

## **PENSION FUND COMMITTEE**

### **MINUTES OF MEETING HELD ON TUESDAY 14 JUNE 2022**

**Present:** Cllrs Simon Christopher, Andy Canning (Chairman), John Beesley, David Brown and Mark Roberts

**Present - online:** Cllr Bobbie Dove and Adrian Felgate (scheme member representative).

**Apologies:** Cllrs Peter Wharf and Howard Legg

**Also present (for all or part of the meeting):** Steve Tyson, Independent Investment Adviser, MJ Hudson, David Cox and Luke O'Donnell, Brunel Pension Partnership, James Wardlaw and Sherine Ashraf, Federated Hermes.

**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), David Wilkes (Services Manager - Treasury and Investments) and Charlotte Eggleton (Senior Accountant – Treasury and Investments).

<https://www.youtube.com/watch?v=lr0ITP6FlrM>

#### **157. Apologies**

Apologies for absence were received from Cllrs Howard Legg and Peter Wharf (Vice-Chairman) – both Dorset Council.

#### **158. Declarations of Interest**

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

#### **159. Minutes**

The minutes of the meeting held on 10 March 2022 were confirmed by the Chairman.

#### **160. Public Participation**

There were no questions or statements from members of the public or from town and parish councils.

161. **Questions from Members**

There were no questions from members.

162. **Urgent items**

There were no urgent items for consideration.

163. **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.

The market context for the quarter to 31 March 2022 had been very difficult and had continued into April and May 2022. Central banks had started to raise interest rates and tighten quantitative easing. The Russian invasion of Ukraine had adversely impacted the supply and price of many commodities which had led to significant inflationary pressure, and increased demand for energy in winter could feed through into yet higher oil prices. It was expected that there would be recessions of some sort across the globe.

Many of Brunel's active portfolios had underperformed their benchmarks in the quarter largely due to a sharp change in markets favouring 'value' stocks, such as energy providers and banks, over 'growth' stocks, such as technology. Brunel's underweight positions in high carbon emitting companies had driven underperformance. Brunel's Paris aligned passive equities funds had underperformed their 'parent' market capitalisation indices in the quarter but had outperformed Brunel's active equity portfolios.

Underperformance had continued up to the end of May 2022, with Brunel's active equities portfolios behind their benchmarks by 2.5% for global equities and 1% for UK equities. Concerns were raised about how long this underperformance might continue, whether lost performance could be recovered in full, the potential impact on funding levels and scheme employer contributions, and what actions the Committee could take if underperformance persisted. The Committee were also concerned that Brunel's Chief Executive's commentary did not refer to investment underperformance but instead focused on other matters.

Stress testing of the investment strategy was undertaken when the strategy was periodically reviewed by the investment consultant appointed to assist with the review. Stress testing was also done on an ongoing basis by Brunel and its underlying investment managers. Brunel looked at hundreds of different scenarios and combinations of events.

Brunel achieved diversification through the appointment of underlying investment managers with a blend of different investment styles and through holdings across sectors and geographies. Brunel would provide information on the proportion of their underlying investment managers who had outperformed their benchmarks since appointment.

### **Resolved**

That Brunel provide information on the proportion of their underlying investment managers who had outperformed their benchmarks since appointment.

## 164. **BRUNEL GOVERNANCE 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.

SAB acted as a conduit between central government and LGPS investment pools. Consultation on proposed changes to pooling regulations had been put back to the autumn. SAB were working with government to get greater clarity on the potential implications of the government's 'levelling up' White Paper for LGPS funds.

Concerns regarding Brunel's recent investment performance had been raised with Brunel's Chief Executive and Chief Investment Officer, and the latter would be attending the next meeting of the Committee in September 2022. Investment performance must be Brunel's top priority. Reporting needed to be more streamlined and more frequent, and there needed to be greater assurance that investment managers were being held to account by Brunel, with details of any remedial action shared with client funds.

Prior to the implementation of the requirement for LGPS funds to pool investments the Committee had a much closer relationship with its investment managers and could take action to address underperformance including termination of mandates. Now that investments were largely under Brunel's management, the Committee needed a better understanding of the actions it could take if underperformance persisted.

Brunel were undertaking a review of their strategy and the first iteration of this was discussed at the oversight board in June. Cllr Beesley invited feedback into this review and a questionnaire for members would be developed and circulated.

Over recent years a huge amount of time had been spent on governance issues and responsible investment policies. Investment performance should always be the most important issue for Brunel, because of the potential adverse impacts on funding levels and scheme employer contribution rates. Need to demonstrate that the pension fund was getting value for money from Brunel. More information was needed comparing LGPS investment pools and LGPS pension funds.

The work of the Committee should be better publicised, both within Dorset Council and more widely. More frequent meetings of the Committee should also be considered.

