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PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON THURSDAY 11 MARCH 2021

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

Also present (for all or part of the meeting): Catherine Dix and David Vickers, Brunel Pension Partnership, Peter Scales, Independent Governance Adviser and Alan Saunders (Independent Investment Advisor).

Officers present (for all or part of the meeting): Aidan Dunn (Executive Director – Corporate Development), Jim McManus (Corporate Director – Finance and Commercial), Karen Gibson (Service Manager – Pensions) and David Wilkes (Service Manager – Treasury and Investments).

82. **Apologies**

No apologies for absence were received at the meeting.

83. **Declarations of Interest**

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

84. **Minutes**

The minutes of the meeting held on 26 November 2020 were confirmed and would be signed at the earliest opportunity.

85. **Public Participation**

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

Prior to answering each question, the following statement was read by the Chairman:

“We have received a number of questions from members of the public and from councillors regarding the pension fund’s approach to investments in fossil fuels.

We will answer each of the questions in turn but before we do so I would like to remind everyone that this topic was discussed at length at our meeting in September and that the reports, minutes and a recording of those discussions are all available on the Council's website.

I would also like to remind everyone that the purpose of the pension fund is to pay benefits to scheme members and that the committee has a duty to scheme members and their employers to ensure that their contributions to the fund are invested appropriately to make returns sufficient to meet those obligations. This duty overrides any other considerations."

86. **Questions from Members**

Councillor Dr Kelvin Clayton asked the following question:

"No one seriously doubts the contribution the fossil fuel industry has made to a potentially catastrophic rise in global temperatures. As a result, many people now regard investment in this industry as not only unethical, but, because its days are numbered, as financially unsound. Nationally, six local councils, 86 universities and the UK's biggest pension (NEST) have all committed to divest from the fossil fuel industry.

Last September this committee agreed a new decarbonisation strategy. According to the chair of this committee these changes 'will deliver significant reductions in our carbon footprint.' Will these 'significant reductions' include an actual end to all fossil fuel investments? If yes, by what date? If no, how do you justify any continued investment?"

The Chairman responded to the question as follows:

"This topic was discussed in some detail at the meeting of the Committee in September 2020 and the reports, minutes and a recording of the discussions are publicly available.

The approach agreed by the Committee then does not include a commitment to divest completely from companies involved in the sourcing and refining of fossil fuels. Instead it seeks to reduce investment in all high carbon emitting companies and to influence the demand for fossil fuels and their financing, not just their supply.

The decision was based upon evidence presented to the Committee by independent investment consultants, Mercer, that a strategy of decarbonisation can deliver significantly greater reductions in the 'carbon footprint' of investments than can be achieved by divestment. Divestment also removes the opportunity to influence companies by working with them to transition to a lower carbon future. Targeted divestment remains an option from individual companies who will not positively engage.

Significant decarbonisation will be achieved through the transition of assets to the management of Brunel Pension Partnership, the pension fund's LGPS investment pooling manager. 10% of the pension fund's assets are now invested in Brunel's sustainable equities fund, which is 20% of our total equities and is the fund's largest single investment. All other Brunel funds are committed to a policy of a 7% year on year reduction in their carbon footprint.

In 2022 Brunel will be undertaking a 'stock take' of their approach to engagement and divestment. If this review concludes that companies are not taking appropriate action and sufficient steps to manage climate risks and to enable alignment with the Paris Climate Agreement then the Pension Fund Committee will need to reconsider its approach too."

Cllr Clayton thanked the Chairman for his response but asked why just two approaches were considered and if decarbonisation and divestment were mutually exclusive?

The Chairman replied that the Committee had listened to advice from experts and debated that advice at length at its meeting in September. It seemed to the Committee that decarbonisation was the more effective route but he was sure this conclusion would be reviewed again in the future.

87. Urgent items

There were no urgent items.

88. 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) was fine. Working from home was not ideal but the administration team had kept on top of key areas. The Chairman thanked the administration team for their work in what had been a very difficult year.

The system change was going well and would 'go live' in July 2021. The Risks, Assumptions, Issues and Dependencies (RAID) log would be shared with committee members.

The Public Sector Exit Payments Regulations had been revoked. The regulations had caused a lot of work for the administering authority and for scheme employers. Whilst no scheme members had been directly impacted it had led to the delay of decisions by a number of scheme employers.

Officers would undertake a 'stock take' of the pension fund's current position against the good governance recommendations published by

the Local Government Pension Scheme (LGPS) Scheme Advisory Board. As a member of the Scheme Advisory Board, Cllr Beesley offered his support for this review which was accepted by officers.

Resolved

- i. That the systems implementation project Risks, Assumptions, Issues and Dependencies (RAID) log be shared with Committee members.
- ii. That there is a stock take of the pension fund's current position against the LGPS Scheme Advisory Board good governance recommendations.

