Wiltshire Council

Wiltshire Pension Fund Committee

MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 24 SEPTEMBER 2020 AT .

Present:

Cllr Steve Allsopp, Cllr Pauline Church (Vice-Chairman), Cllr Tony Deane (Chairman), Cllr Robert Jandy, Cllr Gordon King and Cllr Christopher Newbury

Also Present:

Tracy Adams, Andy Brown, Richard Bullen, Andy Cunningham, Jennifer Devine, Anthony Fletcher, Hill Gaston, Kieran Harkin and Ross Palmer

176 **Membership**

There were no impending changes to the membership of the Wiltshire Pension Fund Committee.

177 **Apologies for Absence**

Apologies were received from:

- Cllr George Jeans
- Mike Pankiewicz
- Chris Moore
- Stuart Dark

178 **Minutes**

Resolved

The Part 1 (public) minutes of the previous meeting held on 16 July 2020 were approved as a true and correct record.

179 **Review of Actions Log**

Richard Bullen, Fund Governance and Performance Manager, introduced the item and noted that the actions highlighted in yellow were due to be reviewed but not included in the meeting agenda. It was intended that the AVC review would be brought to a future meeting of the Committee.

180 **Declarations of Interest**

There were no declarations of interest.

181 **Chairman's Announcements**

There were no Chairman's Announcements.

182 **Public Participation**

Two public statements were received and read out by the Democratic Services Officer, Ellen Ghey.

Firstly, in response to statements and questions from Jane Laurie, the Head of Pension Fund Investments, Jennifer Devine, gave a verbal response that outlined the following points:

- The Pension Fund acknowledged Wiltshire Council's own carbon reduction targets and noted significant work in the definition of their own approach, policies, reporting and monitoring in regard to setting more defined and specific targets in the near future; details of which could be found in the Fund's 2019-20 Annual Report.
- Brunel's own work in regard to carbon reduction targets was explained to be driven by shareholder demands, and the evolution of the portfolios commented upon as potentially leading to amended targets.
- Work on climate change modelling was discussed and was noted to have looked at both the current strategic asset allocation and one with a more sustainable tilt, that would generate simulations of investment returns for these model portfolios against a number of climate change scenarios.
- It was noted that the results of the climate change modelling would be analysed, would consider all implications and would include communications with employer organisations via the Annual Report, with more direct engagement also considered.

Secondly, in response to a statement from Sigurd Reimers, Jennifer Devine gave a verbal response that outlined the following points:

- It was highlighted that investments in renewable energy was through exposure to public equities of companies that invest in renewable energy, or via holdings in renewable assets in the Fund's unlisted infrastructure portfolio.
- It was confirmed that future commitments to infrastructure would be managed via Brunel; the Fund's investment pooling company. £80m was clarified to have been committed over the next two years, 50% of which would be invested in renewable funds or directly in renewable assets.
- Wiltshire had also committed £250m to Brunel's secured income portfolio, £100m of which would be committed to a fund which invests in long term renewable energy projects such as solar, wind and biofuels.

- As a long-term investor, it was noted that the Committee assessed investment risks and understood that in order to secure future returns, investments would be made for the future, would include renewable energy sources and expected this to exposure to rise.
- It was clarified that there was no specific target to increase exposure at the current time, but that a lot of work had been made in the area.

One member of the Committee commented upon the poor performance of the fossil fuel sector and expressed surprise that the investment rate into renewables had remained at approximately 1%. Said member noted concerns at investments driven by non-financial matters and commented upon the need to choose outcomes that would bring the best returns to the beneficiaries of the Fund and not as purely a response to a climate strategy or agenda.

The Chairman noted that during a Brunel Oversight Board meeting it was clarified that the focus was to balance assets and liabilities and not be influenced by external pressures. Officers clarified that the Fund was a long-term investor and therefore needed to invest in a sustainable way in order to ensure positive investment returns into the future, and that securing the long term returns of the Fund was driving the move towards lower carbon and renewable investments.

183 **Minutes and Key Decisions of the Local Pension Board**

Resolved

The Part 1 (public) minutes, and recommendations arising, from the Local Pension Board meeting held on 6 August 2020 were approved.

184 **Training Item on Investments**

Hill Gaston, Mercer, delivered a presentation on investments that included the work commissioned on climate change modelling.

Within the presentation, the importance of climate change from an investor perspective, evidence of the global climate change crisis from the public perspective, and the evolving risks and opportunity across the Global Risks Landscape was discussed.

