

Warwickshire Local Pension Board

Tuesday 13 April 2021

Minutes

Attendance

Committee Members

Keith Bray (Chair)
Keith Francis
Alan Kidner
Mike Snow

Officers

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance
Aneeta Dhoot, Senior Finance Officer
Liz Firmstone, Service Manager (Transformation)
Victoria Moffett, Pensions and Investments Manager
Deborah Moseley, Senior Democratic Services Officer
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)
Nichola Vine, Strategy and Commissioning Manager (Legal and Democratic)
Victoria Jenks, Pensions Admin Delivery Lead

1. Introductions and General Business

(1) Apologies

Councillors Parminder Singh Birdi and Dave Parsons and Mr Sean McGovern.

(2) Board Members' Disclosures of Interests

The Chair stated that he worked for the Local Authority Pension Fund Forum and also for a firm of American lawyers which had Pension Fund clients although these did not include Warwickshire.

Alan Kidner stated that his sister-in-law worked for JP Morgan.

2. Forward Plan

Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk) presented this report which provided an updated one year rolling forward plan for the Local Pension Board looking forward one year. It was intended that the forward plan would be informed by latest developments and, therefore, be updated or amended on a rolling basis. It included reference to policy reviews and a schedule of training events and topics guided by feedback from the National Knowledge Assessment.

Victoria Moffett, Lead Commissioner Pensions and Investment, provided clarification that a date for the training session on Climate Change/ESG had not yet been confirmed but an invitation would be issued shortly. Members welcomed the inclusion of the training schedule in the document.

Resolved – that the Local Pension Board noted the forward plan set out at appendix 1 to the report.

3. Business Plan 2021/22

Victoria Moffett, Lead Commissioner Pensions and Investment presented this report which set out the Business Plan for 2021/22, as approved by the Pension Fund Investment Sub-Committee in March 2021. The business plan included a Single Action Plan for the Fund as an appendix which simplified the business planning and monitoring arrangements. The Investment Strategy Statement was also a key planning document for the Fund and had been updated at the March 2021 Pension Fund Investment Sub Committee. It set out the Fund's approach to investing, including the strategic asset allocation, investment mandates, the expected returns, investment risk, and investment governance. The covering report detailed the key changes. Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk), noted that there was an error on page 16 of the report and the figures for members with a preserved benefit and retired or dependant members had been transposed: this would be corrected by the next publication.

In response to a question from the Chair, Victoria Moffett confirmed that approximately one-third of the fund's value was invested through Border to Coast. Two thirds of the portfolio is expected to transfer to the Pool (with only passive equities and bonds remaining with Legal and General Investment Management (LGIM)). With regard to investment activity and the increase in mandates since 2005/06 from 6 to 19, the Chair commented on the challenges of having a greater number of fund managers. Victoria Moffett explained that several mandates had transferred to Border to Coast which had simplified the number of fund managers in one respect but that alternatives managers would stay in place for 7-10 years of the fund life and this would create some overlap in the portfolio with more than one manager.

Mike Snow asked about work to manage the expectations of employers that had declared a climate emergency and Victoria Moffett advised that there was a two phased approach in place. Firstly, employers would be surveyed by the end of April and the results would feed into the second phase which was to offer investment beliefs training to the Pension Fund Investment Sub-Committee in May which would seek to form a set of beliefs for the fund and explore whether there was an appetite to progress this agenda. Victoria Moffett noted that there was a need to strike a balance with the fund's fiduciary duties but academic research suggested there was improved returns to be gained from ESG tilting although it was always difficult to assess how much carbon a company produced. The Chair commented further on how environmental, social and corporate governance (ESG) considerations should be taken into account in the selection, non-selection, retention and realisation of investments, quoting guidance from the MHCLG, and commented on the remit of the Board to keep a watching brief on the topic but that it could not give investment advice. Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk), noted that the Board would be considering a report later in the meeting which addressed good governance developments including the potential representation of employers and members on the Pension Fund Investment Sub-Committee. With respect to

climate change, he indicated that there should be congruence with the objectives of the fund and that some investment decisions could improve the Fund's climate risk profile and/or also contribute to reducing climate change.

Resolved – that the Local Pension Board noted the Business Plan appended to the report at Appendix 1 and noted the Investment Strategy Statement appended Appendix 2 to the report.

4. Risk Management 2021/22

Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk) presented this report which provided a consolidated single risk register, including covid-related risks. When the risk register had been presented to the Pension Fund Investment Subcommittee in March 2021, the Pension Fund Investment Sub-Committee requested that the Covid risk line be split into two lines – one for investment and one for other Covid impacts, including impact on people and this change would be made before reporting risk monitoring in June. The Sub-Committee had also agreed to the idea of developing a formal risk appetite for the Fund during 2021/22.

