

# Pension Fund Investment Sub-Committee

Date: Monday 11 September 2023  
Time: 10.00 am  
Venue: Committee Room 2, Shire Hall

## Membership

Councillor Christopher Kettle (Chair)  
Councillor Bill Gifford (Vice-Chair)  
Councillor Brian Hammersley  
Councillor Sarah Millar  
Councillor Mandy Tromans

Items on the agenda:

1. **General**
  - (1) **Apologies**
  - (2) **Members' Disclosures of Pecuniary and Non-Pecuniary Interests**
  - (3) **Minutes of the Previous Meeting** 5 - 10  
To confirm the minutes of the meeting held on 12 June 2023.
2. **Review of the Minutes of the Warwickshire Local Pension Board Meeting of 25 April 2023** 11 - 18
3. **Pension Fund Governance Report** 19 - 24
4. **Carbon Transition Update** 25 - 26
5. **Macroeconomic Update** 27 - 52
6. **Reports Containing Exempt or Confidential Information**  
To consider passing the following resolution:

'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.'

7.	<b>30 June 2023 Quarterly Monitoring Report</b>	53 - 82
8.	<b>Global Equity Allocation and Suitability Notes</b>	83 - 126
9.	<b>General Activity Investment Update Report</b>	127 - 138
10.	<b>Exempt Minutes of the Previous Meeting</b> To consider the exempt minutes of the meeting held on 12 June 2023.	139 - 144

**Monica Fogarty**  
Chief Executive  
Warwickshire County Council  
Shire Hall, Warwick

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## Disclaimers

### Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. Any changes to matters registered or new matters that require to be registered must be notified to the Monitoring Officer as soon as practicable after they arise.

A member attending a meeting where a matter arises in which they have a disclosable pecuniary interest must (unless they have a dispensation):

- Declare the interest if they have not already registered it
- Not participate in any discussion or vote
- Leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests relevant to the agenda should be declared at the commencement of the meeting.

The public reports referred to are available on the Warwickshire Web  
<https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1>

### COVID-19 Pandemic

Any member or officer of the Council or any person attending this meeting must inform Democratic Services if within a week of the meeting they discover they have COVID-19 or have been in close proximity to anyone found to have COVID-19.

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# Pension Fund Investment Sub-Committee

Monday 12 June 2023

## Minutes

### Attendance

#### Committee Members

Councillor Christopher Kettle (Chair)  
Councillor Brian Hammersley  
Councillor Sarah Millar  
Councillor Mandy Tromans

#### Officers

John Cole, Senior Democratic Services Officer  
Jan Cumming, Senior Solicitor and Team Leader, Commercial and Contracts  
Andy Felton, Director of Finance  
Martin Griffiths, Technical Specialist – Pension Fund Policy and Governance  
Paul Higginbotham, Investment Analyst – Pensions and Investment  
Victoria Moffett, Lead Commissioner – Pensions and Investment  
Chris Norton, Head of Investments, Audit and Risk  
Steve Smith, Director of Commissioning Support Unit

#### Others Present

Rob Bilton, Hymans Robertson  
Anthony Fletcher, Independent Advisor  
James Glasgow, Hymans Robertson  
Milo Kerr, Border to Coast Pensions Partnership  
Dave Knight, Border to Coast Pensions Partnership  
Philip Pearson, Hymans Robertson  
Bob Swarup, Independent Advisor

### 1. Appointment of Chair

Councillor Sarah Millar proposed that Councillor Christopher Kettle be Chair of the Sub-Committee and was seconded by Councillor Mandy Tromans.

There were no other nominations.

#### Resolved:

That Councillor Christopher Kettle be appointed Chair of the Pension Fund Investment Sub-Committee for the ensuing municipal year.

## **2. Appointment of Vice Chair**

The Chair proposed that Councillor Bill Gifford be Vice Chair of the Sub-Committee and was seconded by Councillor Sarah Millar.

There were no other nominations.

### **Resolved:**

That Councillor Bill Gifford be appointed Vice Chair of the Pension Fund Investment Sub-Committee for the ensuing municipal year.

## **3. General**

### **(1) Apologies**

Apologies were received from Councillor Bill Gifford.

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

There was none.

