Dorset Council

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY 8 SEPTEMBER 2021

Present: Cllrs Andy Canning (Chairman), Peter Wharf (Vice-Chairman), Simon Christopher, Howard Legg and Mark Roberts (Dorset Council), Cllrs John Beesley, David Brown and Bobbie Dove (BCP Council) and Adrian Felgate (scheme member representative).

Apologies: -

Also present (for all or part of the meeting): Ian Wilson, Hannah Marshall and Oliver Scoular, CBRE Global Investors, and MJ Hudson.

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)

110. **Apologies**

No apologies for absence were received at the meeting.

111. **Welcome and Statement from the Chairman**

The Chairman welcomed Committee members and others, and made the following statement:

"In the light of the increasing Covid-19 case rates and projected increases through August and September, in consultation with group leaders, Dorset Council's Chief Executive has exercised his emergency powers to revert to informal virtual meetings.

Where a decision is required, committee members will express a 'minded to' decision in respect of recommendations set out in officer reports, with decisions being made under officer delegated authority in the light of 'minded to decisions' expressed by members in the virtual meetings

Accordingly, this meeting has those arrangements in place."

112. **Minutes**

The minutes of the meeting held on 15 June 2021 were received and noted by the Chairman.

113. **Declarations of Interest**

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

114. **Public Participation**

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

115. **Questions from Members**

There were no questions from members.

116. **Urgent items**

There were no urgent items.

117. **Pensions Administration**

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

The change of administration system since the last meeting meant that Key Performance Indicators (KPI) reporting was not available but would resume before the next meeting in November. The new system was working well but development and testing had taken longer than anticipated. Historic records had moved across from the old system.
The chairman greatly appreciated the efforts of the administration team to implement the changes particularly given the disruption caused by Covid on working practices.

Officers would investigate whether Her Majesty's Revenue & Customs (HMRC) Connect was an appropriate fraud detection tool in addition to existing measures employed such as the National Fraud Initiative.

The final results of the 2016 and 2020 cost cap reviews could result in changes to benefits going back to 2016. In addition, the changes to benefits resulting from the remedy for the McCloud case were still unknown.

Noted

118. **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 key market risks.

Inflation continued to be a concern. Central banks seemed ‘relaxed’ that increases were transitory as economies recovered from the impacts of the pandemic and had given no indication of immediate action. Tapering of quantitative easing was anticipated but increases to interest rates were not. However, some commentators were concerned that there were more structural reasons for inflation rises and feared a ‘wage-price’ spiral could emerge that would ‘lock-in’ higher inflation for longer.

The implied long-term annual UK inflation rate in the market was 3.6% compared to the Bank of England target of 2%. This meant that the cost of inflation hedging was prohibitive to increasing the hedging ratio at this time.

Noted

119. **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 June 2021.

The value of the pension fund’s assets ended the quarter at £3.5 billion compared to £3.3 billion at the start of the financial year. The funding position estimated by the actuary was that the value of the pension fund’s assets covered 86% of the present value of liabilities. The investment return for the quarter was nearly 6%, above the combined benchmark by about 1.3%. Just under 30% of the pension fund’s liabilities were hedged against inflation sensitivity using 11.2% of assets to do so. Nearly two thirds of the pension fund’s assets were now under the management of Brunel.

Target allocations to public markets had been achieved or exceeded but achieving target allocations for private market assets remained a challenge. Following the previous day’s training, officers would prepare proposals for commitments to Brunel’s cycle three private markets’ funds for consideration by the Committee at the next meeting 30 November 2021.

Hermes, one of the pension fund’s infrastructure managers, and Aberdeen Standard, one of the pension fund’s private equity managers would both be invited to a future meeting of the Committee to discuss performance concerns.

Cllr John Beesley, the pension fund’s representative on the Brunel Oversight Board, updated the Committee on governance matters relating to the investment pooling partnership.

Noted

120. **External Auditor's Report 2019/20**

The Committee considered the draft report of Deloitte, the pension fund's independent external auditor, on the financial statements for2019/20. No substantive matters and been identified but it was noted that this was still not the final report. The final report would be circulated to Committee members when it was received.

Noted

121. **Dates of Future Meetings**

Resolved
That meetings be held on the following dates:

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

122. **Exempt Business**

Resolved
That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the business specified in minute 14 because it was likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing that information.

123. **Property Investment Report**

The Committee considered a report from CBRE Global Investors, the pension fund's property investments manager. CBRE gave an update on market conditions and outlook for the sector, recent transactions, lease expiries and vacancies.

