

# Pension Fund Investment Sub-Committee

Monday 13 September 2021

## Minutes

### Attendance

#### Committee Members

Councillor John Horner (Chair)  
Councillor Bill Gifford (Vice-Chair)  
Councillor Christopher Kettle  
Councillor Sarah Millar  
Councillor Jill Simpson-Vince

#### Officers

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance  
Andrew Felton, Assistant Director - Finance  
Shawn Gladwin, Senior Finance Officer Pensions Investment  
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 & Commissioning Manager

#### Others Present

Philip Pearson, Hymans Robertson  
Andy Stone, Border to Coast Pensions Partnership (for minute no. 12)  
Tim Sankey, Border to Coast Pensions Partnership (for minute no. 12)  
Bob Swarup, Independent Advisor  
Richard Warden, Hymans Robertson

### 1. General

#### (1) Apologies

None.

#### (2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

None.

### **(3) Minutes of the previous meeting**

The minutes of the previous meeting were agreed as a true and accurate record. There were no matters arising.

## **2. Review of the Minutes of the Warwickshire Local Pension Board meeting of 13 April 2021**

The minutes of the Local Pension Board meeting of 13 April 2021 were noted.

### **3. Forward Plan**

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance, presented this report which provided an updated forward plan for the Pension Fund Investment Sub Committee, rolled forward to cover the year ahead. Members suggested that scheduled training be included in future editions.

#### **Resolved**

That the Pension Fund Investment Sub-Committee noted the forward plan.

### **4. Macroeconomic Update**

This was a new report presented by Bob Swarup, Independent Advisor to the Sub-Committee, which sought to set the scene on the Pension Fund's greatest influences and encourage discussion of wider issues throughout the remainder of the agenda. The report focussed on four key areas: the continuing impact of Covid-19 and government reactions, inflation (including supply chain issues), negative real interest rates in the UK, and investors' capital deployment.

In response to questions regarding inflation, Dr Swarup indicated that he felt the position was still somewhat transient with an element of short term demand and the economy was still stop/start and this needed to stabilise so that companies would invest. He felt that capacity issues had not been fully factored in. Noting High Street closures, he pointed out that this created less capacity for demand which resulted in greater pricing power for anyone left in the market. He also pointed to record job openings balanced by significant demand for wage increases (eg in the haulage industry) which would eventually show in prices. He considered that the central banks were in a difficult position and would be looking for inflation to come back down.

Dr Swarup noted that wages had been low for 10-15 years and this pent up wage demand, decrease in natural resources, increase in energy costs, rising costs of carriage (through an under investment in shipping) and the huge shortages in supply chain created a risk of spikes but ultimately the rise in inflation would mute, and energy prices would come down. The concern was that certain parts of the supply chain like wages and conductors would stabilise at a higher level.

Dr Swarup indicated that if the Bank of England decided inflation would not return to target, they would write to the Chancellor. He noted that the Federal Reserve had changed to an average inflation target and that was one option, but the government would be thinking more long term and seek to maintain credibility with the public.

In response to a question regarding reinvigoration of the high streets, Dr Swarup noted that some investors had not allowed property prices to rise too much. There had been a lower yield for warehouses and property owners were not willing to write down the value, preferring fewer tenants than lower rates. If the market was hollowed out, there could be ramifications which were destructive to the balance sheet in the short term.

Regarding questions in relation to private debt capital overhang, Dr Swarup responded that it was significant that the chart included in the slide presentation (slide 14) showed some overhang. He noted that over the last three years there was a lot of money raised that did not need to be deployed immediately. There was a danger that too much capital left on the balance sheet would result in poor quality purchases and a good cash management strategy was required. Philip Pearson added that strong growth was being seen in capital committed to private debt, with a significant portion due to growth in private lending and a decline in lending by the commercial banks and this required some careful monitoring as the inevitable consequence was that returns would be low going forward.

The Sub-Committee welcomed Dr Swarup's realistic assessment.

### **Resolved**

That the Pension Fund Investment Sub-Committee noted the report.

## **5. Risk Monitoring**

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) presented this report which provided an update on the risks to the Fund and actions taken to manage them. The report also detailed the proposed risk appetite for adoption.