During the section that discussed investment objectives and the achievement of ESG goals, members questioned how returns had changed over time in regard to sustainable investment. In response, Mercer made reference to a study by Deutsche Asset Management and the University of Hamburg which provided academic evidence that suggested companies who integrated ESG factors into the investment process achieved a non-negative, positive to neutral performance correlation. As a follow up, it was asked whether these correlations were against traditional investment methods. It was clarified that the study in question considered different asset classes for ESG investments such as

emerging markets, corporate bonds and green real estate, and provided a more holistic and generalisable view point.
It was noted that sustainably focussed funds had outperformed their peers throughout COVID-19 with positive performance returns, but there were a lot of dependants such as different sectors and asset classes.

The difference between average American fossil fuel consumption in comparison with average European consumption was discussed and it was asked how the Wiltshire Pension Fund can exert more influence. It was suggested that in light of China's recent pledge to become carbon neutral by 2060, they would consider the market advantages of becoming a competitive leader ahead of the USA and would strive to transition quickly, which could in turn force the USA's hand to follow suit.

One member of the Committee questioned when the TCFD (Task Force on Climate-related Financial Disclosures) recommended framework would be written into UK law, to which it was clarified that exact timelines were uncertain, but it was confirmed that occupational pension schemes of greater than £5 billion in assets would be expected to report in line with the TCFD no later than the end of 2022, and schemes of £1-5 billion in assets would be expected to report in line by the end of 2023.

Another member of the Committee raised concerns as to the content of the Mercer presentation which they felt was slanted towards a political agenda as opposed to concentrating on politically neutral investment strategies. Officers reiterated that the intention of the presentation was to provide a wealth of background context and information to the work that Mercer would undertake, and that a more substantial and detailed report would be prepared for December. Said report would set out specific figures for the performance of the portfolio under different scenarios to enable informed decision making in regard to optimal strategic positioning.

Mercer's climate change approach and analysis was discussed in which different scenarios, risk factors and timeframes were discussed in regard to incremental 1°C temperature rises. Rapid changes to the market were noted with different stresses and strains due to the dynamic nature of climate change, along with the need for significant technological breakthroughs. Reference was made to the physical damages of climate change which included the rise of frequent hurricanes, the availability of natural resources, and how these manifestations would impact returns. It was confirmed that if the global warming trajectory shifted towards a 2°C - 4°C pathway then swift stress testing would be implemented to provide practicable results to redesign and align strategic asset allocations to resemble the current strategy and assist in the understanding of the key differences between results.

The four ways that Mercer would analysis the portfolio were discussed, and it was confirmed that the modelling would focus on the impact of the various scenarios on both the existing strategic asset allocation, and one with a more sustainable tilt. It would also consider asset classes to prioritise the risks and opportunities, would evaluate portfolio construction and would look at stress testing as mentioned above. The possible outcomes of actions that Mercer recommended to implement as a result of the modelling were briefly discussed and the need for a strategic perspective to understand key risks and opportunities to enable a holistic approach to dealing with climate change risks was highlighted.

The Chairman reiterated that the Committee was the body that set the investment strategy and direction and that Brunel selects and monitors the Fund managers.

In response to a question from the Committee in regard to asset classes, the mitigation aspects of insurance linked securities and whether this would be included in the analysis, it was confirmed that the model showed negative results from those strategies. Officers noted that as a consequence of a past training item on strategic asset allocation that considered private debt, private equity and insurance linked securities, it was concluded that this asst class was too high a risk to the WPF as the confidence of returns into the future when considering climate change scenarios posed too much uncertainty.

Members noted their anticipation of a more detailed report and the results of the analysis.

Members took a comfort break from 11:40am – 11:50am.

As an aside, Richard Bullen, Fund Governance and Performance Manager, reminded members of a self-assessment review being circulated in October that would allow them to provide details of any training needs for 2021-22. An online training portal created by Hymans Robertson that included a series of modules was put forward to members, due to the inability to attend seminars and conferences, which would enable members to maintain their current knowledge and understanding across topical pension issues.

185 **Scheme, Legal, Regulatory and Fund Update**

Andy Cunningham, Head of Pension Administration and Relations, updated the Committee on the various Scheme, Legal, Regulatory and Fund developments.

Among the key updates discussed, exit caps were highlighted as being particularly challenging in respect of the proposed changes to the primary legislation. This meant that the Fund could be legally required to follow two pieces of legislation that contradicted one another for a period of time, in regard to the payment of exit and pension packages in line with the LGPS regulations. It was highlighted that more information such as timeframes was needed before further action could be taken. It was noted that advice was being sought from the Scheme Advisory Board and MHCLG, and that the risk had been increased on the risk register but as more information continued to come to light this would be reviewed again.

