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DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 12 MARCH 2020

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

Apologies: Cllr John Beesley (BCP)

Also present: Catherine Dix, Laura Hobbs, Faith Ward, Brunel Pension Partnership and Alan Saunders, Independent Investment Adviser

Officers present (for all or part of the meeting):
Jim McManus (Corporate Director - Finance and Commercial) and David Wilkes (Service Manager for Treasury and Investments)

43. **Declarations of Interest**

No declarations of disclosable pecuniary interests were made at the meeting.

44. **Minutes**

The minutes of the meeting held on 27 November 2019 were confirmed and signed.

45. **Public Participation**

The public questions together with the responses from the Chairman of the Pension Fund Committee are set out in the Appendix to the minutes.

46. **Urgent items**

There were no urgent items.

47. **Brunel Climate Change Policy**

The Committee received a presentation from Faith Ward, Laura Hobbs and Catherine Dix, Brunel Pension Partnership, the pension fund's LGPS investment pooling manager. The presentation summarised Brunel's recently launched climate change policy.

Climate change presented a systemic and material risk to the stability of every economy and country, and therefore would impact Brunel's clients, their beneficiaries and all portfolios holdings.

Investing to support the Paris agreement goals that deliver a below 2C°temperature increase was consistent with securing long-term financial returns and aligned with the best long-term interests of their clients.

To achieve a net-zero carbon future by 2050 (or before) required systemic change in the investment industry, and equipping and empowering investors was central to this change.

Carbon was not fully priced into the costs of goods and service, and therefore the market reaction to these matters was distorted. It was not just a supply side problem as 76% of emissions came from the demand side.

Brunel's policy was not to have a blanket divestment from all fossil fuel companies but instead "engagement with teeth" with companies was favoured. Divestment was part of their 'toolkit' but only in a targeted way. Brunel would undertake a 'stocktake' of their approach in 2023.

Examples of successful engagement and investor pressure were given. Blackrock, the world's largest asset manager and historically not very open about their approach to climate change risks, had recently joined Climate Action 100+. Barclays, the world's largest financier of fossil fuels, had recently announced changes to properly assess the climate change risks of new lending, and to phase out lending to companies not aligned with the goals of the Paris climate change agreement.

Some fossil fuel companies would be part of the transition to a lower/zero carbon economy. It was important to distinguish between 'good' companies, such as Repsol and Shell who were looking to engage and change, and 'bad' companies, such as Chevron and Exxon who, to date, were not.

The Independent Adviser supported Brunel's belief that engagement was better than blanket divestment, and that institutional investors should persevere to deliver change. Divestment was likely to benefit state owned suppliers such as Saudi Arabia and Russia, who could not be influenced in the same way as publicly owned companies. Brunel had low carbon and sustainable investment products available and the Committee should consider these as part of the review of the pension fund's investment strategy.

Concerns were raised about the level of targets and the speed by which they would be met. Brunel clarified that their aim was to be "well below two degrees" and for this to be achieved well before 2050. They would like to do more but they wanted to make deliverable commitments.

A member did not believe that oil companies were necessarily the best option for providing renewable sources of energy and felt that often local companies would be a better option. Brunel replied that such community led solutions were not currently suitable investment opportunities for pension funds due to their lack of scale and return.

There was a reminder from a member that the pension fund was there to provide pensions, and, therefore, it needed to be invested appropriately to make returns sufficient to meet those obligations.

The Chairman thanked Brunel for their presentation.

Noted

48. **Independent Adviser's Report**

The Committee considered a report by the Independent Adviser that gave his views on the economic background to the pension fund’s investments, the outlook for different asset classes and the key risks for markets.

Since the report was written markets had fallen steeply in response to the Coronavirus pandemic. He reminded the Committee that there had been lots of downs before from which markets had recovered.

To date there had been a supply side shock to economies but there would also be a demand side shock if businesses and individuals reduce their spending. If the virus could be contained there should be improvements to economies in the summer, but there would not necessarily be a ‘catch up’ of all lost output.

