

Pensions Panel

6 November 2017 – At a meeting of the Pensions Panel held at 10.00 a.m. at County Hall, Chichester

Mr Bradford
Mr Hunt (Chairman)
Dr Walsh

Mrs Dennis
Mr Jupp

Mr Donnelly
Mrs Urquhart

Apologies for absence were received from Mr Fitzjohn and Ms Taylor

In attendance by invitation:

Caroline Burton (Independent Adviser);
Steven Law, Kameel Kapitan and David Walker (Hymans Robertson);
Malcolm Gordon, Guy Walker and Gordon Harding (UBS).
Rod Thick and Michelle Furtado (Worthing Action Climate Network)

Officers Present:

Katharine Eberhart,
Director of Finance
Performance and
Procurement

Steve Harrison,
Financial Planning
Manager

Rachel Wood,
Pension Fund Strategist

Laura Davies
Finance Manager
Pension Fund Accounting
& Reporting

Adam Chisnall,
Democratic Services
Officer

Part I

Declaration of Interests

89. Mrs Urquhart informed the Panel that she was no longer on the Board of the South Downs National Park Authority.

90. Caroline Burton declared an interest as a member of the Hermes Property Unit Trust.

Part I Minutes of the Pensions Panel held on 26 July 2017

91. The Panel felt that the final bullet in minute 54 should be amended to say 'exempt information' rather than 'sensitive and should not be circulated'.

92. Resolved – that the Part I minutes of the Pensions Panel held on 26 July 2017, amended as above, be approved as a correct record, and that they be signed by the Chairman.

Minutes of the Annual Meeting of the Pension Fund held on 26 July 2017

93. Resolved – that the minutes of the Annual Meeting of the Pension Fund held on 26 July 2017 be approved as a correct record, and that they be signed by the Chairman.

Fossil fuel investments Petition

94. The Panel considered a report by the Director of Finance, Performance and Procurement; and a petition, with supporting documents, from Worthing Climate Action Network (WCAN) (copies appended to the signed minutes).

95. The Panel welcomed Rod Thick and Michelle Furtago from WCAN who were given seven minutes to deliver a presentation to support the submitted petition.

96. Rod Thick explained that the aim of WCAN was to raise the awareness of Climate Change and put pressure of political leaders to take mitigation actions. Rod Thick felt it was important for the scheme to fight climate change and ensure the best returns. It was reported that other authorities had begun to divest from fossil fuels.

97. Michelle Furtado, who worked as a sustainability director, explained that climate change was a real danger which was showing an impact on seasons, habitats and landscape. Not only was there a moral issue to investment in fossil fuels, but also a financial concern. WCAN would like the fund to divest from fossil fuels which would send a message to the market and protect constituents and the Fund.

98. The Panel made comments including those that follow.

- Sought clarity on the petition letter where it outlines that divestment would deliver long term pension security. – *Michelle Furtado explained that there was an unstoppable move towards this and that investment in fossil fuels put funds in the wrong place. It was important that the fund considered this risk. The trend towards green and low carbon investments would mean investments in those areas would be sturdy.*
- Noted the movement towards low carbon but commented that it was not possible to completely stop using utilities and fuels. – *Michelle Furtado explained that there were utility companies who had signed up to more renewable options. Other providers using fossil fuels were not aligning with the Paris agreement with regard to keeping global temperature rise below 2°C.*
- Commented that large companies may still be extracting, but were also investing in renewable options. Investments were also being made to wind farms and processes to return carbon dioxide to the ground. A large movement away from these companies would impact renewable progression. – *Michelle Furtado proposed that the Fund could move investments from the large companies to smaller ones who were working on innovative renewable ideas.*

99. The Chairman noted that the petition was asking for change 'on behalf of concerned ratepayers and residents'. The Pensions Panel had a duty to Scheme members and a legal duty to achieve what was best for the financial position of the fund. Fund managers had signed up to the United Nations' Principles for Responsible Investment (UNPRI). The Chairman was confident that the fund managers would divest if they felt there was any financial concern with investments. Pensions Panel members had to ensure they set aside their own personal interests and considered investments that were the best decision for the fund.

100. The Chairman proposed a resolution that was seconded by Dr Walsh and agreed by the Panel.

101. Resolved - That the Panel receives and notes the petition relating to investment in fossil fuel industries and will give further consideration to the issues and challenges it raises when considering future investment strategies.

102. The Chairman thanked the petitioners for their attendance and presentation. Assurance was given that the message would be taken on board and that their climate and financial concerns were shared by the Panel.

Business Plan Update

103. The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

104. Steve Harrison introduced the report and gave an update on works that were progressing. With regard to MiFID II, work had continued over the summer with details submitted to Hymans Robertson, Baillie Gifford, UBS, Aberdeen and the two private equity managers (Partners Group and Pantheon Ventures). Capita Administration Performance was reported to be moving in the right direction.