In response to a question around the meaning of asset bubbles, Victoria Moffett clarified that this referred to a situation where assets dramatically rose in price over a short period that was not supported by the value of the product. At some point the implausible value would become noticeable and the value would crash back down, popping the bubble.

A typographical error was noted at risk 10 relating to climate change which should refer to UK stewardship code.

Members welcomed the single risk register and asked how the register was utilised. Chris Norton advised that the Pension Managers Coordination Group met monthly to consider key issues and one of the standing items on the agenda was the risk register and business plan action plan so that any changes required could be discussed. A key point was to ensure that any actions that the team needed to have regard to had a place in the single action plan that was more simple and easy to use.

Resolved – that the Local Pension Board noted the risk register appended to the report.

5. Pensions Administration Activity and Performance Update

This report, presented by Vicky Jenks, Pensions Admin Delivery Lead, provided an update on the key developments affecting pensions administration and the performance of the Pensions Administration Service, including the governance action plan, i-Connect project, Guaranteed Minimum Pension (GMP) reconciliation, pensions increase, key performance indicators, workloads, the McCloud project, exit payments, commencement of the annual benefits statements project, Pensions Schemes Bill/Act 2021 and employers joining and leaving the Fund.

In response to a question Vicky Jenks clarified that the iConnect system would enable providers to use their existing payrolls to upload their data from a portal directly into the system and it did not involve the introduction of a new payroll system.

Responding to a question from Mike Snow on the actuarial strains in relation to exit payments (paragraphs 11.5-11.6 of the report), Vicky Jenks responded that the scheme was administered for different employers but there had not been any cases where the cap had been exceeded so no adjustments had been required. The situation would be monitored going forward and any information given would be caveated accordingly. Vicky Jenks advised that Hymans Robertson supplied strain costs based on Warwickshire and noted that the cost to employers of members leaving the scheme could vary between pension funds, due to the different local factors taken into account; the GAD factors created a more level playing field in this respect.

For the benefit of the Board, the Chair asked for an explanation of the proposal for a pensions dashboard. Vicky Jenks advised that there was a national programme to create a pensions dashboard where every member could log in to a portal and see all their pension benefits and data in one place. With hundreds of providers, portals and identification processes, this was a complex project with an implementation timescale of 2023. The current stage was understanding the required ICT and security implications, getting the data right and getting it accessible to the right people.

With regard to key performance indicators, Vicky Jenks confirmed that the team had been dealing with the workload for iConnect submissions and were therefore catching up on deferred benefits. The failure to meet the indicator was considered a blip and there should be no ongoing continuance.

Resolved – that the Local Pension Board noted the report.

6. Warwickshire Local Pension Board Update to Breaches Reporting Procedure

At the previous meeting of the Board, further explanation had been sought on the procedures around reporting and publication of breaches and this report, presented by Vicky Jenks, Pensions Admin Delivery Lead, sought to provide assurance that this aspect of pensions administration was being effectively managed. In particular, the report sought to define what a breach was, how breaches were reported and the escalation process.

The Board Members welcomed the simplification of breaches reporting to the Local Pension Board and Staff and Pensions Committee but some hesitation was expressed about the publication of a summary of anonymised data as some Members considered that this proposal lacked the same level of transparency as the existing detailed breaches log which names specific employers. Officers emphasised that the key issue was the accuracy of recorded data and the timely escalation of breaches together with the focus of resources on the Fund's objectives. It was noted that 'naming and shaming' employers rarely elicited feedback from them and few Funds published this information on their websites. It was hoped that the implementation of the iConnect project would support employers in a way that would limit breaches. Vicky Jenks had prepared a draft procedure note for the Pensions Team to accompany the new arrangements and part of the proposals were to refer breaches to the Local Pension Board and Staff and Pensions Committee, who would continue to have visibility of employer-level information.

Following up on concerns raised at the last meeting by Alan Kidner regarding an entry on the breaches log relating to an incorrect base rate factor, Vicky Jenks informed the Board that this breach was related to the base rate factor not being updated in the system, however, an investigation had been completed, and any payments were rectified.

Resolved – that the Local Pension Board noted the report.

7. Regulatory Update

Neil Buxton, Technical Specialist presented this report which provided an update on developments that impacted on the Local Government Pension Scheme, focussing on the implications of the UK Pensions Act receiving Royal Assent, an increase to the minimum pension age, and climate change risk and the Task Force on Climate Related Financial Disclosures.

Resolved – that the Local Pension Board noted the report.