In response to questions from the Chair regarding the Covid-19 risk assessment, Chris Norton advised that there had been a transient impact in terms of investment but pensions had continued to be paid and the Team had risen to the challenges presented by the pandemic thus far. In terms of the annual accounts, the external auditors were struggling to complete their work and, therefore, these would be signed off by Council later than usual.

Members considered that it would be helpful if the risk register included the rating from the previous period and any changes made, so that any fluctuation could be more easily noted.

### **Resolved**

1. That the Pension Fund Investment Sub Committee noted the risk register attached to the report at Appendix B.
2. That the Pension Fund Investment Sub Committee noted and approved the Risk Appetite statement at paragraph 2.3 of the report.

## **6. Investment Beliefs**

Members had previously undertaken training on investment beliefs and had subsequently been asked to complete a questionnaire which sought to align their views to a set of statements across purpose, strategy and structure, implementation and governance. Discussion and debate on the questionnaire results in a recent workshop setting had resulted in the drafting of an updated set of

Investment Beliefs which had been circulated to the Sub-Committee Members prior to this meeting.

Some suggestions for changes to the wording of the statement had been received by email from Andrew Felton, Assistant Director – Finance particularly regarding the phrasing of belief 19 which implied that a passive option was required to be adopted before active management could be considered. Philip Pearson explained that there was a grey area between passive and active management with passive management relating to investment in the index and active management requiring decisions about which stocks to invest in and the weights that applied. The Committee also considered that it would be useful to define Responsible Investment prior to its first usage in the document and it was further suggested that the document should reference the UNPRI six principles for responsible investment.

Victoria Moffett confirmed that the investment beliefs should be reviewed before each investment strategy review.

### **Resolved**

1. That the Pension Fund Investment Sub Committee noted the tabled beliefs.
2. That the Pension Fund Investment Sub Committee approved the updated Investment Beliefs subject to inclusion of the suggested changes (appended to these minutes).

## **7. Training Policy**

Neil Buxton, Technical Specialist - Pension Fund Policy and Governance, presented the draft training policy to which was appended the training strategy for members of the pension fund committees, the local pension board and for senior council officers involved in the management of Warwickshire Pension Fund.

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) added that it was planned to undertake the National Knowledge Assessment on an annual basis to inform training needs and that the plan was flexible enough to include topical issues.

In response to a question regarding provision for online training, Richard Warden noted that functionality was being added to the online portal which included videos and links to library documents.

The Chair noted that the current training programme provided for much higher level discussion and Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk), explained that there were more workshop sessions taking place outside the formal meeting setting to provide the Sub-Committee with more time to consider key issues and enable the business of the formal meetings to progress more smoothly.

Suggestions were received and noted for training on private markets (quarter 4) and climate change.

### **Resolved**

That the Pension Fund Investment Sub Committee approved the Training Policy for the Warwickshire Pension Fund attached to the report at Appendix 1

## **8. Reports Containing Exempt or Confidential Information**

### **Resolved**

That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

## **9. Investment Consultant Quarterly Report**

### **Resolved**

That the Pension Fund Investment Sub-Committee noted the report.

## **10. General Investment Activity Update**

### **Resolved**

1. That the Pension Fund Investment Sub-Committee noted the report.
2. That the Pension Fund Investment Sub-Committee reiterated the decision to allocate 10% of the Pension Fund to MAC once it became available, subject to the MAC sub-fund meeting certain “necessary conditions” as outlined in paragraph 3.7 of the report.

## **11. Pooling Update**

### **Resolved**

That the Pension Fund Investment Sub-Committee noted the report.

## **12. Pooled Fund Manager (BCPP) Presentation**

### **Resolved**

1. That the Pension Fund Investment Sub-Committee noted the presentation by Border to Coast Pensions Partnership.
2. That the Pension Fund Investment Sub Committee supports the contribution of £500,000 by Warwickshire Pension Fund towards the completion of Phases 2 and 3 of the Border to Coast Real Estate programme, and asks the section 151 Officer in making the decision regarding the contribution to put forward to Border to Coast Pensions Partnership the Committee's comments regarding the business case for the fund and the risks to be considered.

## **13. Exempt Minutes of the Previous Meeting**

The exempt minutes of the previous meeting were agreed as a true and accurate record. There were no matters arising.

