see that income from activities relating to members is lower than the spend to pay pensions, so there is a need for the investments to contribute to the income of the Fund in a more significant manner going forward.
18) The Committee challenged whether the Fund had the right balance between using contributions and investments as investing would allow a level of inflation protection to existing members.
19) The Fund is maturing but is not particularly mature, a shift from accumulating to income distributing is proposed to allow the Fund to avoid the volatility of the market. The report sets out the current asset allocation and the planned strategic allocations.
20) The Actuary Report as at 31 March 2023 showed a funding position of 121%. This is a broadly similar position to the formal Actuarial Valuation Date at 31 March 2022 (when the funding level was 123%.)

21) The discount rate assumption is derived based upon the absolute level of returns that the asset portfolio is expected to achieve, with a level of actuarial prudence applied. As at 31 March 2023, the expected return of the Fund's investment strategy is 7.8%. This is measured on a best estimate basis and is in excess of the discount rate (4.8% p.a.).
22) The Committee requested a brief document to outline the differences between the Actuary and the ISIO predictions and the methodology applied.
23) The Committee discussed that the actuary uses a 20-year inflation figure, however long-term high inflation is a risk and even at 4-6% could still be problematic for the Fund.
24) The Committee discussed cash holdings and were advised that the regulations prevent the Fund from holding cash, other than sufficient levels needed to make payments from the Fund, as part of the regulations issued in 2016.
25) The value of gilts has been volatile and now will deliver a return of RPI + 1.0% p.a. The 15-year fixed gilt now yields 4.5% vs 0.5% at the start of 2021.
26) There is a requirement to evolve the investment strategy to ensure the gap does not widen
27) Since the last review was undertaken 3 years ago there has been a significant change in the market environment. The outlook for property was positive at that time. Property investment is UK only and nearly all commercial; interest rate rises have put pressure on capital values and property prices with a low expected return going forward.
28) The Committee were advised on levels of illiquidity with approximately 30% exposure recommended.
29) The Committee were advised that the strategy will be reviewed every year and that the focus should not be what might be recommended as a result of the government consultation. It is anticipated that there will be a protracted timeline if the consultation is taken forward.
30) The Committee considered the revised Investment Strategy Statement which has been updated following the Strategy day in July. The statement needs to be up to date and valid with new strategy and has been amended to reflect the Committee's requests.
31) It was noted the Funds two private equity managers and one infrastructure manager were not signatories to the Institutional Investors Group on Climate Change (IIGCC), Committee asked officer to follow up with those manager for a reason why they are not members.
32) The Committee discussed the limit to the number of sub-funds the pool can hold, Storebrand is currently on the list of assets held outside the pool, however it is anticipated this will be added to the pool. It is challenging to bring further products online at the moment and there are a number of sub-funds wating to come online and this can take some time – approx. 1 year. The new operator must be in place before anything further is added beyond the existing pipeline. The Committee discussed whether the pool should consider fewer multimanager sub-funds.
33) The Statement of Responsible Investment Principles were discussed and the Committee considered whether the principles applied to managers should be set out; officers advised that they will be looking at the governance principles by which managers will be held to account and will share wording prior to amending the Statement for publication.

34) The committee discussed the statements around Climate Change and will receive a suggested form of words from officers and reach agreement on this via email after the meeting. A further Biodiversity statement may be considered in future.
35) Officers agreed to consider the Committee’s comments and to incorporate these into a revised draft statement.

27.4 The Committee considered an update on ACCESS and noted the following points:

36) The formal Joint Committee was held on 4 September 2023 and members of the Pension Board attended as observers. The issue of continuity of observer membership was raised as a governance concern for the Pool.
37) A third party review by Barnet Waddingham has recently concluded, and the report will be shared at the ACCESS Joint Committee’s next meeting on 4 December 2023 and then discussed at the February Committee meeting.

27.5 The Committee considered a report on divestment and engagement and noted the following points:

38) At the July 2022 meeting the Committee requested that officers and the Fund’s external advisers conduct a piece of work concurrent with the completion of the triennial valuation which:
    1. Assessed the fiduciary and legal consequences of fossil fuel divestment for the Fund;
    2. Examined how such a move aligns with relevant guidance and advice;
    3. Explored how practical an act it would be within the context of the ACCESS pool;
    4. Reviewed evidence on the efficacy of such an approach in promoting the energy transition.
39) Isio have led on the production of this piece of work with input from the Fund’s legal advisers. The consultants produced three detailed chapters of analysis and research with the production of a summary report for publication for the benefit of the Funds beneficiaries. Attached to this report is the summary report detailing the findings of the work and a document setting out the definitions which set out what is meant within the report when certain phrases are used.
40) The Committee commissioned the report to highlight the tensions and complexities for the scheme members and to consider divestment and engagement from a fiduciary perspective to ensure that pensions are delivered in an affordable way.
41) The report was a significant piece of work and highlights that the ESPF is in a strong position already, is highly engaged on the issue and that there is plenty of good work already within the portfolio and the Fund has sought independent advice. The report considered industry evidence and open source academic material and what fund managers consider good practice to look like.
42) Within ACCESS there currently two sustainably focussed funds available and the ESPF invests in both of them and utilises them well.
43) The Funds legal advisers provided advice within the report touching on the Fiduciary and legal consequences.
44) The need for clear definitions was highlighted as divest can mean different things to different people, so a definitions document was included to define the parameters in which terms were used with a focus on the difference between divestment and disinvestment; noting disinvestment is the removal of a holding by a manger rather than sector exclusions.

