

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall on 22 June 2020.

PRESENT Councillors Gerard Fox (Chair) Councillors Simon Elford,
Nigel Enever, David Tutt and Trevor Webb

ALSO PRESENT

Ray Martin, Chair of the Pension Board
Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Russell Wood, Principal Pensions Officer
Nigel Chilcott, Audit Manager
Danny Simpson, Principal Auditor
Richard Warden, Fund Actuary
Robbie McInroy, Fund Actuary
Ian Colvin, Hymans Robertson
Ben Fox, Hymans Robertson
Paul Potter, Hymans Robertson
Paul Hewitt, Vigeo Eiris
Henry Brown, Vigeo Eiris
Brian Bailey, PIRC
Neil Sellstrom, PIRC
Tessa Younger, PIRC
William Bourne, Independent Adviser
Harvey Winder, Democratic Services Officer

1 MINUTES

1.1 The minute of the meeting held on 16th March 2020.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence

3 DISCLOSURE OF INTERESTS

3.1 Cllr David Tutt declared a personal interest in item 18 (minute 17) as the Leader of Eastbourne Borough Council and did not take part in the discussion or resolution of that item.

4 URGENT ITEMS

4.1 There were no urgent items.

5 PENSION BOARD MINUTES

5.1 The Committee considered the draft minutes of the Pension Board meeting held on 8 June 2020.

5.2 The Committee RESOLVED to note the report.

6 INVESTMENT REPORT

6.1 The Committee considered a report providing an update on the investment activities undertaken by the East Sussex Pension Fund.

6.2 The Committee considered a number of arguments for and against the sale of equities held in fossil fuel companies.

- The share value of oil companies such as BP, Shell and Exxon had declined by at least half in the past few months, although they were now recovering. This could demonstrate that they are becoming volatile investments when they had historically been safe investments. As their share prices recover, therefore, investment managers could be advised to sell them to protect against future price falls.
- On the other hand, the decline in value of BP's shares could be explained by its decision to commit to 50-100% carbon reduction over 20 years, meaning the devaluing of its stock price is due to the market's recognition of the capital costs BP will incur fulfilling this commitment.
- Keeping an eye on the value of fossil fuel investments is undoubtedly important. However, stability of the Fund is also important given the current economic climate and the recovery of equities as an asset class in recent weeks. Furthermore, the Fund needs to ensure it has sufficient cash flow during the economic downturn to pay pensioners and oil and gas companies have traditionally been a good source of cash for the Fund through their dividends.
- The decision to disinvest in the short term is not consistent with the Fund's stated Investment Beliefs that include that long term investing provides opportunities for enhancing returns; and that influencing companies as a shareholder is more effective way of changing behaviour of companies, for example, shareholder pressure, including by Ruffer, one of ESPF's investment managers, on BP has had a major effect on BP's decision to aim to decarbonise.
- The work undertaken by the Environmental, Social and Governance (ESG) consultant, PIRC, appointed following the notice of motion by Full Council, is complete. It has published a number of recommendations for how the East Sussex Pension Fund (ESPF or the Fund) might further integrate ESG considerations, including those relating to its approach to fossil fuel exposure, into its investment strategy. The ESG working group has also undertaken a lot of work in recent months, including around the Fund's asset allocation. The next steps include, subject to agreement by the Committee, to develop the Fund's investment beliefs to better set out how it may become a more proactive responsible investor; respond to PIRC's recommendations; and to adjust the Fund's asset allocation, which are currently overweight in passive equities and so more exposed to fossil fuels than they could be.
- The exposure to fossil fuels is likely to decline as strategic asset allocation is reviewed and the allocation of the Fund's value in passive index equity funds or holdings is reduced in favour of either more active managers, or smart beta funds that are weighted against carbon intensive companies. Fossil fuel exposure is likely to halve from 4% to 2% once the asset allocation is complete, as it will favour investment in companies that are more carbon efficient or proactive in reducing their carbon footprint.
- Fossil fuel exposure is largely through passive equities which are invested in with UBS who were appointed as the ACCESS passive manager after a joint procurement. Instructing disinvestment from fossil fuels to managers would be complicated by the fact that the Fund has pooled its investments. The Committee can only advise the ACCESS operator, Link, on investment decisions and not instruct them to sell.

- The value of the carbon footprint tracker completed by Eiris is to enable the Fund to set targets for reducing its carbon footprint by identifying those companies that need to be targeted for engagement, either as they are high emitters or have a weak energy transition score. Some of the companies with poorer transition scores will be ones without significant stakeholder pressure, as they are not currently high emitters of carbon relative to others.

6.3 The following amendment to the recommendation was moved by Councillor Tutt and seconded:

- 1) *note the Action Log and Investment Workplan (appendix 1)*
- 2) *note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);*
- 3) *note the carbon footprint report by Vigeo Eiris (appendix 3)*
- 4) *to agree to instruct fund managers to sell fossil fuel investments as they begin to recover in value.*

The amendment was put to the vote and LOST by three votes to two.

