Gloucestershire
COUNTY COUNCIL

PENSION COMMITTEE

MINUTES of the meeting of the Pension Committee held on Friday 5 March 2021 commencing at 10.00 am.

PRESENT MEMBERSHIP:

Cllr Colin Hay	Cllr David Brown
Cllr Shaun Parsons	Peter Clark
Cllr Lynden Stowe	Cllr David Gray
Cllr Ray Theodoulou	

Apologies: Cllr Rachel Smith

In Attendance: Matthew Trebilcock (Head of Pensions), Paul Blacker (Director of Finance), John Arthur (Independent Adviser), Julie West (Hymans) Daniel Kanaris (AON), Karen McWilliam (AON) and Andrea Griffiths (DSU).

1. ANNOUNCEMENTS

It was noted that this was last meeting of the Pension Committee under the current administration. The Chairman wished to thank all members of the Committee and Officers who had participated with great goodwill over the past four years.

Cllr Stowe on behalf of the Committee wished to place on record, the Committee's thanks for Cllr Theodoulou' s chairmanship over a number of years. He felt that Cllr Theodoulou had done a wonderful job of chairing the Pension Committee and his knowledge and expertise had placed the Pension Fund in a much better position, than it was 12 years ago. In addition, he was also Chair of the Brunel Oversight Board and this was very much a testament to his personal skill set and his dedication to this Committee. Cllr Stowe added that he would be a tough act to follow as a Pension Committee Chairman.

Cllr Parsons agreed with Cllr Stowe and added that Cllr Theodoulou' s skill set was shown in the fact that the Pension Fund was now in a very good situation, compared to the deficit position when he first arrived. He thanked the Chairman for his efforts.

Cllr Hay concurred with the previous comments and added that it had been a great and interesting committee to be a member off and it was helped by good chairmanship and he appreciated Cllr Theodoulou skills.

Peter Clark wished to extend his thanks to Chairman, as he had made it very easy for a non expert, non councillor to be involved in the Pension Committee meeting and had always allowed questions no matter how foolish.

The Chairman thanked the Committee for their kind words.

2. DECLARATIONS OF INTEREST -

No declarations of interest were made

3. PUBLIC QUESTIONS -

The following question was submitted by Chloe Turner and the Head of Pensions provided the response on the Committee's behalf:

***"Question**: What steps are the Committee taking to persuade the Brunel Pension Partnership to divest of its remaining 2.9% investment in fossil fuel related assets*?

Reply: The Gloucestershire Pension Fund aims to deliver stronger investment returns over the long term, protecting our interests through contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The Brunel Pension Partnership manages the investment of the assets of the Gloucestershire Pension Fund, in conjunction with nine other Funds in the South West of England. As such, Brunel will own and maintain a Responsible Investment and Stewardship Policy on behalf of their clients.

The current Brunel policy on Engagement & Divestment states:

'On the issue of divestment, Brunel supports divestment from specific fossil fuel and other carbon-intense companies, if they present a material investment risk – such as due to 'stranded assets' – but this is based on analysis by our asset managers. Brunel expects managers to take these decisions independently.

In addition, we have committed to review this approach and, indeed, the holdings themselves; and to evaluate whether companies are taking steps to manage climate risks and to enable our overall alignment with the Paris Agreement. Brunel set out clear expectations for its asset managers and a deadline of 2022 for reviewing companies – our climate stock take is due in 2022. The criteria to evaluate companies and managers is being developed with our clients. It will take into account different investment mandates and starting points, but always with reference to Paris alignment.

We chose not to use exclusion lists with our active managers. Instead, we require them to analyse the companies and other entities they invest in, and to justify their investments in those companies with higher greenhouse gas emissions. We do not currently issue exclusion lists because what is most needed is change in the way investment managers work. Simply enforcing exclusions, or requiring divestment from specific stocks or sectors, will not compel investment managers to develop their capacity on climate change or to drive change in the companies they hold. Climate then becomes a technical operational matter, not an investment priority. However, we acknowledge that we may need to take other action and have reserved the right to implement specific, and stock-specific, exclusions as part of our Climate Stock Take in 2022.'