89. Investment Pooling Update

The Committee considered a report from David Vickers, Chief Investment Officer (CIO) of the Brunel Pension Partnership (Brunel) who had taken up post in January 2021. He gave a brief summary of his background, his thoughts on the investment context to quarter 4 2020, and summarised the performance of the Brunel funds that the pension fund held investments in.

Brunel was widely acknowledged as a leader in responsible investment and engagement. All active funds were below benchmark for emissions and committed to year on year reductions in 'carbon footprint'. In relation to passive investments, Brunel were engaging with the major market index providers to create indexes that are aligned with the targets of the Paris Climate Agreement.

There was a project underway to ensure that Brunel's client funds received the right level of information needed to discharge their duties and provide assurance, including more detail on the performance of the underlying managers in Brunel's funds.

Noted

90. Annual Governance Review

The Committee received the annual update on governance compliance from the Independent Governance Adviser.

He was satisfied that good standards of governance, including the role of the Local Pension Board, had been maintained since his last report in November 2019. There had been enormous challenges but the pension fund had been well managed and performance had held up.

The conclusions of the good governance review commissioned by the LGPS Scheme Advisory Board were highlighted and referred back to the resolution for a 'stock take' agreed earlier in the meeting under Pensions Administration.

Minutes of the meetings of the Pension Fund Committee are shared with the Local Pension Board. It was agreed that minutes of the Local Pension Board should also be reported to the Committee

Officers informed the Committee that the report of the external auditors regarding the pension fund financial statements for 2019/20 had not been received at the date of the meeting. No significant findings had been reported by the auditor to officers and the reasons for the delay were believed to be due to resourcing of the work by the auditor.

Resolved

That minutes of the Local Pension Board will be reported to the Pension Fund Committee in future.

91. Independent Adviser's Report

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

The size of the stimulus package recently agreed in the US was equivalent to approximately 8% of Gross Domestic Product (GDP), compared to approximately 3% in the UK. Whilst the stimulus was good news its size did heighten the risk of inflation.

Markets had seen a 'W' shaped recovery. Technology stocks looked highly valued but this was not so evident in other sectors. Bond yields had seen big rises which meant falls in value. Little recovery in the capital values of properties was expected in the medium term.

The proposals to replace the Retail Prices Index (RPI) with the Consumer Prices Index including housing costs (CPIH) had been approved by government. There would be no compensation for the holders of index linked assets such as the pension fund. There had been surprisingly little negative reaction to this because the impact on the price of inflation linked assets had been offset by an increased risk of inflation.

The Independent Investment Adviser announced his intention to retire and that the Committee's meeting in September 2021 would be his last.

The Chairman and Vice-Chairman thanked the Independent Investment Adviser for his valued advice to the Committee over many years. The Chairman, Vice-Chairman and officers would review what independent advice was needed and present options back to the Committee.

Resolved

That officers, the Chairman and Vice Chairman review the pension fund's requirements for independent investment advice and present options back to the Committee.

92. 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 31 December 2020.

The value of the pension fund's investments had recovered to just over £3.3 billion. Assets were estimated to be 85% of the value needed to pay expected benefits accrued to date compared to the funding level of 92% calculated by the actuary following their full assessment as at 31 March 2019.

The changes to equity allocations agreed at the September 2020 meeting of the Committee had been implemented over two stages. The first stage, actioned in December 2020, implemented the reduction in the UK specific target allocation. The second stage in February 2021 fully divested from Wellington Management, the pension fund's last remaining legacy global equities manager, and invested the proceeds in Brunel's sustainable equities, smaller companies and emerging markets funds.

The Chairman, Independent Investment Adviser and officers will be meeting with Brunel and their transition manager, Macquarie, to discuss the transitions and their costs, and will report back to the Committee. Officers believed that the transitions had been very well facilitated by Brunel and actioned by Macquarie. The speed at which these changes had been implemented would not have been achievable pre-pooling. Indications were that the transition had been managed well and costs kept to a relatively small amount.

The Chairman thanked officers and Brunel for the transitions which all seem to have gone smoothly. The pension fund's performance last year was very strong, in absolute and relative terms, particularly given that these large transitions had been taking place. The very good performance of Wellington as an investment manager for the pension fund was also acknowledged.

Four topics for training were agreed to be covered over the next few meetings - (1) property/housing, (2) inflation hedging, (3) smart beta equities, and (4) private debt.

Cllr Beesley, as the pension fund's representative on the Brunel oversight board, updated the Committee on governance matters relating to Brunel. The oversight's board had been on agreeing the strategic business plan. The performance of Brunel's funds had generally been good but it was too early to reach a definite conclusion.

Resolved

- i. That a summary of the costs of the transitions to Brunel funds be reported back to Committee.