105. The Fund had also seen a large transfer in from the Greater Brighton Metropolitan College (formerly City College Brighton and Northbrook College Sussex). The College had chosen to join the West Sussex Pension Fund rather than East Sussex. A cash transfer had been issued from East Sussex Pension Fund to reflect the new members in the Fund.

106. The Panel made comments including those that follow.

- Queried how the MiFID II work would be impacted by pooling. – *Rachel Wood explained that all pooled funds would be undergoing a similar process. A similar exercise would be required when the pooling operator was appointed.*
- Asked if there were any amendments following the recent audit of the Fund's Statement of Accounts. – *Steve Harrison confirmed that there had only been minor amendments.*
- Raised concerns on employer admissions into the Fund, particularly in respect of Academies. – *Steve Harrison explained that the Fund could not refuse these admissions. They were covered by a guarantee from the Department of Education which had been utilised for other funds. Risks could be managed via contribution rates.*
- Raised concerns on the administration performance. – *Katharine Eberhart explained that penalties had been imposed on Capita and work was ongoing to look into this. Mr Hunt explained that credits had been applied to the fund to assist with administration.*
- Queried the level of late paying employers. – *Laura Davies explained that 96% had paid on time.*

107. Resolved - That the Panel notes the ongoing work to achieve the Business Plan.

ACCESS Pooling Update

108. The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

109. Rachel Wood introduced the report and explained that work was progressing with the Operator appointment. The ACCESS Joint Committee was meeting on 13 December where it was likely they would make the final decision. Each individual fund would sign the relevant agreement to confirm the appointment. For West Sussex, this would be arranged by the Director of Law and Assurance as a result of the provisions within the Inter Authority Agreement.

110. The Panel made comments including those that follow.

- Queried the savings figure for the passive portfolio. – *Rachel Wood confirmed this was £5m per annum. Caroline Burton added that some funds already had passive mandates with low fees and so it was unrealistic to expect a similar reduction in the active portfolio fee.*
- Asked if there would be an expectation from government for pooled funds to invest in infrastructure. – *Rachel Wood confirmed that (presently) the government could not stipulate this, just encourage. The Pensions Panel should demonstrate that the asset class had been considered.*

111. Resolved - That the Panel notes the updates.

Investment Beliefs and Investment Strategy

112. The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

113. David Walker gave a presentation to the Panel on the next steps for Investment Review (copy appended to the signed minutes).

114. David Walker explained that strategy beliefs were important to shape the investment strategy. It was important to make the best use of risk analysis to impact the strategy appropriately.

115. Steven Law explained that it was a good time to consider core attributes before pooling arrangements began.

116. The Panel made comments including those that follow.

- In respect of the belief that 'The Panel has a preference for avoiding a large number of separate manager relationships', asked how many fund managers were in the Fund. – *Rachel Wood explained there were five managers; two x balanced mandate managers, one x property manager and two x private equity managers. Caroline Burton added that evidence had shown that a high level of managers reduced value. A lower level increased focus on the strategy.*
- Asked if de-risking was considered within the 5,000 simulation modelling. – *Steven Law explained that the modelling focussed on maintaining the strategy. Calculations could be run to consider de-risking and rebalancing.*

It was important to ensure that the three year valuation and contribution rate monitoring was considered.

- *Queried if cyclical patterns were considered. – Steven Law said this was not considered, however a long term view of where it was thought assets would be was used.*
- *Asked if interest rates were calculated within the modelling. – Steven Law confirmed this was included. There was a built in increase in yields over a 15 year period.*
- *Sought clarity on the current fund level. – Rachel Wood confirmed that the level was at 105%. The de-risking strategy could look into this and consider if another trigger level was required. Caroline Burton advised that low trading volumes necessitated that the Fund should not look to transition between asset classes after 10 December.*
- *Queried how currency fluctuations impacted bond risk. – Caroline Burton explained that the aim was to reduce volatility. Equites could suffer more than bonds.*

117. Resolved - That the Panel agrees the draft Investment Beliefs as set out in Appendix 1 and look to schedule an informal meeting before the next Panel meeting to look at the Investment Strategy Review

Exclusion of Press and Public

118. Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

The meeting ended at 1.05 p.m.

Chairman

Summary of Matters discussed in the absence of the Press and Public on 6 November 2017

Part II Minutes of the Pensions Panel held on 26 July 2017

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel agreed the Part II minutes of the Pensions Panel held on 26 July 2017.

Breaches

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel were informed of 2 non material breaches and given reassurance that the relevant employers would continue to be monitored.

Adviser Review

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel received an update from Caroline Burton, Independent Adviser, relating to the quarterly reports from the fund managers. The Panel welcomed the advice.

Presentation by Investment Managers from UBS. Investment Activity, Performance and Future. Investment Policy

(Exempt, paragraph 3, Financial or business affairs of any person (including the authority))

The Panel received an update from Malcolm Gordon, Guy Walker and Gordon Harding from UBS on the portfolio performance for the quarter.