8. Funding Strategy Statement

Neil Buxton, Technical Specialist presented this report which informed the Board that following an amendment to the Local Government Pension Scheme Regulations, a review had been undertaken of the Funding Strategy Statement, which recommended some amendments to the statement to provide additional flexibilities to manage the financial impact of certain pension fund issues on employers such as flexibilities in the making of exit payments and the facility to amend contribution in between valuations. In response to a question, Neil Buxton explained the type of situations when employers may seek to make use of the changes, using the example of a catering company impacted by Covid with less income than normal.

It was also pointed out that the second page of the statement referred to the statement of investment principles and, whilst this was considered to be old terminology, Chris Norton advised that he would look into whether this required deletion/rewording. A typographical error in the second paragraph on page 21, section 36 was also noted (changing paragraph 3.8 for 3.7).

Looking at the time horizon for the proposals, the Chair asked about the funding level and Victoria Moffett advised that as at 31 December 2020 the funding level was 91% and the total fund value was £2.5bn. In view of the time horizon being 19 years, the Chair opined that this was not an unreasonable position.

Resolved – that the Local Pension Board noted the report.

9. Summary Note of Scheme Advisory Board Meeting 8th February 2021

The Chair advised that he had requested this report be placed before the Board. The role of the Local Government Pension Scheme Advisory Board was comprehensively detailed in the report and a summary set of the notes of the meeting on 8 February 2021 was appended to the report at appendix 1.

Resolved – that the Local Pension Board noted the report.

10. Scheme Advisory Board Final Good Governance Report

Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk) presented this report which gave further details on the recommendations to be submitted to the Local Government minister for consideration following publication of the Scheme Advisory

Board's final Good Governance Phase 3 Report which was produced by the Hymans Robertson project team.

In response to a question seeking his opinion on the soundness of the proposals, Chris Norton, advised that he believed they were good but the challenge would be in resourcing new tasks and some thought would need to be given to this.

Resolved – that the Local Pension Board noted the report.

11. The Pension Regulator Consultation on a New Code of Practice

Neil Buxton, Technical Specialist presented this report which set out details of the Pension Regulator's consultation document on a new code of practice. He noted that there were no plans to respond to the consultation directly as the LGA would make a response.

Resolved – that the Local Pension Board noted the report.

12. General Investment Activity Update

Victoria Moffett, Lead Commissioner Pensions and Investment, presented this report which provided a general update on investment related activity, focussing on Fund value, providing a commentary on the portfolio, voting activity in the previous quarter, completion of the tendering exercise for two Independent Financial Adviser contracts, progression of the UK Stewardship Code, climate change and training.

In response to a question from Keith Francis, regarding the asset allocation table at 3.1 and apparently contradictory assertions elsewhere in the meeting pack that equities were 'overwhelmingly' UK equities, Victoria Moffett explained that in this sense, as a proportion of the global market capitalisation, the UK made up 6% and 16% of the whole portfolio.

Mike Snow commented on the voting record of Border to Coast and expressed the view that they seemed to be making sensible voting decisions.

Alan Kidner welcomed the work that was being done with regards to climate change and also the cost benefit analysis of pooling and looked forward to hearing more about these activities at future meetings. Reflecting on the progress that the Task Force on Climate-Related Financial Disclosures was making with private pension schemes, the Chair considered that this would be a key consideration in the coming months.

Resolved – that the Local Pension Board noted the report.

13. Minutes of the Pension Fund Investment Sub Committee

The Local Pension Board noted the minutes of the Pension Fund Investment Sub Committee meeting held on 14 December 2020.

With regard to comments on local impact investing, Victoria Moffett, Lead Commissioner Pensions and Investment, explained that this was an area in which the fund had to be particularly cautious in

terms of its fiduciary responsibilities and any investment opportunities were passed to Border to Coast for screening.

14. Review of the Minutes of the Staff and Pensions Committee 14 December 2020

The Local Pension Board noted the minutes of the Staff and Pensions Committee meeting held on 14 December 2020.

15. Minutes of the Previous Meeting

The minutes of the meeting held on 26 January 2021 were agreed by the Board as a true and accurate record.

16. Summary of Key Actions

	Action	
1	Climate Change/ESG Training – Circulate date once available	Victoria Moffett
2	Update business plan with correction when next presented	Chris Norton
3	Check Funding Strategy Statement reference to Investment Principles and update if/as necessary	Chris Norton
4	Update Risk Register reference to UK Stewardship Code	Chris Norton
5	Ensure minutes are shared with Board by 1 month after the meeting	Chris Norton

The meeting rose at 12.07pm

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Chair