DORSET COUNCIL - PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 26 NOVEMBER 2020

Present: Cllrs Andy Canning (Chairman) Peter Wharf (Vice-Chairman), John Beesley, David Brown, Ray Bryan, Bobbie Dove, Howard Legg, Mark Roberts and Adrian Felgate

Apologies: -

Also present:- Alan Saunders (Independent Advisor)

Officers present: Jim McManus and David Wilkes

70. **Apologies**

No apologies for absence were received at the meeting.

71. **Declarations of Interest**

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

72. **Minutes**

The minutes of the meeting held on 10 September 2020 were confirmed.

73. **Public Participation**

No questions were received from members of the public.

74. **Elected Member Participation**

Councillor Felicity Rice of BCP Council made a statement to the Committee.

Cllr Rice explained that the changes in the allocation of seats on outside bodies agreed by BCP Council meant that she was no longer a member of the Committee. She thanked all Committee members and looked forward to engaging with them and members of the public in the future to ensure all was being done to address climate change, and to increase emphasis on ethical and local investment.

Cllr Rice was pleased that she had been replaced on the Committee by another woman, Cllr Bobbie Dove, and added that it would be great to see more diversity on pension fund committees throughout the UK.

The Chairman thanked Cllr Rice on behalf of the Committee, particularly for helping to raise the importance of environmental considerations when making investment decisions. As a measure of the growing importance of environmental considerations, eight out of Brunel Pension Partnership's ten client funds had committed to invest in Brunel's newly launched sustainable equities fund.

75. **Urgent items**

There were no urgent items.

76. **Pensions Administration**

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

Performance as measured by the Key Performance Indicators (KPIs) had improved overall, with improvements in eight of the twelve areas measured. Performance since the period covered in the report had continued to improve in challenging circumstances.

The procurement of the pensions administration software system had completed with the contract awarded to Civica, and project managers had been appointed by both parties.

The Vice-Chairman informed the Committee that he and the leader of Dorset Council had made it very clear to the local MPs that that the current proposed exit payment cap legislation was misguided and would not achieve what it is intended to do.

The Local Government Association (LGA) Scheme Advisory Board (SAB) had also raised concerns about the additional burdens on administering authorities directly with the Ministry of Housing, Communities and Local Government (MHCLG). The SAB website published the most current information on this matter including counsel's opinion.

Resolved
That the interim advice to scheme employers regarding the exit payment cap be approved for publication, subject to approval also by the Local Pension Board.

77. **Independent Adviser's Report**

The Committee considered a report from Alan Saunders, the pension fund's 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.

The Office for Budget Responsibility (OBR) had forecast a fall in the UK's Gross Domestic Product (GDP) of 11% this year, followed by recovery of 5% to 7% in 2021. A return to 2019 levels was not expected until mid-2022 which represented a huge loss of output, tax revenues and employment. No deal on the future trading arrangements between the UK and the EU would weaken the OBR's forecast by about 2% annually.

Markets had been resilient despite this economic background largely because of huge monetary and fiscal support from central banks and governments. The key distinction with the response to the 2008/09 financial crisis had been the use of fiscal policy in addition to intervention by central banks. There had been extraordinary levels of government borrowing but this could be funded because interest rates were so low.

The market outlook had improved following recent news regarding the successful development of vaccines for Covid-19. In response UK markets had risen by 10% and there was a growing sense of optimism that we were coming out of this crisis. Markets had also been boosted by comments from the US Federal Reserve that they would not be taking action to slow inflation until it had recovered 'lost ground'.

The switch from UK to global equities allocations agreed at the last meeting of the Committee had not yet been implemented. This meant the pension fund had benefited from the market improvements in the UK. Sterling had recovered quite strongly also which would therefore make it less expensive to buy US stocks as part of the transition.

The government had confirmed that the Retail Price Index (RPI) would be aligned with the Consumer Price Index Including Housing Costs (CPIH) without compensation to holders of index linked bonds. RPI was approximately 0.8% higher than CPIH, with about half of this difference already discounted in the market. Investment consultants, Mercer, advised that there was no immediate need to change the pension fund's inflation hedging strategy but it was agreed that there should be training session for the Committee on the topic in March 2021.

