

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON TUESDAY 13 JUNE 2023

Present: Cllrs Andy Canning (Chairman), David Brown, Simon Christopher, Adrian Felgate, Howard Legg and Felicity Rice

Present remotely: Cllrs John Beesley

Apologies: Cllrs Peter Wharf and Mark Roberts

Also present: Simon Wood and Tim Dickson (Brunel Pension Partnership), and Steven Tyson (Independent Investment Advisor, MJ Hudson)

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

Sean Cremer (Corporate Director for Finance and Commercial), Aidan Dunn (Executive Director - Corporate Development S151), Karen Gibson (Service Manager for Pensions) and David Wilkes (Service Manager for Treasury and Investments)

208. **Minutes**

The minutes of the meeting held on 14 March 2023 were confirmed and signed.

209. **Declarations of Interest**

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

210. **Public Participation**

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

211. **Questions From Councillors**

No questions from Councillors were made at the meeting.

212. **Urgent items**

There were no urgent items.

213. **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.

Brunel's public markets portfolios had mostly performed very well in the quarter to 31 March 2023 but, although underlying managers had generally done well compared to their peers, there was still work to be done to catch up from disappointing performance in 2022. Performance since 31 March 2023 had been a little weaker as value managers had come back to the fore due to rising interest rates.

Brunel were reviewing all portfolios and underlying managers, understand balance of their portfolios, how balanced growth/quality bias. It was felt unlikely that there would be many changes to underlying managers but the balance between managers may need to be adjusted. It was likely that there would still be a bias towards growth and quality stocks, but Brunel needed to be comfortable with the magnitude of the bias.

Staff turnover had been reasonably stable in the listed markets' team but had been a concern for the private markets team largely due to significantly better paid opportunities in the private sector. This had been mitigated by greater use of outsourced support.

An online investor day for members of all Brunel's clients' pension fund committees was planned for 20 September 2023 with the agenda to be agreed shortly.

The most recent budget stated that pools should have a minimum of £50bn of assets under management and Brunel currently has approximately £35bn. Brunel's board are beginning to think about what this might mean in the longer term but believed this was likely to be guidance rather than a mandatory requirement., with government's focus on listed market assets transferring to pools rather than private markets, following conversations with the Department for Levelling UP, Housing and Communities (DLUHC).

The exposure to coal tar sands extraction through one of the underlying managers of the Global High Alpha portfolio was highlighted. Brunel have had significant engagement with the manager on this topic. The manager believes that the company has a credible pathway to net zero but if that view changed then the holdings would need to be sold in accordance with the escalation policy in Brunel's Responsible Investment policy. Members of the Committee were welcome to ask Brunel questions on their RI approach.

The pension fund's approach to decarbonisation will be discussed at the next meeting of the Committee in September 2023. The work that the Local Authority Pension Fund Forum (LAPPF) are doing in this area was highlighted.

214. Investment Strategy Review

Following the conclusion of the latest triennial actuarial valuation of the pension fund's assets and liabilities as at 31 March 2022, investment consultants, Mercer, were engaged to review the pension fund's investment strategy.

Mercer concluded that the current investment strategy was relatively efficient with no compelling reason to make changes. Mercer also supported the current

policy to hedge 50% of the foreign currency exposure across the pension fund's global equities investments.

The Committee approved the high-level asset allocation set out in the report and would subsequently consider more detailed areas at future meetings such as the mix of equity investments, affordable housing, private debt, the rebalancing policy and decarbonisation.

Decision

That

- i. the proposed investment strategy and strategic asset allocation be agreed.
- ii. officers update the pension fund's Investment Strategy Statement (ISS) as necessary.
- iii. more detailed analysis of the mix of equity investments, affordable housing, private debt, the rebalancing policy and decarbonisation is considered at future meetings.

215. Pensions Administration Report

The recruitment of new staff had had a positive impact on performance against Key Performance Indicators (KPIs).

AON Hewitt were providing support to the administration team on the McCloud remedy. Cllr Beesley said that the LGPS Scheme Advisory Board (SAB) could help achieve a consistent approach across the country.

The project to undertake existence checks on all overseas pensioners had now concluded. The cost of this project was more than covered by the value of suspended pensions and sums recovered as overpaid pension. The exercise would be run again in three years' time.

Officers were working with lawyers to draw up a revised death grant policy in response to the increased risk (financial and reputational) and complexity experienced over recent years.

The new administration systems had made year end processes simpler for scheme employers with the number of late submissions, non-notification of joiners and leavers significantly lower than the previous year.

A briefing would be provided to Committee members on the protections Dorset Council, as the administering authority for the pension fund, had in place to protect the pension fund against cyber attacks.

