

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON TUESDAY 14 MARCH 2023

Present: Cllrs Toby Johnson, Simon Christopher, Andy Canning (Chairman), Peter Wharf (Vice-Chairman), David Brown, Howard Legg and Adrian Felgate (Scheme Member Representative)

Present remotely: Cllrs John Beesley and Mark Roberts

Also present: Luke O'Donnell and Faith Ward (Brunel Pension Partnership), Peter Scales (Independent Governance Advisor, MJ Hudson) and Steven Tyson (Independent Investment Advisor, MJ Hudson)

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

Karen Gibson (Service Manager for Pensions), Sean Cremer (Corporate Director for Finance and Commercial) and David Wilkes (Service Manager for Treasury and Investments)

192. **Apologies**

There were no apologies for absence.

193. **Minutes**

The minutes of the meeting held on 29 November 2022 were confirmed and signed.

194. **Declarations of Interest**

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

195. **Public Participation**

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

196. **Questions From Councillors**

No questions from Councillors were made at the meeting.

197. **Urgent items**

There were no urgent items.

198. **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, and Brunel's updated Climate Change Policy for 2023 to 2030 following the conclusion of the 'stocktake' of the previous policy.

As of 31 December 72% of the pension fund's investment assets were under Brunel's management. The transition of any further assets to Brunel from legacy arrangements would require a decision by the Committee. Original investment pooling guidance was that government wanted LGPS funds to move substantially all their assets to the investment pools. Revised guidance on investment pooling was expected shortly.

The performance of Brunel's active portfolios was mostly ahead of benchmark for the quarter. Lags in pricing of private market assets meant that the falls seen in public markets earlier in the year were beginning to feed through into private market valuations. A briefing note on Silicon Valley Bank would be issued by Brunel.

Whilst performance broadly had improved, there was still some way to go to make up for the underperformance over the last year which had been driven largely by underweight positions in fossil fuels across the Brunel portfolios. There had been an increase in the demand for fossil fuels as governments looked to improve energy security but in the longer-term Brunel believed this would be a further 'push' towards renewables.

199. **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.

SAB expected there to be a consultation on changes to investment pooling guidance shortly driven by government concerns that some LGPS funds (but not Dorset or the other Brunel funds) had not fully engaged with the spirit of pooling.

Reporting from Brunel had improved greatly but Cllr Beesley reminded Committee members to continue to let him know if there were any further requirements. There had been signs of improvement in Brunel's investment performance but there was still some catching up to do. It was agreed that investment performance had not been good enough to date. It was important that Brunel officers continued to attend Committee meetings so that they could be held to account for underperformance and so that Committee members felt more engaged in Brunel's activities.

To improve recruitment and retention of key staff, Brunel were seeking to make changes to their people strategy, including the benchmarking of salaries against other LGPS investment pools. These changes had not been approved by all ten shareholders as was required under the terms of the shareholder agreement. Resolution of this issue could become a distraction for Brunel's management and was not going to help the drive for improved investment performance.

All non-executive directors were reappointed for a further 12 months at Brunel's Annual General Meeting (AGM) held 9 March 2023.

200. INDEPENDENT ANNUAL GOVERNANCE REVIEW

The Committee considered the annual report on governance compliance from Peter Scales, MJ Hudson, the pension fund's Independent Governance Adviser.

A good standard of governance had been maintained despite the introduction of new pensions administration systems which were always extremely challenging to implement.

Significant changes to the governance framework for LGPS funds were expected and these changes were expected to lead to significant additional pressure on administering authorities.

This was the last report from Mr Scales before his retirement and the Chairman thanked him on behalf of the Committee for his valued contribution and advice. There would be a review of governance requirements and internal resources before any decision to appoint replacement external advisers.

201. PENSIONS ADMINISTRATION REPORT

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

Performance against Key Performance Indicators (KPIs) was generally good with two exceptions, retirement quotes and 'transfers out', which were primarily due to a lack of experienced technical staff.

The McCloud remedy was expected to generate a significant amount of additional work and AON Hewitt had been appointed to provide support to the administration team.

The Vice-Chairman noted that both Dorset Council and BCP Council held regular meetings with local Members of Parliament (MPs) and that these and other connections could be used to raise matters of importance relating to the LGPS with government on behalf of the Committee.

The project to undertake existence checks on all overseas pensioners was nearly complete. Benefits would be suspended where such checks had not been successful by the end of March 2023.

Richard Bates, formerly the chief financial officer for Dorset County Council, had been appointed as the independent chairman of the Local Pension Board.

202. 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 and

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

Inflation was peaking but not clear what level it would settle at and there could be further 'waves' of high inflation. Interest rates had risen rapidly and may still rise further. Recession was a risk and corporate profits may be challenged which would exert downward pressure on equity valuations. Corporate bonds looked more attractive than they had for many years but there was the threat of defaults, although this was partly already 'priced in' to valuations.

The failure of Silicon Valley Bank was symptomatic of a long period of low interest rates and growth in the technology sector. The impact appeared to have been contained by the regulators but there were still concerns that there might be other banking failures.

Investment performance had not been good in 2022. Brunel's under performance in the first half of the year was largely due to underweight positions in fossil fuels but it was also questioned whether their underlying managers had overpaid when acquiring companies with good Responsible Investment (RI) credentials. Officers, advisers and the Committee should continue to scrutinise and hold Brunel to account but options needed to be developed should performance still be poor in two/three years' time.

The last quarter of 2022 saw private market valuations follow the earlier decline in public markets due to lags in pricing of illiquid assets. The performance of private markets' investments was generally compared to public markets' indices which made comparison difficult on a quarterly basis, particularly at times of heightened volatility. This will be investigated to see if any improvements to reporting can be made.

203. **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 December 2022.

The value of the pension fund's assets at 31 December 2022 was £3.4 billion compared to £3.7 billion at the start of the financial year, with just under three quarters of assets now under the management of Brunel.

The pension fund's actuary, Barnett Waddingham, had now concluded the triennial valuation as at 31 March 2022 and the pension fund's Funding Strategy Statement had been updated. Compared to the last valuation as at 31 March 2019, the funding level had improved from 92% to 96%.

Decision

That the draft Funding Strategy Statement be published for consultation with key parties.

204. **PENSION FUND TREASURY MANAGEMENT STRATEGY 2023/24**

The Committee considered a report by officers setting out the Treasury Management Strategy (TMS) for 2023-24.

Although the pension fund had no strategic allocation to cash, cashflows needed to be managed to ensure there was 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 cash investments.

The TMS for 2023-24 was largely unchanged from 2022-23 and broadly followed the TMS for Dorset Council, the administering authority for the pension fund, where applicable.

Decision

That the Treasury Management Strategy for 2023-24 be approved.

205. DATES OF FUTURE MEETINGS

10am Tuesday 13 June 2023 - County Hall, Dorchester.
10am Tuesday 19 September 2023 - County Hall, Dorchester.
10am Wednesday 29 November 2023 - County Hall, Dorchester.
10am Tuesday 26 March 2024 - County Hall, Dorchester.

206. 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).

207. INVESTMENT MANAGEMENT CHANGES

The Service Manager (Treasury and Investment) gave an update on the implementation of changes to investment management arrangements agreed by the Committee at previous meetings. The Committee also considered some further proposed changes and investment opportunities.

Decision

That 'top-up' commitments to Brunel Cycle 3 private markets portfolios of £10m to Private Equity, £10m to Infrastructure and £10m to Secured Income be approved.

Duration of meeting: 10.00 am - 1.15 pm

Chairman

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