The Fund supports this policy and looks forward to working in collaboration with the nine other Funds and Brunel on the outcomes of the Climate Stock Take in 2022."

4. MEMBERS' QUESTIONS -

No Members' questions were received.

5. MINUTES -

The minutes of the meeting held on the 29th January 2021 were approved as a correct record and signed by the Chairperson.

Resolved

That the public minutes of the meeting held on the 29th January 2021 be approved as a correct record.

6. GLOUCESTERSHIRE PENSION FUND QUARTERLY UPDATE - PART 1

The Head of Pensions presented an overview of market valuations and an update on the performance of the Fund, as at 31 December 2020.

Members noted that by the end of the quarter the market value had increased by £193.4m, to £2.842bn, which is back above pre-Covid levels. It was reported that performance for the fund for the quarter was 7.2%, and the benchmark was 6.4%, therefore the fund had outperformed the benchmark by 0.8% . It was noted that Appendix 1 provided the full performance figures. The Fund returned 7.8% for the year which was ahead of its benchmark and over three years returned 5.9% annualised, which was slightly below the benchmark but was still in excess of the desired return.

Appendix 2 on page 17 detailed the strategic asset allocation of the Fund as at the end of December 2020. The Committee approved the new strategic asset allocation at its January 2021 meeting, however this changes were not reflected in this analysis. Members were advised that a more detailed update regarding the transition to the new strategic asset allocation would be provided under Agenda Item 14.

The report showed the position of the allocations of the underlying portfolios, it was explained that amber signified those actual strategic asset allocation which were outside of its target range. It was noted that Global High Alpha was currently c6%

over its allocation. It was noted during the quarter, the following investment activity had taken place:

- £14m investment into the Brunel UK Property Portfolio
- £50m investment into the Brunel International Property Portfolio.

Members were advised that Hermes EOS were appointed by the Brunel Partnership, to engage and apply the partnerships voting and engagement strategy. Page 7 to 10 of the report gave an overview of the voting statistics and the engagement that Hermes EOS actually undertook with companies on the Funds behalf. It was noted that they had engaged with 368 companies in the quarter, over a range of issues, including ESG related matters.

Members questioned the term engagement, officers explained that it related to direct communication with members of the board and the senior management team, in addition discussions were followed up with correspondence. In essence it was activity outside of the Annual General Meeting (AGM) and would be a meeting with an agenda including areas of concern.

In terms of voting, officers explained that the majority of votes against or abstaining referred to resolutions like board structure and executive remuneration, etc. Members felt this area of the report required more context as to what the opposed resolutions actually related too.

The Independent Advisor suggested that quite often voting against a resolution related to a combined Chairman and Chief Executive Officer (CEO) role, reappointment of independent directors, remuneration, or a share option scheme would be good examples. The Independent Advisor cited the circumstances of the resignation of the Chair/Chief Executive of Rio Tinto, as an example.

Members felt it was necessary for the shareholders to have engagement and have qualitative discussion about the issues. The Committee agreed that Officers should feedback to Brunel and request more substance around the voting numbers. (MT to pursue with Brunel)

The Committee were advised that the Fund was in a positive position at 106.9% funded at the quarter end.

Julie West, Hymans Actuary gave a detailed explanation of the funding position calculation. Members were informed that the funding position had improved since the formal valuation, liabilities had grown as the Actuary would expect with the accrual of new benefits. However, assets had grown by a greater amount in the return over the period since the last formal valuation. The Actuary reminded the Committee that it was worth noting that this was very much a snapshot in time and in effect a backward looking position.

The Actuary advised Members that it was a bit early to say how things might look in a years time, when the next formal valuation is due.

