

DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 12 SEPTEMBER 2019

Present: Cllrs Andy Canning (Chairman), John Beesley (BCP), David Brown (BCP) Ray Bryan, Howard Legg, Felicity Rice (BCP), Mark Roberts, Peter Wharf (Vice-Chairman) and Adrian Felgate (Scheme Member Representative)

Apologies: no apologies for absence were received at the meeting.

Also present: Alan Saunders, Independent Adviser, Catherine Dix, Mark Mansley and Matthew Trebilcock, Brunel Pension Partnership

Officers present (for all or part of the meeting):

Aidan Dunn (Executive Director - Corporate Development S151), Jim McManus (Corporate Director - Finance and Commercial) and David Wilkes (Service Manager - Treasury and Investments)

13. Introduction by the Acting Chairman

Councillor Wharf, as acting Chairman, welcomed Adrian Felgate to the Committee as the replacement for Andrew Turner as Scheme Member Representative. The acting Chairman asked that a letter of thanks be written on behalf of the Committee to Andrew Turner.

Resolved

That a letter of thanks be written to Andrew Turner.

14. Election of Chairman

That Andy Canning be elected as Chairman for the remainder of the year 2019-2020.

15. Statement by the Chairman

The Chairman thanked members for his election. He also thanked Councillor Beesley for chairing the Committee for the last five years, and for serving as Vice-Chairman for the four years preceding that. He asked Councillor Beesley if he would wish to continue as the Dorset representative on the Brunel Pension Partnership Oversight Board.

Councillor Beesley confirmed he would be pleased to continue as Dorset's representative on the Brunel Oversight Board. It had been a privilege to be Chairman of the Committee for the last five years. During his Chairmanship Brunel had been set-up, and it was widely regarded as one of the best of the Local government Pension Scheme (LGPS) investment pools.

Resolved

That Councillor Beesley continue in his role as the Dorset representative on the Brunel Oversight Board.

16. Appointment of Vice-Chairman

That Peter Wharf be appointed as Vice-Chairman for the remainder of the year 2019-2020.

17. Declarations of Interest

Adrian Felgate declared that he had close relatives employed by one of the pension fund's external investment managers, and that he would need to excuse himself from voting on any proposed resolutions relating to that investment manager. He also disclosed that he had a relative who worked for a fossil fuel company.

18. Terms of Reference

The revised terms of reference were reviewed and agreed.

Resolved

That the terms of reference be approved.

19. Minutes

The minutes of the meeting held on 20 June 2019 were confirmed and signed.

20. Public Participation

That no statements and questions were received from Town and Parish Councils nor public statements or questions.

Dr Ruth Arnold and Dr Rebecca Smith addressed the meeting on behalf of Medact (Dorset Group), a representative body of doctors, nurses and other members of the healthcare community in Dorset.

Dr Arnold and Dr Smith said the fossil fuel industry posed a serious threat to human health due to climate change. Dorset Council and BCP Council had both declared a climate emergency. Also, there was evidence to suggest that fossil free investments produced better financial returns. They believed the pension fund had investments of £141 million in fossil fuel companies and asked the Committee to commit to divestment from those investments by 2021.

The Independent Adviser felt a blanket disinvestment from the whole sector would not distinguish between those companies who were engaging on this issue and looking to make changes, and those who were not. The evidence on the impact of disinvestment on performance was not conclusive and he wondered if the pension fund was being pushed to make changes too quickly.

He added that the pension fund had investments in renewable sources of energy, such as wind and solar power.

Dr Smith considered engagement with companies had not worked and disinvestment sent a very powerful message. Dr Arnold felt there was no time to delay from disinvestment.

The Chairman confirmed the pension fund's Investment Strategy Statement would be reviewed shortly and how to address the concerns raised about fossil fuel investment would form part of that review. The Independent Adviser added the main purpose of the review was to agree allocations to different asset classes, but this could be a 'second order' consideration.