- ii. That a training plan is developed to cover (1) property/housing, (2) inflation hedging, (3) smart beta equities, and (4) private debt.

93. Treasury Management Strategy 2021-22

The Committee considered a report by officers setting out the Treasury Management Strategy (TMS) for 2021-22.

Although the pension fund has no strategic allocation to cash, cashflows needed to be managed to ensure there is 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 these 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 2021-22 be approved.

94. Dates of Future Meetings

Resolved

That meetings be held on the following dates:

10am Tuesday 15 June 2021 – Microsoft Teams / County Hall (tbc)

10am Wednesday 7 September 2021 – London (tbc)

10am Tuesday 30 November 2021 – County Hall (tbc)

95. Public Questions

QUESTIONS FROM MEMBERS OF THE PUBLIC FOR DORSET COUNCIL PENSIONS COMMITTEE 11 MARCH 2021

From: Darrell Minards, on behalf of South West Action on Pensions (SWAP):

Q1) Councillor Beesley stated that he was confident Dorset / BCP had a measurable set of goals for decarbonisation vs divestment. Given this confidence will this now be included in each council's Climate Emergency Plan on Carbon neutrality as part of your Climate Emergency Declaration and if not why not given the carbon footprint of the pension plan as a part of Dorset/BCPs impact?

Answer

Responsibility for all matters relating to the administration of the Local Government Pension Scheme (LGPS) in Dorset is delegated to the Pension Fund Committee which comprises five Dorset Council councillors, three BCP

Council councillors and one scheme member representative nominated by the trade unions.

Whilst the Committee are fully supportive of the climate and ecological emergency declarations by a number of scheme employers, including Dorset Council and BCP Council, we believe that it is more informative to consider the carbon emissions' consequences of the pension fund's investments separately from those of its scheme employers.

Q2) Secondly its been stated by Councillor Beesley and also Drew Mellow that the strategy is to influence the fossil fuel companies towards decarbonisation. Exactly what specific steps has this committee taken either via voting in shareholder meetings or raising questions at shareholder meetings in the six months since the September meeting? Please provide the specific meeting details as a matter of record.

Answer

As part of the government's requirement for Local Government Pension Scheme (LGPS) funds to pool investments the Dorset County Pension Fund no longer holds direct investments in companies. Instead, the vast majority of its equity investments are now in pooled investment vehicles managed by the Brunel Pension Partnership, the LGPS investment pooling manager set up and fully owned by the administering authorities of ten LGPS funds including Dorset.

All voting and engagement with companies is now undertaken by Brunel on behalf of the ten shareholder funds. Brunel's website documents its Stewardship Policy and Voting Guidelines, as well as its voting and company engagement records.

<https://www.brunelpensionpartnership.org/stewardship/>

Dorset County Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which represents the majority of LGPS funds and LGPS investment pooling managers. LAPFF engages with hundreds of companies every year to promote the highest standards of corporate governance and responsibility, including aligning their business models with the Paris Climate Agreement.

Full details of the work of the LAPFF, including its quarterly company engagement reports, can be found on its website.

<https://lapffforum.org/>

From: Julie-Ann Booker, on behalf of Dorset Action on Pensions

We know that to stop catastrophic climate change we have to keep fossil fuels in the ground and transition quickly towards a clean renewable economy. The fossil fuel industry has spent decades spreading lies about the climate to protect their profits at the expense of people and planet.

It's imperative that all councils and pension funds break ties with this morally bankrupt sector and divest from fossil fuels. By doing so, they can take necessary action to protect fund members' pensions from risky investments, and take a stand against an industry which is causing climate chaos and endangering our future and the future of our children and grandchildren.

Dorset Council Pension committee has chosen an investment strategy of 'decarbonisation' rather than 'divestment'. A growing number of people in Dorset understand that **continued investment in fossil fuels** is bad for our planet, bad for our health, bad for our future and bad for our bank account. They are seriously questioning why Dorset Pension Fund committee continue to put money into fossil fuel companies.

Dorset Action have now launched a campaign calling on Dorset Council to totally divest from fossil fuels. Information on the campaign can be found on the Dorset Action website: <https://dtaction.co.uk/>

Amongst other things the campaign asks people to write to the Dorset Pension Fund Committee Chair and explain why they want the committee to stop funding fossil fuel companies and to copy their letter to the Brunel Partnership.

QUESTION: On 15 September 2020 Dorset Council provided, following a Freedom of Information request, a report showing the current investments in highly polluting companies, such as Canadian Natural Resources, which is an oil tar sands company. Since September 2020 which of the companies listed in your report have you now removed from your direct investment list?

ANSWER: Dorset County Pension Fund no longer owns any of the direct investments you have listed.

Duration of meeting: 10.00 am - 12.30 pm

Chairman

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