Central banks had been quick to intervene but cutting interest rates may not help much. In the UK the fiscal stimulus from the recent budget was welcome. The strategy of borrowing to invest was appropriate and should be replicated in other economies, such as Germany.

The pension fund’s funding level would have fallen from the results of the triennial actuarial valuation as at 31 March 2019. The actuary had used a demanding discount rate of 5% which needed to be taken into account when the committee reviewed the pension fund’s investment strategy at its next meeting.

The Vice-Chairman asked if there was an opportunity to invest whilst markets were low. The Independent Adviser noted that cash balances were relatively high and that a return of some collateral from the inflation hedging mandate was also expected that could be reinvested. It was agreed that up to £50m be invested in the Brunel global equities passive portfolio in two tranches, subject to a review of expected future cashflows by officers.

In response to concerns about the pension fund’s exposure to the retail sector it was noted that the property portfolio was significantly ‘underweight’ its benchmark exposure to this sector.

Resolved
That up to £50m be invested in the Brunel global equities passive portfolio in two tranches, subject to a review of expected future cashflows by officers.

49. **Fund Administrator's Report**

The Committee considered a report by the Fund Administrator on the pension fund's funding position, valuation, performance and asset allocation as at 31 December 2019. The value of the fund's investments at 31 December 2019 was just under £3.2 billion.

Barnett Waddingham, the pension fund's actuary, had completed their triennial review as at 31 March 2019 and the funding level had improved from 83% at the last triennial valuation to 92%. The Funding Strategy Statement had consequently been updated for approval by the Committee.

Markets had seen significant falls in the last few weeks prior to the meeting and this had an adverse impact on the value of the pension fund's assets and its funding position. The actuary had been asked to carry out an indicative update on the funding position as at 31 March 2020, and thereafter on a quarterly basis until the next full triennial review.

Following the conclusion of the triennial valuation, there would be a review of the pension fund's investment strategy and strategic asset allocation. This was primarily to ensure that the pension fund had the right mix of assets to give a good probability of meeting or exceeding the discount rate of 5% used by the actuary in the valuation.

Investment consultants, Mercer, had been appointed to assist with this review. The recommendations of this review will be discussed at the next meeting of the Committee in June 2020. If any new asset classes were proposed, appropriate training would be made available to members.

Resolved
That the updated Funding Strategy Statement (FSS) be approved for publication.

50. **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.

To the date of the meeting, investments valued at approximately £1.3bn had transferred to Brunel's management, representing just over 40% of the pension fund's total assets of £3.2bn. This included the transfer at the end of January 2020 of the remaining assets under the management of Investec Asset Management.

Laura Chappell, formerly Brunel's Chief Compliance and Risk Officer, was appointed as the company's new Chief Executive Officer (CEO), replacing Dawn Turner, who left the company at the end of September 2019.

Noted

51. **Treasury Management Strategy 2020-21**

The Committee considered a report by the Fund Administrator setting out the Treasury Management Strategy (TMS) for 2020-21.

Although the pension fund had no strategic allocation to cash, cashflows needed to be managed to ensure there was sufficient liquidity to meet liabilities as they fell due and to invest any surplus balances appropriately. The TMS provided the framework within which officers must manage those cashflows and 'treasury' investments.

The TMS for the pension fund broadly followed the TMS for Dorset Council, the administering authority for the pension fund, where applicable.

Resolved
That the Treasury Management Strategy for 2020-21 be approved.

52. **Pensions Administration**

The Committee considered a report from officers on operational and administration matters relating to the pension fund.

Discussions regarding potential remedies for the McCloud judgement continued. The estimated impact on funding level was likely to be relatively small, but remedies were likely to create a very large administrative burden.

Administering authorities in the LGPS had an obligation to provide access to an in-house Additional Voluntary Contribution (AVC) arrangement for their scheme members. Hymans Robertson had been appointed to conduct a review of the current arrangements.

