

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON TUESDAY 29 NOVEMBER 2022

Present: Cllrs Toby Johnson (BCP), Simon Christopher, Andy Canning (Chairman), David Brown (BCP), Howard Legg, Mark Roberts and Adrian Felgate

Present – online: Cllr John Beesley (BCP)

Apologies: Cllrs Peter Wharf

Also present: Ian Howse (Deloitte), David Vickers and Tim Dickson (Brunel Pension Partnership), and Steve Tyson (Independent Investment Adviser, MJ Hudson)

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

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

176. Apologies

An apology for absence was received from Cllr Peter Wharf.

177. Minutes

The minutes of the meetings held on 14 June and 9 November were confirmed and signed.

178. Declarations of Interest

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

179. Public Participation

No questions or statements from members of the public were made at the meeting.

180. Questions From Councillors

No questions from Councillors were made at the meeting.

181. Urgent items

No urgent items were raised at the meeting.

182. **External Audit Update**

Ian Howse, Deloitte, gave an update on progress completing the independent external review of the pension fund accounts for 2020/21 and 2021/22.

The audit for 2020/21 was substantially complete with no reason not to expect an unqualified opinion. The opinion on the pension fund accounts formed part of the wider opinion on Dorset Council's accounts which had been held up due to a national issue regarding the valuation of infrastructure assets. A Statutory Instrument on this matter was expected to be brought before Parliament before Christmas which would clarify this issue and allow the audit to be completed in early 2023. Work on the audit of the 2021/22 accounts was underway with no matters of concern identified to date.

It was expected to take most of 2023 for audit work to get back to normal pre-Covid timescales. Deloitte were temporarily withdrawing from local government audit work which meant Dorset Council would be appointing a new auditor for 2023/24.

It was also noted that delays in completing the audit of the pension fund accounts had caused a material impact on the work of auditors for other scheme employers.

183. **Brunel Pension Partnership Quarterly Report**

The Committee considered the quarterly report of Brunel Pension Partnership (Brunel), the pension fund's Local Government Pension Scheme (LGPS) investment pooling manager.

Many of Brunel's portfolios had underperformed over the quarter and 12 months to date but Brunel believed the fundamentals of businesses owned, such as earnings and the ability to generate cash, remained sound. Brunel did not believe that there was a long-term trade-off between their responsible investment approach and performance returns. The independent investment adviser felt that the responsible investment approach needed to be smarter to avoid overpaying for assets.

The revised format of the report was felt to be a big improvement and it would continue to evolve, with any feedback welcomed.

184. **BRUNEL GOVERNANCE / SCHEME ADVISORY BOARD UPDATE**

Cllr John Beesley, the pension fund's representative on the Brunel Oversight Board (BOB), and also a member of the LGPS Scheme Advisory Board (SAB), updated the Committee on governance matters relating to investment pooling.

More work was needed to understand the Committee's options if investment under performance by Brunel persisted ("Plan B").

Brunel had been working with some of their other clients to identify opportunities for local impact investing which was something that the Committee could consider in future.

There was an opportunity through SAB to influence the government's position on pooling related matters such as 'levelling up', pace of transition and commitment to pooling by LGPS funds.

185. **PENSIONS ADMINISTRATION REPORT**

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

Performance against Key Performance Indicators (KPIs) was generally good with some exceptions. A summary of complaints could be reported to Committee annually in future. Officers were already required to report complaints annually to the Pension Regulator. The average number of days to achieve certain activities could be useful in addition to the KPI percentage achieved.

The McCloud remedy was expected to generate a significant amount of additional work. Officers were reasonably confident sufficient resources would be available to deal with this due to an ongoing recruitment campaign and also because the quality of the pension fund's data was good.

186. **INDEPENDENT INVESTMENT ADVISER'S REPORT**

The Committee considered a report from Steve Tyson, MJ Hudson, the pension fund's Independent Investment Adviser, that gave his views on the economic and market background to the pension fund's investments, the outlook for different asset classes and key market risks.

Equities and bonds markets were down, inflation and interest rates were up and economies were heading towards recession. There were signs inflation may have peaked in the US but inflation was not expected to peak in the UK until spring 2023, although it was more important what levels inflation would settle at. Markets bottom out before economies do and, although markets may not have reached the bottom, value had begun to emerge in bonds and equities markets.

It had been a difficult time for the performance of the pension fund's investments in both absolute terms (compared to the actuary's discount rate) and relative terms (compared to market benchmarks). Relative performance was a function of asset allocation and manager selection, with the pension fund's under-performance attributable partly to the allocation to sustainable equities but mainly to manager selection decisions.

187. **FUND ADMINISTRATOR'S REPORT**

The Committee considered a report from officers on the pension fund's funding position, asset valuation, investment performance and asset allocation as at 30 September 2022.

The value of the pension fund's assets at 30 September 2022 was £3.4billion compared to £3.7bn at the start of the financial year, with nearly two-thirds of assets now under the management of Brunel.

The pension fund's actuary, Barnett Waddingham, was finalising the latest full assessment of the funding position as at 31 March 2022. Compared to the last valuation as at 31 March 2019, it was expected that the funding level would be up from 92% to 96%, the discount rate would be down from 5.0% to 4.9% and overall employer contribution rates would be broadly unchanged (with increases in primary rate offset by decreases in deficit contributions) although this would vary between employers.

The investment return for the quarter was -1.3% compared to the combined benchmark return of +0.2%. The total return for the 12 months to September 2022 was -7.2% compared to the benchmark return of -2.4%. The main detractors to performance in the quarter were many of the Brunel active portfolios as had been discussed earlier in the meeting.

188. **PENSION FUND ANNUAL REPORT 2021/22**

LGPS regulations require all administering authorities to publish an annual report on the activities of its pension fund. 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.

Decision

That the annual report is published on the pension fund's website in draft unaudited format.

189. **DATES OF FUTURE MEETINGS**

10am Tuesday 14 March 2023 – County Hall, Dorchester.

190. **Exempt Business**

Decision

That the press and the public be excluded for the following item(s) in view of the likely disclosure of exempt information within the meaning of paragraph 3 of schedule 12 A to the Local Government Act 1972 (as amended).

191. INVESTMENT MANAGEMENT CHANGES

The Service Manager (Treasury and Investment) gave an update on the implementation of changes to investment management arrangements agreed by the Committee at previous meetings.

Duration of meeting: 10.00 am - 12.45 pm

Chairman

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