Mark Mansley, Brunel Pension Partnership, reported that Brunel already offered a passive low carbon equity fund based on a standard 'parent' index, although it was more costly and more volatile than its parent index. Brunel were also developing a sustainable active equities portfolio, and took a sustainable approach to private markets too, with a strong bias to renewables, such as wind and solar power. The Independent Adviser added that the pension fund also had exposure to renewables through its investments in infrastructure funds outside of Brunel.

The Vice-Chairman questioned the basis of the £141 million investment in fossil fuels. He asked officers to check this figure, as it was necessary to have an agreed baseline to inform future discussions.

A member asked if the pension fund had any investments locally. The Independent Adviser replied that the Committee had followed a policy not to invest directly in Dorset. This was to avoid any potential for conflict between the interests of the pension fund and the other interests of Dorset's local authorities. The Committee could choose to revisit this policy.

The Chairman thanked Dr Arnold and Dr Smith for taking the time to address the Committee.

Resolved

1. That the planned review of the fund's Investment Strategy Statement takes into consideration the pension fund's exposure to fossil fuels.
2. That officers confirm the value of the pension fund's exposure to fossil fuel investments.

21. Presentation from Brunel Pension Partnership

The Committee received a presentation from Catherine Dix, Mark Mansley and Matthew Trebilcock, Brunel Pension Partnership, the pension fund's investment pooling manager. The presentation summarised Brunel's approach to responsible investment, with particular focus on the mitigation of risks associated with climate change.

Responsible Investment (RI) encompassed an overall approach to the consideration of environmental, social and governance factors on long term

risks and returns. RI was distinct from ethical investment where decisions were made to invest or disinvest in sectors investors liked or disliked for non-financial reasons. Climate change had been identified as a long-term risk to investment returns.

Brunel sought to work with other investors or on its own to engage with companies and investment managers. Engagement needed to be structured with clear objectives. There had been a growth in awareness and attention in the investment industry but there were concerns that some responses to the issue owed more to marketing and not substance.

Brunel explained the quarterly performance RI reporting, and members asked a number of questions. Brunel described their reporting as very much a work-in-progress and they welcomed feedback. Brunel were also developing a climate change policy.

Low-carbon investing in UK equities was challenging as the oil and gas sector accounted for 20% of the all share index, due to the high degree of multinational companies listed in this country. The Independent Adviser noted that previous decisions to reduce UK equities exposure had, therefore, unintentionally reduced the pension fund's exposure to this sector.

The Chair thanked Brunel for their presentation and members agreed it had been very comprehensive, but necessary and timely.

Noted

22. Independent Adviser's Report

The Committee considered a report by the Independent Adviser that gave his views on the economic background to the Fund's investments, and the outlook for different asset classes. He highlighted the key risks for markets and concluded that a cautious approach to investment decisions continued to be advisable.

There was a risk of deflation in the global economy, for example, there was near full employment in the US and UK, but inflation was not high. Concerns about the US/China trade dispute and the outcome of Brexit negotiations continued, as did other geo-political risks. Germany, the traditional economic powerhouse of Europe, had been in recession.

Markets had rallied since April, with a set-back in August, and were now trading 'sideways'. Equity valuations were high, although it was highlighted that the pension fund's allocation to equities was lower than for most LGPS funds.

There had been a collapse in government bond yields which usually reflected extreme concerns in markets. Property was likely to see some falls in capital values and on balance, there was more reason to be pessimistic than to be optimistic.

The Chairman asked if Germany was weak because of slowing demand for its products from China. The Independent Adviser agreed that was the case.

One member noted the pension fund's high exposure to overseas equities and, therefore, susceptibility to currency movements. The Chairman explained there were currency hedges in place to mitigate this risk but asked if consideration should be given to now expand those hedges. The Independent Adviser believed this was worth reviewing.

A member asked if the Independent Adviser thought the UK would fall into recession. The Independent Adviser believed that if the UK did fall into recession it was likely to be mild. Uncertainty was a greater concern.

The Fund Administrator asked if the end of compensation for Payment Protection Insurance (PPI) mis-selling was likely to have a material impact on UK growth. The Independent Adviser didn't know but it was noted that only the deadline for submitting claims had passed, and therefore compensation payments would continue for a period of time.