The proposed appointment by President Elect Biden of Janet Yellen as the Treasury Secretary signalled a more consistent and pragmatic approach in the US. However, it was noted that the appointment needed to be approved by the Republican controlled Senate.

Resolved
That a training session covering the implications of RPI reform for the pension fund's inflation hedging strategy be held in March 2021.

78. **Pension Fund Administrator's Report**

The Committee considered a report from officers on the pension fund's funding position, valuation, performance and asset allocation as at 30 September 2020.

The value of the pension fund's investments had recovered to just over £3.0 billion at 30 September 2020. Assets were estimated to be 83% of the value needed to pay expected benefits accrued to 30 September 2020 compared to the funding level of 92% calculated by the actuary following their full assessment as at 31 March 2019.

Performance had been volatile with approximately 13% return over the first half of this financial year compared to -3% over the last 12 months. Both legacy and Brunel active equity managers had performed well with outperformance driven by growth stocks, particularly technology stocks. In recent years the pension fund had underperformed its combined benchmark in part because of the challenging market conditions for those investment managers with 'cash plus' benchmarks. There would be a review of the suitability of all benchmarks used.

As at 30 September 2020 just under 50% of assets had transferred to Brunel's management. Implementation of the changes to the investment strategy agreed by the Committee in September 2020 were expected to increase this proportion significantly before the end of the financial year. Implementation of the changes to equities allocations had begun and should be completed before the next meeting in March 2021.

The focus to date with the investment pooling project had been the transition of investments to Brunel's management. Now that the transitions were nearly complete, the focus would shift to assurance that expected outcomes were being delivered by Brunel. Reports needed to be better structured with a succinct summary of key points supported by the inclusion of more information regarding the performance of underlying managers.

David Vickers has been appointed as Brunel's Chief Investment Officer and would be invited to a future meeting of the Committee. The Brunel governance review was nearing its final stages. The slides from the recent Brunel investor days would be distributed shortly. The sessions worked well and would be worth continuing with when restrictions on face-to-fact contacts are lifted.

The approach to environmental, social and governance (ESG) matters remained a priority, with Brunel recognised as a leader in this field, although investment performance remained key. The investment in a low carbon farming business through Brunel's secured income portfolio was a good example of good returns with positive environmental impacts. ESG benefits through investment pooling were much greater than could have been achieved acting as an individual pension fund.

The balance between divestment from fossil fuels but supporting those energy companies who are investing heavily in renewables was discussed. In September the Committee resolved to take a broader low carbon approach rather than a blanket divestment from fossil fuels so some investment in oil companies would be retained. Further details about Brunel's the investments in hydrogen were also requested.

The government's rationale for investment pooling had been that investment manager fees savings from economies of scale would more than offset set-up, transition and ongoing management costs. A detailed review of progress against the original expected outcomes was required and should be added to the Committee's forward plan.

Resolved

i. That officers and the Independent Adviser review the benchmarks for all investments.
ii. That details of underlying investments in hydrogen be requested from Brunel.
iii. That a detailed review of progress against the original expected outcomes of the investment pooling project be added to the forward plan.

79. **Pension Fund Annual Report 2019-20**

LGPS regulations require all administering authorities to publish an annual report on the activities of its pension fund. The report for 2019/20 had taken longer to produce than in previous years because of the impact of Covid-19.

The report of the independent auditor regarding the financial statements had not been received but it would be circulated to members of the Committee when received. No major findings were anticipated.

The annual report would be published on the pension fund's website but Committee members could also request paper copies.

The annual report should highlight that it had been an exceptional year due to the impact of Covid-19 as the timing of the downturn in financial markets had coincided with the pension fund's year end date and that asset values had subsequently recovered significantly.

Resolved

i. That the auditor's report is circulated to all Committee members when received
ii. That the annual report is published as is, with a delegation to the Chairman and Vice-Chairman to approve the final version if no substantive matters are raised in the auditor's report.
iii. That the annual report be amended to highlight that it had been an exceptional year due to the impact of Covid-19 as the timing of the downturn in financial markets had coincided with the pension fund's year end date and that asset values had subsequently recovered significantly.

80. **Dates of Future Meetings**

<u>Resolved</u>
That meetings be held on the following dates:
10am 11 March 2021 MS Teams

81. **Exempt Business**

There was no exempt business.

Duration of meeting: 10.00 - 11.55 am

Chairman

....