6.4 The Committee RESOLVED to:

- 1) note the Action Log and Investment Workplan (appendix 1)
- 2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);
- 3) note the carbon footprint report by Vigeo Eiris (appendix 3)

7 REPORT ON THE FULL COUNCIL NOTICE OF MOTION ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

7.1 The Committee considered a report on the review of the Environmental, Social and Governance (ESG) arrangements of the East Sussex Pension Fund conducted by PIRC in response to the notice of motion passed by East Sussex County Council.

7.2 The Committee discussion included the following key issues:

- The Fund has undertaken a lot of work, via the ESG working group, to develop an understanding of ESG matters and how they can be included in the Fund's strategy, but it is recognised that more work needs to be done consulting with stakeholders on ESG matters. These include ACCESS, the Fund's investment managers, employers and members.
- The Fund will be issuing a responsible investment statement to all employers and scheme members over the summer. It may also bring reports for consideration to the ACCESS Joint Committee to speed up the development of a consensus view on ESG amongst the 11 member Funds.
- An ESG working group helps to ensure that there is time and space dedicated to considering ESG matters. However, delivering on ESG commitments takes significant time and resources, for example, ensuring investment managers have signed up to the new UK Stewardship Code, and monitoring the carbon footprint of companies both require considerable officer time. The Fund is expected to develop a larger team in the next few months that should have sufficient resources to carry out the work.

7.3 The Committee RESOLVED to note the report

8 GOOD GOVERNANCE REVIEW

8.1 The Committee considered a report providing an update on the Good Governance review, seeking endorsement of the Terms of reference of the Pension Committee, terms of reference of the Pension Board, and revised Council Scheme of Delegations; and agreement of the Communication Strategy and Breaches Policy and log.

8.2 The Committee RESOLVED to:

1) endorse the:

- Pension Committee Terms of Reference (appendix 2)
- Pension Board Terms of Reference (appendix 3)
- Revised Council Scheme of Delegations to incorporate Pension Fund management(appendix 4); and

2) agree the:

- Communication Strategy (appendix 5)
- Breaches Policy and log (appendix 6)

9 DRAFT EAST SUSSEX PENSION FUND INTERNAL AUDIT STRATEGY AND PLAN

9.1 The Committee considered a report seeking approval of the Internal Audit Strategy and Plan for Pensions for 2020/21.

9.2 The Committee RESOLVED to approve the East Sussex Local Government Pension Scheme Internal Audit Strategy and Plan 2020/21, attached as Appendix 1.

10 EAST SUSSEX PENSION FUND TRAINING STRATEGY

10.1 The Committee considered a report outlining the draft Training Strategy and planning for the East Sussex Pension Fund.

10.2 The Committee RESOLVED to:

- 1) Agree the draft Training Strategy as set out in appendix 1 of the report; and
- 2) Review and endorse the deliverables and timetables of the Training Plan.

11 PENSION ADMINISTRATION UPDATES

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

11.2 The Committee RESOLVED to:

- 1) note the updates;
- 2) Note the progress of management in implementing the agreed actions arising from the two internal audit reports (appendix 5); and
- 3) Note the areas for which no actions have progressed (appendix 5).

12 PENSION FUND BUSINESS PLAN AND BUDGET 2020/21

12.1 The Committee considered a report providing updates on the 2020/21 business plan at Quarter 1 for the East Sussex Pension Fund.

12.2 The Committee RESOLVED to:

- 1) Note the updated business plan; and
- 2) Note the new workstream for ill health retirement planning.

13 EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2019/20 AND PSAA FEE SCALES 2020/21

13.1 The Committee considered a report on the East Sussex Pension Fund's External Audit Plan for 2019/20, together with the fees for 2020/21

13.2 The Committee RESOLVED to:

- 1) approve the External Audit Plan for the East Sussex Pension Fund for 2019/20
- 2) note the Public Sector Audit Appointments (PSAA) Fee Scales 2020/21 letter.

14 PENSION FUND RISK REGISTER

14.1 The Committee considered a report on the Fund's Risk Register.

14.2 The Committee RESOLVED to note the report

15 EXCLUSION OF THE PUBLIC AND PRESS

15.1 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).

16 EAST SUSSEX PENSION FUND STRATEGIC ASSET ALLOCATION REFRESH

16.1 The Committee considered a report on the East Sussex Pension Fund Strategic Asset Allocation refresh.

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

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

17 COVID 19 POLICY ON DEFERRAL OF EMPLOYER CONTRIBUTIONS

17.1 The Committee considered a report on the COVID-19 Policy on the deferral of employer contributions.

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

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

18 PENSION FUND BREACHES LOG

18.1 The Committee considered a report on the Fund's breaches log.

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

19 PENSION ADMINISTRATION - SYSTEMS PROCUREMENT

19.1 The Committee considered a report on pension administration system procurement.

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

19.3 The Committee RESOLVED to note the report.

20 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

20.1 The Committee considered a report on employer admissions and cessations.

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

21 EAST SUSSEX PENSION FUND TEAM UPDATE

21.1 The Committee considered a report providing an update on the East Sussex Pension Fund Team.

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

The meeting ended at 2.30 pm.

Councillor Gerard Fox (Chair)