A member asked about the pension fund's response to the climate change crisis. The Independent Adviser replied that there was now an increased focus on sustainability considerations and the risks posed to long term investment performance, although the evidence that carbon disinvestment improved performance was mixed. He noted that Brunel would shortly be developing a sustainable global equities portfolio that could be considered for investment.

Resolved

That officers and the Independent Adviser review the currency hedging arrangements for the pension fund.

23. Fund Administrator's Report

The Committee considered a report by the Fund Administrator on the funding position, the valuation, performance and asset allocation as at 30 June 2019 for the pension fund.

The funding level was estimated to have improved from 83% at the last triennial valuation, as at 31 March 2016, to just over 90% at the last indicative update, as at 31 December 2018. The estimated improvement was primarily the result of the large increase in asset values in 2016-17.

This was an indicative position and the pension fund's actuary was working on a full assessment of liabilities and expected future returns on assets. Initial results of the full valuation were expected for the pension fund as a whole, by the end of September 2019, with initial results for all employers due in November 2019. The actuary would be invited to give an update to the Committee in November 2019.

The value of the fund's investments at 30 June 2019 was just under £3.1 billion. The return on investments for the financial year to 30 June 2019 was

3.2%, compared to the combined benchmark return of 2.9%. The return on investments for the last 12 months was 5.7%, which was above the discount rate of 5.4% used by the actuary in the last valuation, but below the combined benchmark return of 6.3%.

Officers and the Independent Adviser would review whether all benchmarks used as comparators for manager performance were the most appropriate.

Resolved

1. That the actuary be invited to give an update to the Committee at its meeting on 27 November 2019.
2. That officers and the Independent Adviser review all benchmarks used to assess that individual manager performance were the most appropriate.

24. Investment Pooling Progress Report

The Committee considered a report by the Fund Administrator on the progress to date in the implementation of the Full Business Case (FBC) for the Brunel Pension Partnership, as approved by the Committee on 9 January 2017.

As at 30 June 2019, investments valued at approximately £840m had transferred to portfolios under Brunel's management. This represented nearly 30% of the pension fund's total assets valued at £3.0bn. Further transitions expected in 2019 were Emerging Markets Equities and Global High Alpha Equities which would take assets under Brunel's management to over £1.0bn.

The Committee discussed the outcome of the Liability Driven Investment (LDI) manager search. Transition of assets from Dorset's incumbent manager to Brunel's preferred provider would only be considered as and when significant benefits to do so were clear.

Dawn Turner, Brunel's Chief Executive Officer (CEO), had resigned from her position and would be leaving the company at the end of September 2019. Laura Chappell, Brunel's Chief Compliance and Risk Officer, would be Acting CEO until a new CEO was appointed.

Noted

25. Pensions Administration

The Committee considered a report from officers on all operation and administration matters relating to the Pension Fund.

26. Pension Fund Accounts 2018-19

Dorset County Council's annual financial statements, including the pension fund accounts, were approved for publication by Dorset Council's Audit and Governance Committee on 26 July 2019.

Deloitte replaced KPMG as the administering authority's auditors in 2018-19, and gave an unqualified opinion on the pension fund accounts. The auditors were complimentary about the quality of the working papers provided to them, and the co-operation they received from officers during the audit. Two minor recommendations were made to improve internal controls.

Noted

27. Pension Fund Annual Report 2018-19

The Committee considered the pension fund annual report for 2018-19.

Under LGPS regulations, all LGPS funds had to produce and publish an annual report. The report had to be published by 1 December of each year.

The report had to comply with statutory guidance, which was why it was so lengthy. Updated guidance was issued by CIPFA for 2018-19 reports, which included new requirements for reporting on asset pooling.

Resolved

That the Pension Fund Annual Report 2018-19 be published on the pension fund's website.

28. Dates of Future Meetings

Resolved

That meetings be held on the following dates:

27 November 2019 London (venue to be confirmed)
12 March 2020 County Hall, Dorchester.

29. Urgent items

There were no urgent items.

Duration of meeting: 10.00 am - 1.00 pm

Chairman

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