The Head of Pensions referred Members to page 12 of the report, which gave an update on the administration performance. It was recognised that the Covid pandemic had impacted on working practices, however the Pensions Administration Team were still performing well. In terms of the targets there was a slight reduction in some of the activities in terms of the number of estimates and number of leavers but this was an effect of the pandemic situation. The Head of Pensions anticipated numbers would increase when organisations return to normality over the next twelve months.

The Committee were notified that the 95k Cap regulations had been revoked by Government. It was noted that the Government still intended to apply a cap on exit payments and it was anticipated that new regulations would come forward in the summer of 2021.

In response to a question relating to the funding chart on page 21 of the report, it was explained that the funding levels for March 19 to December 20, reflected the volatility of the funding level, on a rolled forward basis since the last formal valuation.

Members required clarity on the cash flow chart, the actuary confirmed that it referred to projected cash flows of the benefits that the Fund is expected to pay and is in effect the liabilities that the actuary reported on. The Actuary confirmed for the benefit of the Committee that the fund was also cashflow positive at this time..

Members welcome the new report layout and thanked the Head of Pensions for making the report more accessible to all. In response to a question, it was explained that reporting would continue to be developed and would be covered in the Business Plan going forward.

Resolved

That the Committee noted the market value and quarterly performance of the Gloucestershire Pension Fund as at 31 December 2020

7. RISK REGISTER

The Head of Pensions explained that the risk register was a live document and therefore it was important for it to reflect the discussion carried out by the Committee.

Members were informed that since the risk register was last considered by the Pension Committee in December 2020, a number of changes had been made, these were highlighted in yellow and the new narrative was shown in bold red.

It was noted that in December the residual risk ratings for risks F1, F2 and F4 relating to the Pension Fund investment strategy and deficit position, were increased due to the impact of COVID-19. Members noted that these risks had now returned to their previous levels based upon the current overall funding level, as determined by the Actuary and the completion of the review of the Fund Equity Strategy as part of its Strategic Asset Allocation.

The residual risk rating for F6 had also been increased, as this related to pay and inflation exposure. It was recognised that we may enter a more inflationary environment as a result of coming out of the Covid pandemic, but also that Officers undertake a review of how the Fund can mitigate that inflation risk appropriately through its investment strategy and its risk management strategies. That proposed review would be undertaken over the next few quarters and then brought back to Committee with any recommendations for consideration.. The Head of Pensions explained that inflation exposure was one of the greatest risks that the Fund faced.

The Independent Advisor informed the Committee that over the past few quarters he'd been raising the issue of inflation with the Committee. He explained the real issue was that the Covid pandemic had been devastating from a health and financial point of view for many people but actually the majority of people had got through unscathed and may well actually have been forced savers over the period. He continued to give the Committee a detailed analogy of the impact of inflation on the global market.

During the discussion it was suggested that perhaps there should be a separate risk about pension inflation exposure across all elements of the Fund, as opposed to just on the investment side. The Head of Pensions agreed to take this point away for review and potential inclusion in the Risk Register. (MT Action)

It was reported that the G5 Risk had remained at a medium risk as the agreed additional team resources had yet to be recruited. It was noted that the recruitment of the agreed resources also applied to the maintaining of Risks A/R 1.1 and 1.2 at a medium level at this time.

G7 related to the loss of experience on the Pension Committee/Board and/or the lack of adequate training, resulting in a negative impact on governance arrangements within the Gloucestershire Fund. As a result of these factors, G7 & G5 would be monitored due to the forthcoming elections in May 2021.

In response to a question, the Actuary explained that it was a bit early to give a clear view, as on one hand life expectancy had shortened and the impacts of long term Covid were unclear, however there was also the other school thought that it could do the opposite due to increased hand washing measures, people worked at home more often, so to that extent there was less transmission of any disease, for example rates of flu this year were historically low.

The Actuary reviews the life expectancy assumptions at each valuation and there were two parts to that, in what life expectancy was expected to be right now and what could happen if in the future.