The meeting rose at 1.56pm

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Chair

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## WPF - Revised Investment Beliefs

### Purpose

1. The Fund's primary purpose is to pay pension benefits to its members.
2. The Committee should focus on ensuring the Fund has sufficient financial resources to meet its obligations, including efficient management of the Fund's cash position.
3. The Committee should ensure that accrued benefits are fully funded (on a 20-year view).
4. The Fund should set a stable and affordable level of contributions for each employer to fund future service benefits. Long-term stability and affordability are more important than the short-term level of contribution rates.
5. The Fund is a long-term investment vehicle which should be managed to generate sustainable investment returns over the long-term. This will be achieved by Responsible Investment ("RI"), which is the practice of integrating consideration of Environmental, Social and Governance ("ESG") factors, including climate change, into the investment process (as further defined by the UN Principles for Responsible Investment – [www.unpri.org](http://www.unpri.org)).

### Strategy

6. The Fund should take a long-term view when setting investment strategy although the impact of short-term volatility should also be considered.
7. Strategic asset allocation is the most important determinant of investment outcomes and it is here that the optimum balance of risk and return is set.
8. The Fund's investment strategy and risk appetite should be set with due consideration for its liabilities and funding strategy which is reviewed at each actuarial valuation.
9. The Fund should consider as broad a range of investment opportunities as possible, subject to these being compatible with its risk appetite and RI considerations
10. Investment risk should only be taken where the Committee believes it will be rewarded over the longer term.
11. Appropriate diversification of asset and manager risks reduces overall risk but may lower returns; excessive diversification creates complexity and may increase risk.
12. The Fund invests for the long-term, so ESG factors are expected to have a material impact on investment outcomes.
13. The Committee believes that climate change and the expected transition to a low carbon economy will have a significant long-term impact on the Fund and considers managing the associated financial risks to be part of its fiduciary duty.
14. The Committee believes that the transition to a low carbon economy will create investment opportunities and will mandate the Fund's investment managers to seek out these opportunities.
15. The Committee believes that an RI approach will enhance long-term investment outcomes as well as benefiting the economies and societies in which the Fund invests, and is therefore consistent with the Fund's primary purpose.

16. The Committee believes that, in relation to the management of ESG factors, ongoing engagement with portfolio companies is preferable to divestment. Divestment should remain an option if engagement proves unsuccessful.

### Implementation

17. Pooling presents an opportunity to access best in class investments at a low cost. The Fund has a bias to using pool products but will only invest if they are aligned with its investment strategy and offer comparable outcomes to best-in-class external solutions.
18. Both active and passive management strategies, where available, will be considered as implementation options. Active managers will be expected to demonstrate a strong track record of delivering expected returns, with performance assessed over a suitably long period.
19. Foreign currency exposure is inherent to a global portfolio of investments. The Committee believes the strategic hedging of currency exposure from volatile asset classes such as equities has limited benefit to long-term investment returns.
20. Fees and costs incurred within investment manager mandates are important though the primary focus should be on achieving the best risk-adjusted returns net of fees.
21. Systematic rebalancing, subject to appropriate tolerances, can add value over the longer term.

### Governance

22. Effective governance not only ensures appropriate levels of control over the Fund but can add value through improved decision making and resource allocation.
23. Staff and members of the Fund's Investment Sub-Committee must have, or have access to, the correct level of skills and investment knowledge to take investment decisions and manage risk effectively.
24. The Fund should retain responsibility for setting RI policy but will delegate much of the implementation to BCPP and its other investment managers. The Committee regularly monitors and evaluates its investment managers' approach to RI.
25. The Fund should only invest with managers who comply with relevant regulations and codes of practice (eg UK Stewardship Code) and have committed to provide full disclosure on ESG issues.
26. The Fund expects its investment managers to invest responsibly and to engage proactively with the management of portfolio companies on key ESG issues, including climate change, wherever it is cost effective to do so. The aim of such engagement should be to enhance investment returns and risk profile by positively influencing portfolio companies on such matters.
27. The Committee believes engagement is more effective when carried out in collaboration with other investors (eg via BCPP or LAPFF).
28. Full disclosure of the Fund's RI policy and activity strengthens accountability and should be embraced.

Prepared by:-

Philip Pearson, Senior Investment Consultant  
Emma Garrett, Investment Consultant

For and on behalf of Hymans Robertson LLP