Noted

124. **Questions and Answers**

Question 1: Vicki Elcoate
Councillor Canning told me earlier this year that the data in the UK Divest Report for Friends of the Earth of February 2021 was out of date for Dorset Council (https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf).

He said that since those figures, which related to the 2019/2020 financial year, Dorset Council had undertaken a major strategic review of its pension fund investments. He promised an update after March 2021. The question is: what is the current amount of investment in fossil fuels (I understand these are indirect investments)? The figures provided by the Friends of the Earth report are for the amount in £s of investments and the % that is of the overall investments. It would be useful to have it in the same format to compare. So this is not a question about the carbon footprint or the carbon intensity of the investments. The figure in the Friends of the Earth report was £128 million in indirect investment in fossil fuels. This put Dorset in the top 10 of local authority pension funds for fossil fuel investments. What is the current figure?

Answer 1
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.

Brunel regularly publish details on their website of the underlying holdings in all their pooled investment vehicles. Using this information officers have estimated that the value of the pension fund's investments as at 31 March 2021 in companies primarily involved in the exploration, production, mining and/or refining of fossil fuels was approximately £41M (1.2% of total investment assets).

Question 2: Tracee Cossey
It is clear that pension funds exposed to the fossil fuel system in the coming decade will face a rollercoaster ride of disruption, write-downs, financial instability and share price deratings as markets adjust (Hobcraft, 2020)' in UK Divest.

https://www.divest.org.uk/wp-content/uploads/2021/03/UKDivest_Report.pdf

Does Dorset Council see itself as ultimately responsible for any losses incurred to themselves and their Pension Fund Members by refusing to insist on 100% divestment from fossil fuels now or are Brunel Investments responsible?

Answer 2
The Dorset County Pension Fund is part of the Local Government Pension Scheme (LGPS) which is a national pension scheme administered locally. It is a 'defined benefit' scheme which means that benefits for scheme members are calculated based on factors such as age, length of membership and salary not investment performance as they would be in a 'defined contribution' scheme.

Dorset Council (DC) is the administering authority for the LGPS in Dorset which provides pensions and other benefits for employees of DC, other councils and a number of other organisations within the county. DC has delegated its responsibilities as an administering authority to the Pension Fund Committee, which consists of five DC elected members, three Bournemouth, Christchurch and Poole Council (BCP) elected members, and one scheme member representative nominated by the trade unions.

Administering authorities are required to maintain a pension fund for the payment of benefits to scheme members funded by contributions from scheme members and their employers, and from returns on contributions invested prior to benefits becoming payable. The Pension Fund Committee has a duty to scheme members and their employers to ensure that their contributions to the pension fund are invested appropriately to make returns sufficient to meet those obligations – and this duty overrides any other considerations.

The Pension Fund Committee agree the investment strategy for the pension fund then engage external investment managers, including the Brunel Pension Partnership, to deliver that strategy – but the Committee remain responsible for the pension fund’s performance.

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 the risks you highlight. Also, in order to reduce its exposure to sector specific risks such as those you have highlighted, the pension fund holds a highly diversified portfolio of investments across sectors, geographic regions and asset classes

A year ago the Committee discussed and agree our current investment strategy, including a lengthy debate between divestment and decarbonisation.

If we had followed a divestment strategy and sold all of our fossil fuel energy stocks this would have reduced our carbon footprint by 19% but we opted for a decarbonisation strategy. This has resulted in 20% of our equity investments being switched into a low carbon global fund targeting a 64% reduction in our carbon footprint and committing all of our remaining actively managed equity investments to a 7% a year reduction in carbon usage over the next three years – so 21% overall.

So, while the policy of divestment from all fossil fuel extraction companies may sound better it will actually result in a higher carbon footprint than the policy we are currently following.

Divestment from companies means that we sell our holdings to other investors – it is a transfer of ownership that does not directly lead to a reduction in either the supply or demand for fossil fuels but it does remove 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.

Question 3: Linda Dean

I am a Dorset County Council Pension Fund Member and I do not want my money to be invested in companies that make money from fossil fuels, for environmental reasons, given that we are all facing a Climate Emergency.

On June 1, 2021, in a Money-Saving Expert Environmental Poll on 'How important is protecting the environment to you?' the top choice for all age categories was: ' I'm happy to pay more & make changes for green options.'