Resolved

That the Committee noted the risk register, and supported the increase and proposed review in relation to F6 and the reduction in residual risk ratings for risks F1, F2 & F4 and the continued increased position relating to residual risk ratings for risks G5, A/R 1.1 & 1.2.

8. REGULATORY STATEMENTS

The Head of Pensions presented the report in detail. Members were advised that the main proposed revisions to the Funding Strategy Statement (FSS) were based on the new Employer discretions that had been introduced and must be captured to enable the Fund and Employers to utilise these discretions. In respect of the Investment Strategy Statement (ISS) the proposed revisions reflected the decisions made by Committee at its meeting on the 25th January 2021.

The Actuary added the circumstances under which employers may request to review contributions in the past was quite limited, however in line with the new regulations it now gave more flexibility.

In response to a question, the FSS was part of a suite of policy statements which the fund was required to have and took account of ESG for long term investment stability. It was noted that the ISS covered ESG in greater detail but also worked alongside the FSS.

It was noted this work was being undertaken to update the fund's Investment Strategy Statement in response to the decisions the committee made in January 2021, in respect of the equity strategy. So the predominant change on this document was to the equity asset allocations table..

In response to a question, The Head of Pensions explained once approved, the documents would be recirculated to employers, uploaded on the Fund website and included in the Funds Annual Report for 2020/21.

Resolved

That the Committee unanimously approved the Funding Strategy Statement and the Investment Strategy Statement.

9. TRAINING STRATEGY

The Head of Pensions explained that the training strategy had been developed in conjunction with Hymans Robertson to ensure that good practice had been identified and incorporated into the strategy.

The Actuary advised the Committee that it was a positive step to put a training strategy in place, especially with a potential new Committee to be formed after the Council elections in May 2021.

Members added that periodic refresher training would be beneficial for all members. It was noted that the Local Government Association (LGA) training sessions were useful as it enabled members to gain an outside view of other authorities.

In terms of the pension regulator toolkit, it was noted that it was tailored more too private companies and that perhaps a training session with all of the Funds, which make up the Brunel Pension Partnership would be advantageous.

The Head of Pensions explained that the aim of the strategy was to look at multiple ways of delivering training both through internal and external means. Members welcomed an assessment of training needs and suggested that perhaps joint training with neighbouring authorities could be good practice.

Resolved

That the training strategy for the Gloucestershire Pension Fund be approved.

10. GLOUCESTERSHIRE PENSION FUND BUSINESS PLAN 2021/22

The Head of Pensions presented the report in detail.

During the discussion, members requested a more detailed breakdown of the budget schedule, in relation to the Investment Management Expenses. The Head of Pensions agreed to circulate more detailed analysis of these expenses in due course. (MT ACTION)

Resolved

That the Committee approved the Business Plan for 2021/22 and noted the current outturn position of the 2020/21 Business plan contained within the report.

11. EXCLUSION OF THE PRESS AND PUBLIC

Resolved

That in accordance with Section 100 A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following agenda items, because it is 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 12 A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

At this juncture the Committee took a brief adjournment.

12. EXEMPT MINUTES

The exempt minutes of the meeting held on the 29th January 2021 were approved as a correct record and signed by the Chairman.

Resolved

That the exempt minutes of the meeting held on the 29th January 2021 be approved as a correct record.

13. ADMISSION AGREEMENTS

Councillor Brown declared he was a member of Gloucester City Council.

The Head of Pensions presented the report in detail.

Resolved

That the Committee approved the Officer's recommendation.

14. GLOUCESTERSHIRE PENSION FUND QUARTERLY UPDATE - PART 2

The Head of Pensions presented the report in conjunction with the Independent Adviser and gave an overview of market valuations and an update on the performance of the Fund, as at 31st December 2020.

Resolved

That the Committee noted the market value and quarterly performance of the Gloucestershire Pension Fund as at 31st December 2020

CHAIRMAN

Meeting concluded at 12.43 pm