Members questioned the amount of people that were likely to be caught up in this process to which it was confirmed by officers that the impact on the Fund would be minimal in terms of the number of members, but the impact on the individual scheme members themselves would be more significant. From an employer perspective it was noted that it was complicated for them to communicate with scheme members about the changes, and that timing in the short term was the biggest issue as organisations could be looking at redundancy exercises and this would cause a barrier to undertake such analysis due to the complexity of the legislative position.

The Vice-Chair confirmed that she would meet with both Andy Cunningham and Andy Brown, Director of Finance and Procurement, in the near future to understand the situation further in order to ensure that the impact on employers and scheme members was minimal.

Employer risk management was discussed, and it was noted that the Government had made changes that apply from 23 September 2020 and that the Fund needed to implement policy changes to reflect these (mainly to the Cessation Policy and Fund Strategy Statement). This had led to newly available options, notably employer contribution rates to change into valuation as long as certain conditions were met such as material changes in circumstances specific to each employer. These would be requested by an employer subject to the Fund's agreement, or the Fund could insist on a change in employer contribution rate.

The changes to the LGPS Regulations enable the Fund to implement a more flexible approach. An example of which was the ability to allow employers leaving the Fund to enter into an agreement to spread any cessation debt across a specified period of time. Additionally, the possibility to allow employers to delay the crystallisation of the final calculation was discussed.

It was confirmed that draft changes to the cessation policy was being undertaken and any proposals would be brought forth to the next Committee meeting.

The McCloud case was explored, and it was confirmed that further analysis was being undertaken to provide a targeted, proportional administrative approach to the issues faced. It was clarified that although the McCloud rulings would affect a small number of members, these members needed to be identified to avoid unnecessary administrative work. The cost impact was expected to be relatively small compared to the Fund as a whole, but it was reiterated that these were estimations due to the McCloud case's focus on the future circumstances of the members.

One member of the Committee questioned the differences to the impacts of McCloud on unfunded schemes as opposed to the LGPS. In response, the officer confirmed that from a financial and member perspective within unfunded schemes the impact would be bigger, but that was due to the significant changes and reforms made to those schemes in 2015. It was noted that any financial impacts despite being more significant would be less transparent due to the nature of the schemes being unfunded.

The Goodwin Case was introduced to the Committee; it was noted that it was similar to McCloud in so much as it was a discrimination case but instead related to sexual orientation, and was not as far advanced as the McCloud case. Although this would mean changes to the legislation the funding, administration and communicative costs were expected to be smaller than McCloud. It was confirmed that as soon as the case developed, and more information was available, it would be circulated to the Committee.

In respect to the Fund update, it was confirmed that an alternative investment strategy that was discussed in previous Committee meetings in the 2019 was now in place despite delays, with a few employers involved. It was clarified that this strategy was put in place as a tool to use in respect to employers in certain situations such as wanting to leave the Fund. This was noted as fitting well with the reforms that the Government had made as it provided employers with the ability to de-risk when leaving the Fund and allowed Fund officers to manage their exit in a more controlled manner.

A review of the employer ill health insurance policy would be taking place, looking at an alternative way to provide similar cover, which is more cost effective for employers. Work was being done with the actuary and a proposal would be brought back to Committee.

Resolved

The Committee noted the scheme, legal, regulatory and Fund update.

186 **<u>Budget Monitoring</u>**

Jennifer Devine, Head of Pension Fund Investments, introduced the report that presented the projected outturn on the Fund’s financial activities against the 2020-21 budget, as at 30 June 2020.

Following conversations between Fund officers concerning investment manager fees, it was suggested that these should be omitted from the budget report and instead presented separately. Officers noted that this was to enable Committee members to focus on the budget’s figures as the costs of managing the investment portfolios were such large amounts and detracted from the monitoring of the controllable budget in regard to potential under or overspends.

In response to a question from the Chairman, it was clarified that the projected underspend was £68k and it was explained that this was due to staffing costs, holding vacancies and restructuring, and because less legal advice was sought than anticipated.

Resolved

1) **The Committee noted the projected outturn for 2020-21.**
2) **The Committee approved that going forward, the costs of managing the investment portfolios are reported separately to the controllable budget, on an annual basis.**

187 **Fund Annual Report and Accounts**

Jennifer Devine, Head of Pension Fund Investments, introduced a report that updated members on the draft Annual Report and Accounts 2019-20.

It was noted that COVID-19 delayed the finalisation of the report, but it was confirmed that this was close to completion and no further material changes were anticipated. It was also noted that the Audit Report had not yet been signed off, so the Annual Report would be published as unaudited. This was due to the delays in respect to the approval of the Council's 2018-19 and 2019-20 accounts. In response to a question from one member, it was confirmed that the paper would make clear the reasoning behind the pending Audit Report in regard to the distinction between the Fund and Council accounts.

