

PENSION COMMITTEE

SUMMARY OF THE MINUTES: 19 SEPTEMBER 2023

All members of the Committee were present.

GOVERNANCE

The Committee considered a report introduced by Michael Burton and resolved to note the Pension Board appointments, note the decision to dissolve the Communications working group; and agree the discontinuation of the McCloud working group and absorb this into the Administration working group.

PENSIONS ADMIN

The Committee received a similar report to that presented at Board and noted the updates.

RISK REGISTER

The Committee considered and noted a report. The risk of pooling in the light of the Government consultation was discussed.

INVESTMENT

The Committee considered an Investment Report from Officers and ISIO (Investment Advisers). It covered the work done by ISIO to analyse the benefits of engagement versus disinvestment, the upcoming Carbon footprint report and recent press coverage on Climate reporting.

A Performance report was submitted by ISIO and the Committee considered the performance of the fund's managers over different periods. The Fund delivered a positive return of returned 0.2% in the quarter which was below the benchmark return. Newton and Ruffer had a weak quarter as they are both positioned for a more muted market. WHEB and Wellington performed well this quarter due to being underweight in tech stocks. The recent volatility of the Fund's overall performance was also discussed, and it was felt this should be monitored going forwards.

STRATEGY REVIEW

Relatively minor changes were agreed at the July workshop. A discussion was held over the impact of inflation in the Fund's cashflows and it was felt important that the methodologies of the Scheme Actuary and ISIO were consistent.

The latest Investment Strategy Statement was considered, and it was agreed that this should be updated to reflect the new agreed strategy. There was a discussion on income, and it was agreed to change mandates from accumulating to income distributing where possible to meet cashflow requirements and allow for the investments to be rebalanced when needed.

It was noted that it had been agreed by the ACCESS pool that a new sub-fund would be established to meet the Funds Storebrand allocation and allow for further pooling of liquid assets. It was explained that ACCESS is now reached its limit on sub-funds, and it was challenging to bring further sub-funds into the pool unless some consolidation into multi manager sub-funds were to take place.

DIVESTMENT VERSUS ENGAGEMENT

The Committee commissioned a report from ISIO to consider divestment and engagement from a fiduciary perspective to ensure that members best interests are looked after. The report was a significant piece of work and highlights that the ESPF is in a strong position already being 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.

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 manager rather than sector exclusions.

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. The Committee discussed the risks of divestment from its current allocations and noted that the investment strategy modelling looked at outcomes under various scenarios taking account of opportunity cost and the long timescale of the Fund's investments. The Fund's strategy has been to appoint managers who encourage and deliver decarbonisation and there is no strategic allocation by the Fund to fossil fuels in the equity portfolio. Overall, the fund is committed to ongoing engagement to deliver alternative energy sources.

Officers advised that at present divestment would compromise the current investment strategy and could result in a need to exit the ACCESS pool which would be costly and counter to the governments consultation and could lead to intervention from the secretary of state.

There were motions raised on the recommendations, but no vote was taken as these had not been submitted in advance and Officers were not in a position to offer advice on them, so they were postponed to a future meeting. The report will be published on the Funds website.

WORK PROGRAM

The upcoming work program was noted.

EXEMPT ITEMS

A number of items were discussed under the Exempt part of the meeting which Board Members can have access to on request. These included the Government's Consultation on pooling, information on the operator of the ACCESS Pool, the ESG impact assessment report by ISIO on the Fund's investment managers, additional exempt risks on the Risk Register, the Breaches Log, the Admissions and Cessations Report, and a report on the Fund's external supplier contracts.