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PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON TUESDAY 26 NOVEMBER 2024

Present: Cllr Andy Canning (Chair), Cllr Andy Todd (Vice-Chair), Cllr David Brown, Cllr Will Chakawhata, Adrian Felgate (Scheme Member Representative), Cllr Felicity Rice and Cllr Andy Skeats

Present remotely: Cllr John Beesley

Apologies: Cllr Gary Suttle

Also present: Steve Tyson (Independent Investment Advisor, Apex Group) and Tim Dickson (Brunel Pension Partnership Ltd)

Also present remotely: Simon Wood (Head of Listed Markets and Deputy Chief Investment Officer, Brunel Pension Partnership Ltd)

Officers present (for all or part of the meeting): Sean Cremer (Corporate Director Finance & Commercial), Karen Gibson (Service Manager - Pensions) and David Wilkes (Service Manager - Treasury and Investments)

295. **Minutes**

The following amendment to the minute #290 of the meeting held on 17 September 2024 was agreed:

The Committee recorded its concern that Brunel had consistently failed to outperform, or meet, their benchmark targets since appointment, and thus the committee anticipated a material change in outcomes as a priority.

296. **Declarations of Interest**

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

297. **Public Participation**

Questions and statements from members of the public are included in an appendix to these minutes.

298. **Questions From Councillors**

Questions and statements from Councillors are included in an appendix to these minutes.

299. **Urgent items**

No urgent items were raised at the meeting.

300. **PENSIONS ADMINISTRATION**

Performance against Key Performance Indicators (KPIs) continued to be positive.

Some of the software required for the implementation of the McCloud remedy had been delivered by the software provider and was being tested. The remaining developments were still expected to be delivered in January 2025.

The Government was consulting on changes that would mean death grants paid by the Local Government Pension Scheme (LGPS) would form part of a member's estate for inheritance tax purposes. Death grants were currently out of scope for inheritance tax. The change was planned to take effect from April 2027.

It was noted that once the pensions payroll had migrated into the pensions administration system, pensioners would be able to access P60s and payslips on the member portal. Pensioner members were currently unable to do this.

Monthly updates were now sent to scheme employers.

301. **BRUNEL GOVERNANCE AND SCHEME ADVISORY BOARD UPDATE**

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

An introductory meeting with Sally Bridgeland, the new Chair of Brunel, had taken place with Cllr Beesley and officers. The next BOB meeting was scheduled for 5 December 2024.

The last meeting of SAB was on 25 November 2024, where the Chancellor's Mansion House proposals were discussed. The Local Government Pension Scheme: Fit For The Future consultation is due to close on 16 January 2025. This consultation seeks views on proposals relating to the investments of the LGPS, such as asset pooling, UK and local investment, and governance matters. SAB planned to prepare a draft response to the consultation prior to Christmas.

Officers would also draft a response to the consultation for consideration by the Chair and Vice-Chair of the Committee, Cllr Beesley and Steve Tyson. Discussions were also taking place between officers of the Brunel Pension Partnership and the ten client/shareholder administering authorities.

The Government's deadline of March 2026 for a new investment pooling model to be in place would be tight and a lot of work needed to be completed ahead of this, by Brunel in particular.

302. PENSION FUND ANNUAL REPORT 2023/24

The financial statements included in the annual report were draft financial statements. This was because the external audit had not yet been concluded. The annual report would be updated on completion of the audit.

Two inconsistencies in relation to the wording of the Local Pension Board and omission of the Code of Conduct for scheme member representatives were highlighted. Subject to these inconsistencies being checked and amended as necessary, it was agreed to publish the annual report.

The annual report did not require an equality impact assessment because it reported what had happened during the year and was not a policy, project, strategy, service or proposal that would affect people.

Decision

That the draft annual report for 2023/24 be published.

303. PENSION FUND INVESTMENTS

The value of the pension fund's assets at 30 September 2024 was just over £4 billion, an increase of approximately £100m since 1 April 2024. The total return from the pension fund's investments over the quarter to 30 September 2024 was 2.2%, compared to the combined benchmark return of 1.6%. The total return for the year to 30 September 2024 was 13.8% compared to the benchmark return of 13.7%.

The drivers for improved performance in the quarter to 30 September 2024 were the sterling corporate bond fund, multi asset credit fund and UK active equities. The currency hedging in place also helped overall performance.

Simon Wood provided an update on performance of the Brunel portfolios over the quarter to 30 September 2024. Four of the eight active funds outperformed, three underperformed and one fund was in line with the benchmark. The relative performance of Brunel's portfolios continued to be determined by their exposure to the 'magnificent seven' mega-cap stocks. However, it was noted there were signs of a break-up of the magnificent seven stocks which would be positive for Brunel's global portfolios.

There were concerns of underperformance in the current quarter to date. All listed UK equity portfolios were behind benchmark.

Tim Dickson provided an update on the recruitment of a new Chief Investment Officer (CIO) at Brunel. The process was underway, and interviews were scheduled for January 2025. The current CIO, David Vickers, was due to leave Brunel in Spring 2025.

304. Dates of Future Meetings

1.30 pm Tuesday 18 March 2025 - County Hall, Dorchester.

All meetings to be preceded by training for committee members 10am to 12.45pm.

305. **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).

306. **INVESTMENT MANAGEMENT ARRANGEMENTS**

The Committee considered proposals to make some changes to investment management arrangements.

Decision

That the proposed investment management changes were implemented.

Appendix 1 Questions from Public
Appendix 2 Questions from Councillors

Duration of meeting: 1.30 - 3.05 pm

Chairman

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Pension Fund Committee 26 November 2024

Question from Julie-Ann Booker, Dorset resident and member of the Dorset Local Government Pension Scheme.

