

PENSION FUND COMMITTEE

MINUTES OF MEETING HELD ON WEDNESDAY 29 NOVEMBER 2023

Present: Cllrs Andy Canning (Chairman), Simon Christopher, Howard Legg, Mark Roberts and Adrian Felgate (Scheme Member Representative)

Present remotely: Cllrs John Beesley (BCP), David Brown (BCP) and Felicity Rice (BCP)

Apologies: Cllrs Gary Suttle

Also present: Chris Crozier and Simon Wood (Brunel Pension Partnership and Steve Tyson (Independent Investment Advisor, Apex Group)

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

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

236. **Minutes**

The minutes of the meeting held on 19 September 2023 were confirmed and signed.

237. **Declarations of Interest**

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

238. **Public Participation**

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

239. **Questions From Councillors**

No questions or statements from Councillors were made at the meeting.

240. **Urgent items**

No urgent items were raised at the meeting.

241. **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.

Inflation was coming down but not as quickly as markets had previously expected so, whilst interest rates may have peaked, they were not expected to fall any time soon which had a negative impact on growth and quality stocks. The oil price had increased by about 20% over the quarter which meant that energy was the best performing sector. All Brunel portfolios were underweight this sector because of climate change policies.

Performance in listed markets was driven by a few very large stocks, Alphabet, Apple, Meta, Microsoft, Nvidia and Tesla, with these companies responsible for 85% of global stock market returns this year to date. A key determinant of the performance of each of Brunel's listed markets portfolios had therefore become how much the portfolio was over or underweight the benchmark index in these companies. This trend also meant that passive funds that track 'market capitalisation' indices had become very exposed to concentration risk.

It was acknowledged that Brunel had faced a particularly challenging series of headwinds but there were always headwinds for investment managers to navigate. The Committee were looking for an improvement in performance over the next couple of years and if that improvement did not materialise other options would need to be considered.

Brunel were confident in the ability of their underlying investment managers who were largely invested in high quality companies with good earnings potential and strong balance sheets. These investments were undervalued due to market sentiment not because of the underlying fundamentals of the businesses. More neutral market conditions should be more conducive to outperformance by its managers.

Specific concerns regarding China were also discussed. Although valuations in China had become more attractive, especially compared to other major emerging markets such as India there were concerns about the relations between China and the USA, and Taiwan.

242. 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.

A key area of focus for both bodies was the government's consultation on the future of LGPS investments. The outcome to the consultation was published on the date of the Chancellor of the Exchequer's Autumn Statement, 22 November 2023. The potential impacts for the pension fund would be discussed in more detail at future meetings of the Committee.

The key element of the government's proposals was an ambition to increase the size and reduce the number of LGPS investment pools. This was suspected to be

driven by government concerns that its ambitions for 'levelling up' and private equity investment would not be met from the existing pooling arrangements. Such a consolidation would be hugely disruptive and costly, and it was unclear if this would be the right course of action.

Other key points from the consultation were that the government wanted all listed assets under pool management by March 2025, and that all LGPS funds should have ambitions to invest 5% of their assets in 'levelling up' investments and 10% in private equity investments. Greater collaboration between pools was encouraged but competition between pools was discouraged. Objective setting for advisors and training for pension fund committee members would become more formalised.

Brunel's quarterly reporting had improved but Committee members should let Cllr Beesley know if they wished to see further modifications. It was agreed that training to better understand the Brunel reporting would also be beneficial. More generally officers would be reviewing the structure and volume of reports received by the Committee to better highlight key matters.

Social and affordable housing as an asset class available for investment through Brunel would need to be discussed within the partnership. Currently access to this asset class was only available outside the pool which was inconsistent with the government's ambitions for investment pooling.

243. Independent Investment Adviser's Report

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

It had been a negative quarter for most stock markets except the UK. Inflation had begun to fall and interest rates had stabilised, but it wasn't clear when they might fall and how quickly. Recession might be avoided but there could be a period of 'stop-start' economic activity similar to that experienced in the 1990s.

Private markets had seen falls in valuations that lagged what had happened previously in public markets. Also, many corporate pension schemes were now looking to sell their private market investments as they were now close to their 'buy out' funding position.

The benchmarks for Brunel's portfolios were agreed with clients at the inception of each portfolio and reviewed at least every three years. The pension fund's combined benchmark is the average of all individual benchmarks weighted by the strategic asset allocation. The pension fund's combined investment returns should also aim to match or exceed the discount rate used by the actuary to assess the funding position.

The next stage of the equity 'deep dive' would need to look in more detail at Emerging Markets, including a better understanding of the pension fund's exposure to China.

244. **Pension 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 September 2023.

The value of the pension fund's assets at 30 September 2023 was £3.5 billion which was broadly unchanged from the start of the financial year. Just over three quarters of assets by value were now under the management of Brunel.

Contributions to the pension fund from scheme members and their employers were currently broadly equal to the benefits paid out each month. As the pension fund matures, cashflow will become a more important factor when setting and implementing the investment strategy.

The pension fund's Investment Strategy Statement (ISS) had been updated to reflect the changes to strategic asset allocations agreed at the June 2023 meeting. It was discussed whether the ISS should include an explicit Net Zero emissions target of 2050 to align with Brunel's climate change policy and Dorset Council and BCP Council's targets for their respective local areas. Committee members were generally supportive of this but wanted to avoid unintended consequences for future investment performance and therefore for scheme employers. A better understanding of how progress against a target could be measured was also needed.

Decision

That:

- The revised Investment Strategy Statement (ISS) be published on the pension fund's website.
- A statement on the pension fund's position regarding a Net Zero emissions target be drafted for further consideration by the Committee.

245. **Pension Fund Annual Report 2022-23**

LGPS regulations require all administering authorities to publish an annual report on the activities of its pension fund. The report of the independent auditor regarding the financial statements for 2022/23 had not been received but it would be circulated to members of the Committee when received. The final audit reports and opinions for 2020/21 and 2021/22 were still outstanding also.

Decision

That the annual report is published on the pension fund's website in draft unaudited format.

246. **Pension Administration Report**

Performance against Key Performance Indicators (KPIs) continued to be generally good, especially given the very high volume of work and significant changes that are going on particularly around the McCloud remedy and system updates.

Recruitment and retention had stabilised, and the administration team were in a good position to deal with the additional work associated with the McCloud remedy. The software solution for the calculations needed for the McCloud remedy was not yet available but was expected late 2023 / early 2024.

All active members plus pensioner and deferred members who are in scope for the McCloud remedy will receive written notice before 31 December 2023. This would make clear that scheme members will not need to take any action themselves. Approximately 21,000 scheme members could be in scope for an adjustment to their benefits, but the value of any such adjustments would be relatively very low.

The Pensions Regulator has also recognised the challenges faced by pension schemes to reflect the adjustments for the McCloud remedy in scheme members' Annual Benefit Illustrations.

It is expected that pensions will be updated in April 2024 by the Consumer Prices Index (CPI) rate of inflation for September 2023 of 6.7% but this is still subject to government confirmation.

The Pension Administration service is a finalist for team of the year in Dorset Council's annual employee awards.

247. **Dates of Future Meetings**

1.30pm Tuesday 5 March 2024 - County Hall, Dorchester.
10am Tuesday 26 March 2024 - Teams (to be confirmed)

248. **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).

249. **Investment Management Changes**

The Committee considered a proposal to make some changes to existing investment management arrangements.

Decision

That the recommended changes to investment management arrangements be implemented.

Duration of meeting: 10.00 am - 12.45 pm

Chairman

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