I choose environmentally- friendly, green energy providers for my utilities and ensure environmentally sustainable criteria are in place before making any other financial investments, where possible. I would therefore like my Council Pension money not to be invested in such companies. There must be other DCC pension fund members who would feel as I do, at this critical time in our global climate situation.

Will Dorset Council commit to polling all its Pension Fund Members to see whether a majority would prefer to divest from companies that profit from fossil fuels and to put their money in ethical/green investments, or ask whether they are happy with the current use of their money?

Answer 3
The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Dorset Council (DC) is the administering authority for the LGPS in Dorset which provides pensions and other benefits for employees of DC, other councils and a range of other organisations within the county.

DC has delegated its responsibilities as an administering authority to the Pension Fund Committee, which consists of five DC elected members, three Bournemouth, Christchurch and Poole Council (BCP) elected members, and one scheme member representative nominated by the trade unions.

The LGPS is a 'defined benefit' scheme which means that benefits for scheme members are calculated based on factors such as age, length of membership and salary, not investment performance as they would be in a 'defined contribution' scheme.

Administering authorities are required to maintain a pension fund for the payment of benefits to scheme members funded by contributions from scheme members and their employers, and from returns on contributions invested prior to benefits becoming payable.

Contribution levels for scheme members are set nationally, and contribution levels for scheme employers are set locally by actuaries engaged by administering authorities. As scheme member rates cannot be changed locally and benefits are defined, the risk of investment underperformance is effectively borne by scheme employers.

For the reasons set out above scheme members cannot have different investment options available to them as could be the case with a defined contribution scheme where the risk of investment underperformance is borne by the individual scheme member.

Membership of the LGPS is not compulsory and employees of scheme employers can choose to make alternative pension arrangements that allow greater control over how their contributions are invested. However, we would strongly recommend that anyone considering such an approach takes appropriate independent advice before doing so.

Question 4: Sandra Reeve
As one of the 'Direct Actions' within their Climate and Ecological Emergency Strategy, will Dorset Council's Pension Fund Committee be asking Brunel Pension Partnership to adjust and cease their investments in fossil fuels in order to meet Dorset Council's own 'net zero by 2040' target, rather than Brunel's stated net-zero 2050 target?

I read the transcript of COP26 President Alok Sharma’s speech at the first Net Zero Pensions summit, published June 1,2021 in which he says:

'Today, green investments are smart investments. In the majority of the world, renewables are cheaper than new coal and gas. Putting your money in fossil fuels creates the very real risk of stranded assets.

He then supports and urges financial institutions to take the following steps:

First, commit to exit coal finance. So that, together, we make COP26 the moment we consign coal power to the past where it belongs. Second, increase investments in climate action in developing and emerging markets. Thirdly, protect nature. By 2025 ensure none of your investments contribute to deforestation. And by 2030 ensure your investments are contributing to the restoration of the natural world. Finally, disclose your climate risk in line with the Taskforce on Climate Related Financial Disclosures, or TCFD. And points out that this will become mandatory across most of the UK economy in 2023.

And the government will shortly introduce regulations on what this means for pensions, to ensure trustees take account of climate change risk in each and every decision. There is a real advantage in getting your house in order. And early. And that in this vital year for climate action, the year of COP26, you are playing your part in keeping 1.5 degrees alive.'

Will Dorset Council urge Brunel to sign up to the Glasgow Financial Alliance for Net-Zero (along with other major pension schemes, such as Aviva, BT Pension Scheme and the Church Commissioners of England) in particular to fulfil the requirement that by 2030 they can ‘ensure that their investments are contributing to the restoration of the natural world?

Answer 4

You are correct in stating the Dorset Council has committed itself to a net-zero 2040 objective. We are committed to working with partners to achieve this target and that includes the Brunel Pension Partnership.

Brunel are widely recognised as a 'market leader' within this field and their website includes a wealth of information relating to its engagement activities with companies, including voting records. In 2022 Brunel will complete 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 Committee will need to reconsider its approach too.

Brunel is a member of the Institutional Investors Group on Climate Change (IIGCC) which means that they are automatically signed up to the Glasgow Financial Alliance for Net-Zero and Brunel's Chief Investment Officer, David Vickers, is a member of the Real Economy Transition workstream which forms part of this alliance. Brunel are also a signatory to a similar initiative, the Net Zero Investor Framework (NZIF), launched in March 2021 with the aim of helping investors become 'Paris-aligned'.