Officers stated that the paper had been circulated to members of the Board prior to the Committee meeting for feedback to which there was no changes suggested. Officers requested any further feedback from Committee members be emailed to Jennifer Devine.

Members of the Committee expressed positive notions towards the document and its quality.

Resolved

1) **The Committee noted the attached annual report for the year to 31 March 2020.**
2) **The Committee authorised the officers to make any necessary minor amendments to the annual report prior to publication, such as those to the reclassification of some property funds.**
3) **The Committee approved the annual report for online publication.**
4) **The Committee recommended to the Audit Committee that the accounts be approved.**

188 **Key Performance Indicators (KPIs)**

Andy Cunningham, Head of Pension Administration and Relations, introduced a revised report that summarised the latest KPIs for the period of 1 April 2020 to 30 June 2020, in a changed format.

It was noted that due to the timings of the meetings a full quarter had not yet passed, therefore the figures had not changed as such, but based on feedback during the last Committee meeting, changes had been made to the layout of the presented data.

The main changes described were: Appendix 3 now included a column which benchmarked processing times against the CIPFA measures; a new Appendix 4 and 5; revised methodology for the payment of refunds; and a separation between i-Connect and non i-Connect cases in regard to backlog work.

In response to a question from the Chairman in regard to increased workload in producing data, officers clarified that there was only a small increase but that this benefitted the Fund in the long term as it allowed to both ensure and measure the KPIs in line with national standards, CIPFA definitions and expectations.

Members questioned the progress of the migration and transferal of data from existing systems onto i-Connect. It was highlighted that the new Appendix 4 showed the current position and it was noted that as the bulk of work on the distribution of benefit statements had been completed, the focus was on the onboarding of employers. It was noted that work was being undertaken to onboard Swindon Borough Council which as the second biggest employer would bring the figures up significantly, although this would take some months.

Delays were cited as being as a result of the move to remote working, and the dual process of implementing and receiving McCloud data concurrently alongside the onboarding, which meant short-term delays but long-term time saving.

Resolved

The Committee noted the current situation and the Fund's plans for improvement.

189 **Annual Benefit Statements**

Andy Cunningham, Head of Pension Administration and Relations, introduced a report that summarised the outcome of this year's Annual Benefit Statements (ABS) exercise for the year ending 31 March 2020.

Officers explained that the legal deadline for statements to be distributed was 31 August each year, but that there was some flexibility on how to produce them in terms of posting to home addresses or onto an online portal where members where given the opportunity to sign in to receive it or to opt out and instead receive the paper copy. As the online portal would be linked to i-Connect it allowed members to view their financial position on a monthly basis which would be more up to date than the annual statement.

It was noted that due to the impact of COVID-19 on some participating employers, their returns were sent in late which led to Fund officers having less time to respond to queries and undertake standard data checks. These delays were cited as part of the reason for the goal of 99% active ABS being produced not being met. It was confirmed that the Fund's production rate was instead 96.9% which although less than target was an improvement on last year's 95%. It was noted that the onboarding of employers onto i-Connect would naturally improve this figure as well as it enabled the Fund to receive more up to date

records earlier in the year, spreading out the queries and make the work needed at the end of year minimal.
The remaining 3.1% of active ABS were confirmed to be focussed on being produced as quickly as possible. Additionally, 99.9% of deferred members' ABS were published but that a technical error meant that 0.1% did not receive their statement on time.

Resolved

The Committee noted the current situation and the Fund's plans for next year.

190 **Pension Fund Risk Register**

Richard Bullen, Fund Governance and Performance Manager, updated the Committee in relation to the changes made to the Fund's Risk Register.

It was noted that the items that went forth to the last meeting of the Local Pension Board were approved, however there were two issues that were raised as a result of the discussions. The first of which involved the Fund's cyber security which was subsequently raised from a Green to an Amber, and the second being the Brunel Pension Partnership's cost transparency.

Since the Board's review of the risk register in August, four risks had been updated on the report for consideration by the Pension Committee. These included the Goodwin case and the Public Sector Exit Caps which had been discussed thoroughly during Item 10, as well as the collection of payments for ceasing employers due to further Government changes in policy issues in September 2020, and the McCloud case following the release of a Government consultation in July 2020. It was briefly noted that Fund officers were awaiting more detailed information in a number of these areas to allow strategies to be put in place to understand and tackle these risks as a matter of practice.