Performance against Key Performance Indicators (KPIs) was generally good. The two exceptions both related to 'transfers out'. At times of high demand on the service, performance against these two KPIs was allowed to slip temporarily so that activities that impacted scheme members directly were prioritised.

Noted

53. **Dates of future Meetings**

Resolved
That meetings be held on the following dates:

18 June 2020	County Hall, Dorchester.
10 September 2020	County Hall, Dorchester
26 November 2020	London (venue to be confirmed)

54. **Exempt Business**

Decision

That the Press and the Public be excluded for item 55 in view of the likely disclosure of exempt information within the meaning of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

55. **Inflation Indexation Reform**

The Committee considered a report from officers summarising the risks to the pension fund's inflation hedging arrangements from proposed reforms to inflation indexation, namely the proposed replacement of the Retail Price Index (RPI) with the Consumer Prices Index adjusted for housing costs (CPIH). Options to mitigate those risks were discussed.

Resolved

That the Committee approve the change to the Insight guidelines to reduce inflation hedging from 40% of exposure to 30% from 2030.

Public Questions and Responses

Duration of meeting: 10.00 am - 12.55 pm

Chairman

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Questions submitted for Public Participation Period and answered by the Chairman of Pension Fund Committee

Questions submitted by Irene Stratham, Extinction Rebellion

Irene Statham addressed the meeting on behalf of Extinction Rebellion. Four questions were put to the Committee which the Chairman answered as set out below:

Question 1 - Will Dorset make a policy commitment to move to zero investment in fossil fuel companies ASAP?

We are currently in the process of reviewing the investment strategy for the pension fund. We have appointed an independent advisor, Mercer, who will make a series of recommendations for the full Committee to debate and agree at our June meeting.

We are aware that both Dorset Council and Bournemouth, Christchurch and Poole Council have declared a Climate Emergency and we have asked that our advisor should take this into account when making their recommendations. This should include options to allow us to move to a low carbon future including an assessment of whether it is possible, practical and legal to move to a policy of zero investment in companies whose main activity is the extraction and supply of fossil fuels and, if so, how long this would take to enact.

The £141M baseline suggested previously by others is not one the Committee recognises, and therefore I have asked officers to review the current level of investment in fossil fuel companies. The pension fund now has very little direct exposure to any such companies, but it does hold units in pooled funds that may have some exposure to these companies.

Question 2 - Will the Dorset Pensions Committee commit to lobbying MPs in relation to the 2020 Pensions Bill?

I will propose today that the Committee will commit to lobby MPs for clear alignment between the Paris Climate Agreement and any proposed legislation affecting the administration and investments of the Local Government Pension Scheme.

Question 3 - Will the Dorset Pensions Committee instruct the Independent Advisors to consider 'divesting from the fossil fuel industry' in their report?

We are instructing our independent advisor to come forward with options concerning how we can move towards a low carbon future. We would expect one of these options to include divesting from the fossil fuel industry and how far we can go that is consistent with our statutory and non-statutory duties and responsibilities.

Question 4 - Will the Dorset Pensions Committee work with the Brunel Pension Partnership to provide clear definitions, timelines and targets for divestment?

We are moving forward rapidly to a position where nearly all of Dorset's pension fund investments will be managed through the Brunel Pension Partnership. Any policy commitments made by Dorset will therefore have to be enacted by Brunel. This inevitably means that we will work very closely with Brunel and other authorities in the partnership to make a reality of our climate change policy and objectives.

Brunel have recently launched their own Climate Change Policy, which can be viewed by following the link below.
https://www.brunelpensionpartnership.org/climate-change/

The current value of investments in fossil fuel companies would be confirmed by officers at the next meeting of the Committee at the latest.

The Chairman thanked the members of the public for their attendance at the meeting and for their interest in the pension fund.

Resolved

1. That officers confirm the current value of investments in fossil fuel companies at the next meeting of the Committee at the latest.
2. That the Committee will commit to lobby MPs for clear alignment between the Paris Climate Agreement and any proposed legislation affecting the administration and investments of the Local Government Pension Scheme (LGPS).