45) In achieving a low carbon position there are significant risks and limited evidence of its impact. Divestment means a blanket approach and there is currently insufficient scale to achieve the desired outcome of the divestment movement and there is a possibility it could create a situation of fossil fuel price rises which in turn attracts investment.
46) Attributing engagement activities to results is very hard to do and to identify where a specific action has been effective. It was noted that historically passive investments had limited engagement however there has been a rise in passive manager engagement with the large managers.
47) There are some pensions funds with disinvestment or divestment strategies however they have different legal structures to ESPF. ESPF's managers do all however have disinvestment as a backstop for holdings where managers consider there to be a financial risk or that companies are disengaged.
48) Targeting assets which are anticipated to be uneconomic in the short to mid term e.g. thermal coal may be possible, but focused work is recommended to identify those asset classes where these assets are held. It was also noted that state owned enterprises represent at least 50% of fossil fuel reserves and that banks provide the majority of the required finance to fossil fuel companies.
49) The Committee discussed the growing pressure on companies from the wider divestment movement and whether the Fund should be part of that movement but were not agreed on its ability to influence at a wider level and of the evidence that would it impact the behaviours of fossil fuel companies.
49) The Committee discussed the risks of divestment from its current allocations and noted that the investment strategy model was used to look at various scenarios, there is an element of opportunity cost and a long time scale to consider. There is already lots of work with managers to try and deliver decarbonisation in practice. Currently 3% of the fund is exposed to fossil fuels, in part tactical, short term exposure to volatility. Many managers are looking at decarbonisation over time, IFM the infrastructure investment manager, has a net zero target and planned deployment to renewables from fossil fuels. Divestment would therefore include leaving these funds and they are trying to influence real world change. The Fund exposure to extraction is only 0.6% of total holdings. Newton and Ruffer are the main manager positions to have an exposure to extraction which is tactical and short time in practice; there is ongoing engagement to deliver change.
50) Officers advised that at present divestment would compromise the current investment strategy and also carries a reputational risk and would result in a need to exit the ACCESS pool which would be costly and counter to the governments consultation.

27.6 The following motions were put forward by Councillor Taylor and was seconded by Councillor Tutt:

Proposal 1: That the Fund commits:
(a) to make no new investments in fossil fuel extractors;
(b) to fully divest from all fossil fuel extractor public equities and corporate bonds within five years; and
(c) to make no new private equity investments that include fossil fuel extractors.

Proposal 2: That the Fund commits:

(a) to exclude (over a reasonable timeframe) the public equity or corporate bond of any fossil fuel extractor that has failed to commit to 'no new fossil fuels' by the September 2024 Pension Committee meeting;
(b) not to make any new private equity investments in such fossil extractors; and
(c) to immediately inform our investment managers of this commitment so that they can take whatever actions they deem necessary in response.

27.7 The following motion was put forward by Councillor Tutt and seconded by Councillor Taylor:

Proposal 3: That the Fund commits:
(a) to make no new investments in thermal coal;
(b) to fully divest from all thermal coal public equities and corporate bonds within one year; and
(c) to make no new private equity investments that include thermal coal.

27.8 There was no vote taken on these proposals as the Committee noted that it had not been sighted ahead of the meeting and officers and advisors could not provide advice as a result, meaning a fully governed process with advise and full information as to the financial and legal implications could not be taken.

27.10 The Committee RESOLVED to agree that officers should consider the proposals raised and bring a report to a future committee meeting.

27.11 The Committee REVOLVED to:

1) Note the Quarterly performance of the Investment portfolio.
2) Agree to change the liquid investments were possible to distribute income back to the Fund.
3) Approve the amended asset allocation set out in paragraph 4.22 of the report.
4) Approve the revised Investment Strategy Statement in Appendix 4 of the report.
5) Approve the revised Statement of Responsible Investment Principles in Appendix 5 of the report subject to amendment which will be agreed by the Committee via email.
6) Note the research into the efficacy of divestment and engagement and agreed to publish the report on the Fund's website.
7) Delegate authority to the Chief Financial Officer to take all necessary actions to give effect to the implementation of the above recommendations.

28. WORK PROGRAMME

28.1 The Committee considered its work programme.

28.2 The Committee RESOLVED to agree the work programme.

29. EXCLUSION OF THE PUBLIC AND PRESS

29.1 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).

30. INVESTMENT REPORT

30.1 The Board considered the exempt Investment report.

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

30.3 The Board RESOLVED to note the report.

31. RISK REGISTER - EXEMPT

31.1 The Board considered the exempt risk register.

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

31.3 The Board RESOLVED to note the report.

32. EAST SUSSEX PENSION FUND (ESPF) BREACHES LOG

32.1 The Board considered a report providing an update on the Breaches Log and outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

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

32.3 The Board RESOLVED to note the report.

33. EMPLOYER ADMISSIONS AND CESSATIONS

33.1 The Board considered a report providing an update on the latest admissions and cessations of employers within the Fund.
33.2 A summary of the discussion is set out in an exempt minute.
33.3 The Board RESOLVED to note the report.

34. SUPPLIER CONTRACT UPDATE

34.1 The Board considered a Supplier update report.

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

34.3 The Board RESOLVED to note the report.

The meeting ended at 2.32 pm.

Councillor Gerard Fox (Chair)