### **Resolved**

That a questionnaire be developed and circulated to Committee members to share their views on Brunel's strategic direction.

## **165. PENSIONS ADMINISTRATION REPORT**

The Committee considered a report from officers on operational and administration matters relating to the pension fund. The pensions administration team continued to do a good job in difficult circumstances and there had been some improvements in Key Performance Indicators (KPI). All major issues with the new system implementation had been resolved but recruitment and retention of experienced staff continued to be a challenge.

The new administration system had coped well with end of year processes but there had been challenges getting good data from a higher number of scheme employers than in previous years. This data was fundamental to the administration of the pension fund as it was used for the calculation of pensions payable, Annual Benefits Illustrations (ABIs) and tax allowances, and it also fed into the actuarial valuation process. Penalties would be issued to employers to cover the cost of additional work created by data shortcomings.

Officers spent a large amount of time dealing with problems with data from scheme employers who had outsourced their payroll provision. Officers made clear the LGPS data requirements before such outsourcing decisions were taken but often this was not fully taken into consideration. Officers spent a lot of time each year looking at the potential implications of the annual tax allowance requirements for scheme members but less time looking at the potential implications of the lifetime allowance.

Scheme employer contributions in the LGPS are set by each pension fund's actuary for each employer and are the same percentage of pensionable pay for all scheme members. Scheme member contributions are set nationally and are tiered so that higher paid scheme members contribute a higher percentage of their pensionable pay than lower paid scheme members.

### **Noted**

## **166. 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 background to the pension fund's investments, the outlook for different asset classes and key market risks.

The key issues facing the pension fund were inflation, interest rate rises and central bank monetary tightening. It was a very difficult environment for all pension funds, and it appeared likely that the UK and US were heading towards recession.

A review of the pension fund's investment strategy would be undertaken following the completion of the actuarial valuation when the funding position would be known. The review would need to take into consideration changing economic circumstances and outlook for different asset classes.

**Noted**

**167. 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 2022.

The investment return for the quarter was -2.6% compared to the combined benchmark return of -0.3%. The total return for the 12 months to March 2022 was 10.1% compared to the benchmark return of 11.3%. The main detractor to performance in the quarter was the performance of all the Brunel active portfolios as had been discussed earlier in the meeting.

The funding position estimated by the actuary was that the value of the pension fund's assets at 31 December 2021 covered 89% of the present value of liabilities. This estimate has not been updated as at 31 March 2022, as the actuary was working on the full valuation as at this date. Draft results of this exercise were expected September 2022.

Approximately 60% of the pension fund's assets were under the management of Brunel. The main assets not under Brunel's management were property investments, corporate bonds and the Liability Driven Investment (LDI) mandate.

The Independent Investment Adviser cautioned that the valuations of private markets were 'lagged' by a quarter and therefore were not yet reflective of the 'bear market' pricing seen in public markets.

**Noted**

**168. DATES OF FUTURE MEETINGS**

In addition to the quarterly meetings of the Committee a programme of training would take place at the offices of investment managers in London on Wednesday 14<sup>th</sup> and Thursday 15<sup>th</sup> September 2022. This would give Committee members the opportunity to discuss in depth the key issues facing the pension fund and from these discussions policies would be developed for consideration at the meetings open to the public.

It was agreed that the future needs and locations for Committee meetings and training be considered at the meeting of the Committee 21<sup>st</sup> September 2022.

**Resolved**

That:

- i. meetings of the Pension Fund Committee be held on the following dates:
  - 10am Wednesday 21 September 2022 (County Hall, Dorchester)
  - 10am Tuesday 29 November 2022
  - 10am Tuesday 14 March 2023
- ii. a two-day programme of training for members of the Committee be held in London on Wednesday 14<sup>th</sup> and Thursday 15<sup>th</sup> September 2022.
- iii. future needs and locations for Committee meetings and training be considered at the meeting of the Committee 21<sup>st</sup> September 2022.

169. **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 minutes 170 and 171 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.

170. **FEDERATED HERMES INVESTMENT UPDATE**

The Committee received a presentation from Federated Hermes, one of the pension fund's infrastructure investments manager. Federated Hermes gave an update on performance to date and the outlook for the future, plus details of fund structure changes aimed at reducing costs and improving liquidity.

Performance had improved significantly since Federated Hermes had previously presented to the Committee in November 2021 and the outlook was more positive. It was therefore agreed that the investment mandate with Federated Hermes be continued

**Resolved**

That the investment mandate with Federated Hermes be continued.

171. **INVESTMENT MANAGEMENT CHANGES**

The Committee considered potential changes to current investment management arrangements that could be implemented ahead of the full review of the pension fund's investment strategy later this financial year.

**Resolved**

That the proposed changes to investment management arrangements be implemented.

**Duration of meeting:** 10.00 am - 1.00 pm

**Chairman**

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