Resolved

1) **The Committee approved the attached Risk Register and accepted the recommendations for changes/actions made submitted by the Board in points 5 to 8.**
2) **The Committee approved the four changes made to the Risk Register since the Board meeting on 6 August 2020. These changes are highlighted in italics within this report.**

191 **Administering Authority Discretions Policy**

Andy Cunningham, Head of Pension Administration and Relations, introduced a report from officers that proposed amendments to three of the Fund's regulatory discretions.

It was noted that the last time the Policy was approved was in December 2015. In parts of the LGPS Regulations, the Fund was afforded discretion over how the rules of the Scheme operate, thus a degree of localised decision making was allowed.

An employer had approached the Fund and requested a change to the Policy which officers agreed to bring forth to Committee along with the other proposed changes as part of a wider review. The four discretions proposed to be changed were: acceptance of certain ‘non-club’ transfers in; death grants; child pensions; and medical certificate requirements for APCs. It was noted that officers wanted to undertake a review of the rest of the Policy and bring this back to the next Committee meeting in December 2020.

Officers responded to a question from the Vice-Chair which sought clarification as to the circumstances under which a private non-club pension would not be allowed to be transferred in. They explained that this would be open to agreement between the Fund and the employers on a case by case situation dependant on the context which meant in practice this restriction would be likely to affect only a small group of members.

Resolved

The Committee approved the proposed amendments to the Administering Authority Discretions Policy.

192 **Fraud Risk Prevention & Mitigation Measures**

Andy Cunningham, Head of Pension Administration and Relations, introduced a report that explained the current safeguards in place and available to officers, the Wiltshire Pension Fund Committee and Local Pension Board to identify and manage fraud in the WPF.

It was noted that this was brought forth to the Committee as a result of the conversations that arose during the last meeting of the Local Pension Board. Officers confirmed that they had identified and implemented measures and controls that limited the possibility of fraud occurring either in relation to officers, Committee members or other parties unrelated to the Fund who attempted to defraud a scheme member.

The Chairman asked if there had been an upsurge in people trying to access scheme member’s pension payments, to which officers confirmed that there had been an increase of scams in that area. It was noted that such fraud was achieved through cold calls or doorstep sales people who had encouraged scheme members to transfer out their pension into fraudulent companies and subsequently had lost some or all of their funds. Officers reassured members that the Fund was required to have multiple levels of checks in place to ensure that the companies that scheme members wish to transfer in to were registered and legitimate to limit the risk of members losing their benefits, and that the Fund had taken action to make the checks more robust.

Resolved

The Committee noted the contents of the paper.

193 **Look Forward Plan Review**

Andy Cunningham, Head of Pension Administration and Relations, and Richard Bullen, Fund Governance and Performance Manager introduced the Look Forward Plan for the remainder of 2020-21 and highlighted the plans for the upcoming future meetings based on past cycles.

Officers noted that the internal audits were underway and as such, they should be in a position to present the findings at the next Committee meeting in December 2020.

Resolved

The Committee noted the plan for the remainder of 2020-21.

194 **Date of Next Meeting**

The next regular meeting of the Wiltshire Pension Fund Committee would be held on 17 December 2020.

195 **Urgent Items**

There were no urgent items.

196 **Exclusion of the Public**

One member of the Committee requested a formal vote via roll call take place to decide the resolution of the agenda item, after which it was:

Resolved

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 22 to 26 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 1 and 3 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Members took a break for lunch between 12:50pm – 13:20pm.

197 **Fund Data Security, Cyber Resilience & Business Continuity Planning**

Richard Bullen, Fund Governance and Performance Manager, introduced a paper that outlined the Fund’s cyber security arrangements with its two key software providers, and its compliance with the Regulator’s guidance.

198 **Brunel Pension Partnership Update**

Jennifer Devine, Head of Pension Fund Investments, introduced a report on the Brunel Pension Partnership governance arrangements.

199 **Minutes and Key Decisions of the Investment Sub-Committee and Local Pension Board**

Resolved

The Part 2 (private) minutes and recommendations arising, from the last meetings of the Investment Sub-Committee and Local Pension Board on 10 September 2020 and 6 August 2020 respectively were approved.

200 **Investment Quarterly Progress Report**

Jennifer Devine, Head of Pension Fund Investments, introduced a report in relation to the Fund's investment performance to 30 June 2020.

201 **Minutes**

Resolved

The Part 2 (private) minutes of the previous meeting held on 16 July 2020 were approved as a true and correct record.

(Duration of meeting: 10.30 am - 2.45 pm)

The Officer who has produced these minutes is Ellen Ghey of Democratic Services, direct line 01225 718259, e-mail ellen.ghey@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

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