

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON TUESDAY 19 SEPTEMBER 2023

Present: Cllrs Andy Canning (Chairman), David Brown (BCP Council), Adrian Felgate, Howard Legg and Felicity Rice (BCP Council)

Present remotely: Cllrs John Beesley (BCP Council), Simon Christopher and Mark Roberts

Apologies: Cllrs Gary Suttle

Also present: David Vickers (Brunel Pension Partnership), and Steve Tyson (Independent Investment Advisor, Apex Group)

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

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

223. Minutes

The minutes of the meeting held on 13 June 2023 were confirmed and signed.

224. Declarations of Interest

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

225. Public Participation

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

226. Questions From Councillors

The following question was received from Cllr Joe Salmon, BCP Council:

“I just wanted to ask given there seems to be investment still in fossil fuels if the fund was invested in any other morally questionable ventures such as:

- Pornography
- Sex work
- Gambling
- The distribution and sale of arms
- Businesses based in countries that use child / sweatshop labour

- Businesses based in countries that discriminate against people on the basis of their sexuality, gender or race (Saudi Arabia, Uganda etc)
- The sale of nicotine
- The sale of alcohol”

The Chairman gave the following response:

“The Pension Fund Committee agrees the investment strategy for the pension fund but then engages external investment managers to deliver that strategy. We do not restrict our investment managers from investing in specific companies or sectors but they must consider all financially material risks relating to their decisions including environmental, social and governance factors that may apply to the sectors you have listed.

As part of the government’s requirement for Local Government Pension Scheme (LGPS) funds to pool investments the vast majority of the fund’s investments are now managed by the Brunel Pension Partnership, who are widely recognised as a leader in responsible investment. Rather than impose thematic exclusions across its portfolios, Brunel scrutinises its managers’ investment and risk processes, including their approach to stewardship and integration of environmental, social and governance risks throughout their stock selection process.

A link to Brunel’s Responsible Investment and Stewardship Outcomes report will be included in the written response to this question.”

<https://www.brunelpensionpartnership.org/wp-content/uploads/2023/05/2023-Responsible-Investing-and-Stewardship-Report.pdf>

227. Urgent items

There were no urgent items raised.

228. 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.

Markets appeared to have ‘priced in’ the belief that inflation had been controlled and that recession had been avoided. Although this scenario was plausible there was still a high chance of a return of high inflation and/or of recession.

Listed markets were now driven by a few very large stocks, namely the so-called ‘magnificent seven’ of Alphabet, Apple, Meta, Nvidia and Tesla. The key determinant of the performance of each of Brunel’s listed markets portfolios had therefore become how much the portfolio was over or underweight the benchmark index in these companies. This trend also meant that ‘market capitalisation’ indices had become very concentrated.

An error made by the index provider for the Paris Aligned Benchmark (PAB) and Climate Transition Benchmark (CTB) had led to inaccurate rebalancing in the passive portfolios that tracked these indices. Officers and the independent investment adviser would need to be confident that this error would not reoccur before recommending to Committee any further allocations to these portfolios.

Brunel's annual private markets reviews had just been published. The first cycle of commitments to Brunel's private markets portfolios was now largely invested and had performed well. It was too early to judge the second and third cycles of commitments but they were likely to have been adversely impacted by the rising cost of debt finance.

The consideration of Environmental, Social and Governance (ESG) factors in public markets was primarily for the purpose of mitigating or avoiding risk. Private markets generally offered more opportunities to benefit from ESG considerations, such as financing the transition away from fossil fuels, as they were typically earlier in the capital formation cycle of companies.

229. **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. He reported back from meetings of SAB on 17 July 2023 and BOB on 7 September 2023.

The main items of discussion at SAB had been the next steps for the McCloud remedy following the end of the consultation, the new regulations proposed for survivor benefits and the consultation on next steps for LGPS investments (an item covered later on the agenda).

BOB considered a suggestion from Dorset for the pool to seek cross pool performance data. Brunel's Chief Investment Officer felt that a wider comparison against the peer group of investment managers would be more beneficial. This was because Brunel was not a 'stock picker' but instead appointed underlying investments managers to make individual stock selection decisions. Dorset's suggestion was not currently supported by the other client funds due to concerns about the further burden of reporting this could lead to with no obvious end result.