### **(3) Minutes of the Previous Meetings**

#### **Resolved:**

That the minutes of the meetings held on 6 March 2023 and 16 May 2023 be approved as a correct record and signed by the Chair.

There were no matters arising.

## **4. Review of the Minutes of the Warwickshire Local Pension Board Meeting of 31 January 2023**

### **Resolved:**

That the Pension Fund Investment Sub-Committee notes the minutes of the Local Pension Board meeting of 31 January 2023.

## **5. Governance Report**

Martin Griffiths (Technical Specialist – Pension Fund Policy and Governance) introduced the report which provided updated governance information relating to Warwickshire Pension Fund's forward plan, risk monitoring, training, and policy. The report also included details of the revised Investment Strategy Statement (ISS) which had been reviewed and updated by Hymans Robertson. The Sub-Committee was asked to consider and approve the revised ISS.

Martin Griffiths highlighted the commentary in the report relating to the Training Plan. He asked members to contact him if they had any specific training requirements that should be added to the

Plan. He highlighted the 'Fundamentals' online training course and requested that members confirm if they had completed this training.

In response to the Chair, Martin Griffith advised that the Risk Register (appendix 5 of the report) included some formatting errors meaning that risk scores had been omitted in two categories. A revised version would be provided following the meeting.

In response to Councillor Millar, Martin Griffiths stated that Artificial Intelligence (AI) constituted an emerging risk. The Council's Information Governance Team provided quarterly advice to the Pension Fund which included an assessment of risks associated with AI. There was an awareness of developing concerns in this area.

In response to the Chair, Victoria Moffett (Lead Commissioner – Pensions and Investment) advised that the steps taken to mitigate risk under the category of 'long term asset values do not meet expectations' had been judged to be sufficiently robust to warrant an impact rating of four (rather than five). The measures in place meant that it would be possible to anticipate problems prior to there being any serious impact on the Fund.

In respect of the risk category 'short term asset values do not meet expectations', Victoria Moffett advised that a risk likelihood rating of five had been set due to ongoing geopolitical risks and economic uncertainty. For the category of 'liabilities cannot be met', an impact rating of four had been determined as it was considered that robust measures to mitigate risk were in place.

The Chair expressed confidence in the risk ratings and the explanations provided by officers. He sought the Sub-Committee's views on the updated ISS.

In response to Councillor Hammersley, Victoria Moffett advised that a triennial cycle was in place to review the Investment Strategy. However, annual reviews were also undertaken as part of this process.

Councillor Hammersley highlighted that statement within the ISS that the "Committee is aware that the Fund has a need to take investment risk to help it achieve its funding objectives". As the Fund had performed well in recent times, he queried whether there was a need to take on additional risk.

Victoria Moffett advised that the Fund continued to accept new members which created a requirement to continue to accrue benefits to ensure that the Fund would be able to meet future obligations.

In response to the Chair, members unanimously agreed to approve the recommendations of the report.

**Resolved:**

That the Pension Fund Investment Sub-Committee:

1. Notes the items contained within the Governance Report.
2. Approves the revised Investment Strategy Statement provided by Hymans Robertson (appendix 6 of the report).

## 6. Climate Risk Report

James Glasgow (Hymans Robertson) introduced the report which provided details of the Fund's exposure to Climate Risk. He highlighted that climate data was only available for 52% of the Fund's assets. This was the proportion of listed or public assets. The report did not include data for private assets funds. However, it was expected that private asset funds' reporting would improve over time. He stated that the report was based upon latest data from December 2022. However, for metrics that were only reported annually, it had been necessary to refer to data from March 2022. He advised that fund managers provided reporting data in different formats which made making a clear comparison between funds more difficult. It was expected that there would be improved consistency across managers' reporting in future.

James Glasgow drew members' attention to the chart on page 4 of the Hymans Robertson report which showed emissions intensity against Assets Under Management (AUM) for which reporting data was available. Emerging markets produced the highest levels of carbon emissions; however, they constituted a small proportion of the overall Fund. The largest contributor was the Legal and General Investment Management (LGIM) RAFI Fund. He suggested that decarbonisation of this fund be prioritised. The Border to Coast Pensions Partnership (BCPP) Global Equity Alpha Fund also showed high carbon emissions. However, it was noted that the manager had made good progress in reducing emissions intensity.