Question 5: Caz Dennett, on behalf of South West Action on Pensions

As a coordinator for South West Action on Pensions I have recently heard from Brunel Pension Partnership that, as part of their upcoming Climate Stocktake Consultation this autumn, they will be taking views from others than just the ten principal (Council / EA) stakeholders.

Given Brunel are opening up the conversation about its investment portfolios, to complement this exercise will Dorset County Pension Fund Committee now consult its own pensioner members' views, in particular on the question of ongoing and planned future investments in fossil fuel companies?

Answer 5

The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Dorset Council (DC) is the administering authority for the LGPS in Dorset which provides pensions and other benefits for employees of DC, other councils and a range of other organisations within the county. DC has delegated its responsibilities as an administering authority to the Pension Fund Committee, which consists of five DC elected members, three Bournemouth, Christchurch and Poole Council (BCP) elected members, and one scheme member representative nominated by the trade unions.

Administering authorities are required to maintain a pension fund for the payment of benefits to scheme members funded by contributions from scheme members and their employers, and from returns on contributions invested prior to benefits becoming payable. The Committee has a duty to scheme members and their employers to ensure that their contributions to the pension fund are invested appropriately to make returns sufficient to meet those obligations – and this duty overrides any other considerations.

Members of the public, including scheme members, can make their views known on any matter relating to the pension fund, including those you highlight, by submitting questions or statements to the Committee. A wider consultation would be a costly and time-consuming exercise which we do not believe is needed.

Question 6: Julie-Ann Booker, on behalf of Dorset Action on Pensions

Dorset Pension Fund Committee last met on 15 June 2021. Since then, on August 9, the Intergovernmental Panel on Climate Change (IPCC) published its sixth report. UN Secretary General, António Guterres said that the report signals 'Code Red for Humanity'.

The report provides new estimates of the chances of crossing the global warming level of 1.5°C in the next decades, and finds that unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach.

We are seeing now almost daily reports of the effects of climate change on communities around the world. In recent days New York and New Jersey. A few weeks ago it was Germany and Greece. There's been lives, homes and livelihoods lost. We have seen the destruction.

A key driver for climate change are the fossil fuel companies and the financial industry that supports it. Fossil fuel companies remain huge polluters, producing and selling fossil fuel products while scientists say we need a mass switch to renewable energy and efficiency. We have the technology to move to renewable energy sources and should be using all available financial resources to make this happen – including pension fund financial assets.

Fossil fuel companies are responding to the climate crisis with 'green' marketing, while their core business remains fossil fuels. Their adverts are using greenwashing to distract the public from the harm their products cause to people and planet. Some of us are old enough to remember when giant tobacco companies did the same after the irrefutable damage their products caused were exposed – they carried on sponsoring sporting activities in the hope we would all thing they were doing something good, so could be excused all the damage they were responsible for. https://www.clientearth.org/the-greenwashing-files/

Dorset Council's strategy, agreed with their investment managers, Brunel Pension Partnership, is to divest at 7% per year, so it will take 15 years to divest completely – taking us to 2036. Hardly reflecting an 'immediate' or 'rapid' response to contribute towards large-scale reductions in greenhouse gas emissions.

In the words of Alok Sharma (who is leading the coming COP26 climate summit), “The world is ‘dangerously close’ to running out of time to stop a climate change catastrophe … we can’t afford to wait two years, five years, 10 years – this is the moment.” https://www.bbc.co.uk/news/uk-58132939

Given the IPCC report has been published since the last Dorset Pension Fund Committee meeting, when will the Committee be tabling an agenda item to discuss the report and it’s warnings against the backdrop of the current Dorset pension fund investment strategy?

Answer 6
Pension funds by their very nature are long-term investors seeking returns that will cover the pensions of its members. It is not in their nature to respond to short-term events.

The Dorset County Pension Fund’s investment strategy is driven by an actuarial valuation that takes place every three years. This valuation examines a whole range of factors including how long our pensioners are likely to be claiming for plus future rates of inflation and interest rates.

Once we have this information we can make decisions on the appropriate levels of risk, asset allocation, liquidity of investments, sustainability etc.

The next triennial valuation will be based on the situation in March 2022. We would aim to discuss its recommendations and review our whole strategy by the end of next year. This also fits in with Brunel’s timetable to review its sustainable policies in 2022.

The Dorset County Pension Fund has already made great strides in reducing its exposure to fossil fuels. The Friends of the Earth report estimated that we had £128 million invested in fossil fuel production in 2019 and this was reduced to £41 million in March 2021.

Duration of meeting: 10.00 am - 1.05 pm

Chairman

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