Richard Bates, the newly appointed independent chairman of the Local Pension Board, would be invited to attend future meetings of the Pension Fund Committee and the chairman of the Pension Fund Committee also attended the meetings of the Local Pension Board when possible. It was an opportune time to review the work and role of the two bodies to ensure an appropriate split between them and to avoid duplication where possible.

Decision

That

- i. a briefing session be provided to Committee members summarising the cyber security measures taken by Dorset Council as administering authority of the pension fund.
- ii. a review of the interaction between the Local Pension Board and the Pension Fund Committee be undertaken.

216. 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. He reported back from meetings of SAB on 22 May 2023 and BOB on 8 June 2023.

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. The required approval from Brunel's shareholders was now close to agreement and Aidan Dunn was thanked by Cllr Beesley for his role in reaching this position.

Reporting from Brunel had improved greatly but Cllr Beesley reminded Committee members to continue to let him know if there were any further requirements. The Independent Investment Adviser also offered to provide Committee members with some training on better understanding the current reports.

There had been signs of improvement in Brunel's investment performance but there was still significant catching up to do. All members of the Committee were encouraged to revisit Brunel's climate change policy and climate stocktake.

The long-anticipated consultation on revised investment pooling guidance from government appeared to have stalled. Clarity of the future direction of pooling was needed therefore Brunel were engaging with both government and the shadow chancellor on this matter.

The Chairman was grateful to Cllr Beesley's for his help in managing the relationship with Brunel and also for keeping Committee members aware of matters considered by SAB.

217. Independent Investment Advisors 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.

Major economies had to date managed to avoid serious recession but were still not out of difficulty although equity markets had anticipated the end of that period. Headline inflation could plateau at a higher rate than previously thought and had

been experienced over the last ten years. Subsequently interest rates and gilt yields continued to rise, supporting the decision to terminate the Liability Driven Investment (LDI) mandate but with adverse impacts for UK property valuations. The Bank of England were perceived as being too complacent when inflationary pressures first emerged and needed to restore credibility in markets.

In the longer term the two biggest themes affecting investments were believed to be climate change and Artificial Intelligence (AI).

Brunel's performance in public markets had greatly improved in the quarter but still lagged over one year, and the quarter to date was more challenging. The quarter also saw the 2022 troubles for public markets have an impact on the pension fund's holdings in private markets. This was to be expected but long term returns remained strong.

The pension fund does not have a large exposure to UK equities. This would be considered as part of the forthcoming review of the pension fund's equity holdings. In addition, Brunel were looking at making their UK active portfolio more focused on mid-cap stocks.

Brunel had a bias towards growth stocks away from value stocks partly driven by the Responsible Investment (RI) policy which tended to do less well in higher interest rates environments.

218. **Fund Administrators 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 2023.

The value of the pension fund's assets at 31 March 2023 was £3.5 billion compared to £3.7 billion at the start of the financial year, with just over three quarters of assets by value now under the management of Brunel.

The total return from the pension fund's investments over the quarter to 31 March was 3.2%, compared to the combined benchmark return of 1.4% - so 1.8% above benchmark. The total return for the 12 months to March was minus 4.8% compared to the benchmark return of minus 2.8%. Over the longer term, annualised returns for three years were 9.1% compared to the benchmark return of 9.3%, and for five years 4.4% compared to 5.2%.

In March 2023 the Committee approved the updated Funding Strategy Statement for publication in draft form for consultation with key parties, particularly scheme employers. That consultation had now closed with no resulting changes to the document and the Committee approved its publication on the pension fund's website.

Decision

That the Funding Strategy Statement be published on the pension fund's website.

219. **Dates of Future Meetings**

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

220. **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).

221. **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 to investment management arrangements.

In November 2022 it was resolved that the pension fund's holdings in the Liability Driven Investment (LDI) mandate managed by Insight Investment be terminated and the proceeds reinvested in a mix of global equities and fixed income portfolios managed by Brunel Pension Partnership. The transition was now substantially complete with the exception of some final minimal proceeds that will be realised shortly. Officers thanked both Insight and Brunel for their help in successfully completing the complex transition.

In order to improve the diversification of the pension fund's exposure to property, the Committee approved a proposal not to purchase any further directly owned properties but instead to reinvest the proceeds of any properties sold in pooled property funds.

Decision

That

- i. No further directly owned properties are purchased on behalf of the pension fund.
- ii. 50% of the property target allocation will be allocated to assets with Secured Long Income (SLI) characteristics, with a tolerance of plus or minus 10%.
- iii. the proceeds of any properties that are sold are invested in Brunel's Secure Income portfolio until the SLI target is achieved.
- iv. the Committee further consider the options for investing any further proceeds from sales of properties once the SLI target is achieved.

Duration of meeting: 10.00 am - 1.00 pm

Chairman

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