The independent investment adviser was disappointed and surprised by the lack of support for Dorset's proposal as there was very little transparency of performance data between pools which was believed necessary for raising standards across the pools. This could be raised through Dorset's response to the government's consultation on the next steps for LGPS investments covered later in the agenda. BOB had also considered the draft response from Brunel to this consultation which was not dissimilar to Dorset's proposed response.

The request from Brunel to make changes to their people strategy to include benchmarking of salaries against other LGPS investment pools had now been agreed by all shareholders as required. Aidan Dunn was thanked by Cllr Beesley

for the key role he played in reaching this agreement, which at one point had looked unlikely.

Brunel's chair was stepping down in 2024. The process for appointing a replacement had begun and good progress had been made.

The Chairman was grateful to Cllr Beesley's for his role in the relationship with Brunel and also for keeping Committee members aware of matters considered by SAB.

230. **LGPS INVESTMENT CONSULTATION**

In July the government published a consultation seeking views on the "next steps on investments" for the LGPS in England and Wales with a deadline for responses of 2 October 2023. The consultation sought views on proposals covering asset pooling (particularly the speed of transition of assets to pools, collaboration between pools, the optimal size of pools), levelling up, opportunities in private markets, investment consultancy services and the definition of investments.

The Committee considered a draft response to the consultation from officers based on a number of discussions with the other Brunel client funds and the pooling company itself. The aspiration was for as far as possible a common response from all ten client funds and the company, as it was hoped this would carry more weight than 11 disparate responses, but it was recognised that each client fund would need to respond as it saw fit from its own perspective.

The Committee was supportive of greater collaboration between pools (especially in private markets) but sceptical of the benefits of reorganising the pools into fewer, larger pools which seemed to lack supporting evidence. The Committee did not agree that government should be directing pension funds to invest a defined amount in 'levelling up' or any other asset class as this could lead to a conflict with their fiduciary duty. A number of changes to the response were agreed including support for the use of consistent benchmarks for the comparison of performance between pool.

Decision

That officers update the draft response to the consultation to reflect the changes agreed and the circulate for comment prior to submission.

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

The Committee considered a report from Steve Tyson, Apex Group (formerly 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.

232. **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 31 March 2023.

The value of the pension fund's assets at 30 June 2023 was £3.6 billion compared to just over £3.5 billion at the start of the financial year, with just over three quarters of assets by value now under the management of Brunel.

The total return from the pension fund's investments over the quarter to 30 June was 1.4%, equal to the combined benchmark return. The total return for the 12 months to June was 4.3% compared to the benchmark return of 5.0%. Over the longer term, annualised returns for three years were 5.8% compared to the benchmark return of 6.2%, and for five years 4.0% compared to 4.7%.

The independent investment manager felt that the report was missing attribution analysis showing whether performance was resulting from stock selection decisions by underlying managers or from markets.

Some of the factors that needed to be taken into consideration in the forthcoming 'deep dive' review of the pension fund's equity investments were highlighted by officers: (1) how we see beyond the 'noise' from the magnificent seven, (2) how we ensure that the pension fund's assets are well managed and well positioned for the longer term without missing early warning signals in quarterly data, (3) the concentration risk of traditional market cap passive investing and (4) an appropriate response to the climate emergency.

233. PENSIONS ADMINISTRATION REPORT

The recruitment of new staff had had a positive impact on performance against Key Performance Indicators (KPIs). Recruitment and retention had stabilised, and the administration team were in a good position to deal with the additional work associated with the McCloud remedy, although there were difficulties with the software solution resulting in more testing and checking of data and calculations.

Annual Benefit Illustrations (ABIs) were issued to scheme members in August, ahead of the statutory deadline. Scheme members receive paper copy ABIs as this gives an annual opportunity to communicate key messages to all members which are focused on member benefits not investments or other matters due to limited space available. Detailed information on investments can be found in the pension fund's annual report and other online publications on both the pension fund's website and on Brunel's website.

The LGPS Annual Report for 2022 had been published which showed a largely positive picture for the scheme collectively. The importance of this was that total scheme performance could lead to potential changes to scheme member benefits and/or contributions as opposed to the triennial valuation which dictated fund specific employer contributions only.

234. **Dates of Future Meetings**

10am Wednesday 29 November 2023 - County Hall, Dorchester.

10am Tuesday 26 March 2024 (to be confirmed) - County Hall, Dorchester.

235. **Exempt Business**

There was no exempt business.

Duration of meeting: 10.00 am - 12.45 pm

Chairman

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