The draft Dorset Pension Fund Annual Report 2023/2024 (page 10) states: “The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund”.

A BBC report on 15 October 2024 came to the conclusion that burning waste produces the same amount of greenhouse gases for each unit on energy as coal power, which was abandoned by the UK earlier this year. The BBC had examined five years of data from across the country. They concluded that burning household rubbish in giant incinerators to make electricity is now the dirtiest way the UK generates power.

<https://www.bbc.co.uk/news/articles/cp3wxgje5pwo>

Whilst this in itself is good social, environmental and ethical reason to question asset investment in such facilities, one of the UK’s biggest pension funds, Aviva, has now reported losing more than £350m on a series of calamitous investments in incinerator power plants that are expected to go bust in the very near future.

A report in The Guardian, 20 November 2024, stated that “(we) understand that Aviva Investors will put three incinerators into administration this week after pouring millions of pounds into what has been described as the country’s “dirtiest form of power generation. Aviva’s own accounts show that the three incinerator plants – in Hull in East Yorkshire, Boston in Lincolnshire and Barry in south Wales – accumulated loans totalling £480m from its investors between 2015 and 2023”.

Whilst traditional asset risk management theory looks backwards to assess risk and up until now has not taken into account existential factors, this example demonstrates that the writing is on the wall for new strategic asset management thinking in strategic asset allocations.

<https://www.bbc.co.uk/news/articles/cp3wxgje5pwo>

Dorset Council refused planning permission for Powerfuel’s waste to energy plant at Portland Port. Following a public planning inquiry the government overturned the planning refusal. On 24th October 2024 Cllr Nick Ireland was reported in the Dorset Echo expressing his ‘deep disappointment’ over the government’s decision to grant planning permission for the plant, suggesting that it ‘knee-caps’ the authority’s own net zero ambitions.

<https://www.dorsetecho.co.uk/news/24672750.dorset-council-writes-letter-deputy-pm-incinerator/>

My question is: Do any of the Dorset Pension Fund asset portfolios invest in companies that have, or are investing in, waste incinerators? If so, when will the Dorset Pension Fund Committee be instructing Brunel Pension

Partnership to exclude such companies from their investment portfolio and move the invested assets elsewhere?

Response:

Through its investments in Brunel's private market portfolios, the Dorset Fund will have small underlying exposures to operations with incinerators, including bioenergy from waste plants, the handling of household waste and recycling operations. There is also likely to be some very small exposure through Brunel's listed markets' portfolios as well.

The Pension Fund Committee engages Brunel and other external investment managers to deliver the Fund's investment 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.

Rather than impose exclusions, Brunel, widely recognised as a market leader in Responsible Investment, scrutinises its underlying managers' investment and risk processes, including their approach to stewardship and integration of environmental, social and governance risks throughout their stock selection process.

Question from Caz Dennett, South West Action on Pensions, and Dorset Pension Scheme member

Last week the Chancellor Rachel Reaves announced planned changes to Local Government Pension Schemes structures and governance, aiming to create a unified governance framework like the model used in Canadian pensions schemes.

The strategy is very detailed and quite complex, however, South West Action on Pensions understand the following summarised key takeouts affecting Administrating Authorities:

1. AAs will be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool (regulated by the Financial Conduct Authority).
2. AAs must have an independent advisor who can challenge advice from the pool
3. All assets currently managed by AAs must be transferred to their pool
4. The AA's responsibility in respect of investments is to set the investment strategy
5. AAs must set out their approach to local investment in their investment strategy including a target range for the allocation, and having regard to local growth plans and priorities.
6. AAs will define Environmental Social and Governance matters and Responsible Investment policy for their assets
7. The new model will be in place by 1st March 2026
8. AAs and Pools need to propose how they will operate under the new proposals by 1st March 2025
9. The consultation runs to the 16th January 2025

10. The Ministry of Housing, Communities and Local Government (MHCLG) consultation requests views on how "scheme members' views and interests are properly understood and taken into account by the pools" and is open until 16th January 2025 <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future>

The proposed changes would appear to impact the role of Pension Fund Committees.

Some commentators express concerns with regards:

- periodic reviews of investments and exclusions
- the flexibility to align pension fund investments with, for example, Dorset's transition planning
- the Pension Fund's decarbonisation goals
- diminishes local democratic decision making and scheme member / public engagement
- robust discussions on the financial risks associated with climate change and pension fund investments will be lost

How does the Dorset Pension Fund Committee view the proposed governance changes, how comfortable are you to transfer decision making on mass to Brunel?

Response:

The details of the proposed changes in the consultation are still being considered. Some of the changes would place more reliance on the LGPS investment pooling companies to help design as well as deliver their client funds' investment strategies but it is not clear what recourse client funds would have should their pooling companies fail to deliver their required investment outcomes.

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Questions from Councillors

Question from Cllr Jon Orrell, Dorset Council

I have read the book Moving Beyond Modern Portfolio Theory and it is clear that its treatment of risk as the volatility of market prices is inadequate. MPT has no interest in the source of that volatility, such as climate risk. Academic research makes it clear that climate risk is almost certainly mispriced by financial markets. There is a risk of a Minsky moment and sudden change in markets, like Lehman, as climate impacts exceed earlier predictions? **How do your advisers incorporate that research in their advice regarding your Strategic Asset Allocations?**

Response:

The pension fund's external advisers are aware of the climate related risks you highlight and incorporate that into their advice regarding Strategic Asset Allocation and associated training for Pension Fund Committee members.

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