Referring to BCPP funds, James Glasgow highlighted the comparative data provided on page 5 of the report. It was promising that UK Listed Equity Alpha metrics showed a reduction in Weighted Average Carbon Intensity (WACI) from 81 in March 2021 to 61 in March 2022. However, there had been a 4% increase in portfolios with ties to fossil fuels. There was a need to focus on this area to achieve a reduction. For BCPP Global Equity Alpha metrics, there had been an uplift in the percentage of portfolios owning clean technology solutions, and a reduction in the percentage of portfolios with ties to fossil fuels.

James Glasgow advised that climate risk analysis for LGIM funds showed a mixed picture. Emerging Markets funds accounted for the highest WACI exposure. However, there was a need to view this proportionately across the entirety of the LGIM Fund. The LGIM UK Equity fund was found to have a higher carbon impact than its comparable benchmark. He emphasised that the benchmark data shown on page 10 of the report was for illustration only, some of the differences between the fund and the benchmark shown could be attributed to differences in underlying assets rather than a drift away from the benchmark. LGIM had been asked to provide clarification.

Councillor Millar praised the quality of the report and the work that had gone into preparing it. She emphasised that as the report covered only 52% of the Fund's assets, there was a large proportion of the Fund for which climate data was not known. She suggested that efforts be made to apply pressure to private asset funds to encourage improved reporting. She emphasised the need for engagement with LGIM to achieve a reduction in carbon impacts and highlighted growing public interest in the Fund's Divestment Policy.

Philip Pearson (Hymans Robertson) highlighted the requirement for LGIM to hold assets across the whole of the market which impeded its scope to reduce carbon impacts. However, LGIM's Climate Impact Pledge allowed it to engage with companies and potentially divest if insufficient progress to reduce emissions had been made. There was evidence to suggest that this approach



had been effective. However, there was a need to liaise with LGIM to analyse the findings of the Climate Risk report in more detail.

Milo Kerr (Border to Coast Pensions Partnership) highlighted that 2020 had been an atypical year for carbon emissions because of lockdown restrictions. For this reason, it was not realistic to make a comparison between recent years' emissions and those of 2020.

In response to the Chair, Philip Pearson advised that fund managers generally recalculated carbon metrics once a year. To produce the report, a cut-off date had been set for receipt of climate data from fund managers. In future, it was proposed to set a later deadline to ensure that the most up-to-date information could be included.

Councillor Hammersley stated that data covering just 52% of the Fund's assets provided an incomplete picture. He emphasised that much depended on the honesty and integrity of companies to provide accurate information. He asked how monitoring of companies' reporting was undertaken.

Milo Kerr advised that the standard of integrity of reporting by companies was improving. However, there was a need to continue to focus on private markets and multi-asset credit where there were occasionally inconsistencies in reporting. BCPP was committed to achieving an improvement in data quality.

Philip Pearson advised that consideration had been given to producing a whole Fund estimate of carbon exposure. To do so, it would be necessary to secure consistency in reporting data from managers within a common timeframe. Progress would also need to be made to obtain emissions data for private markets.

Councillor Millar stated that action was being taken by the United Nations to promote improved reporting of carbon impacts. In time, this would encompass reporting of scope 3 emissions. There was a need to focus on the scale and speed of this transition. She stated that consideration should also be given to the point at which action by fund managers was required when companies showed signs of being unwilling to follow-up on their green commitments.

The Chair highlighted the complexity of the data within the report, stating that members of the Sub-Committee were frequently contacted by members of the public on matters relating to carbon impacts and divestment. It would be helpful for data to be presented in a more easily communicable format to enable a response to be given to concerned members of the public.

There was discussion of metrics utilised to assess carbon impacts. BCPP metrics were more stringent than some other fund managers. It was considered that to achieve the ideal level of consistency, fund managers would each need to adopt the BCPP reporting methodology. In practice, this would be difficult to achieve. However, Hymans Robertson could make a calculation independently to ensure that performance could be more easily compared.

There was agreement among members of the Sub-Committee that a more direct comparison of performance would be helpful. Philip Pearson advised that efforts were being made to make this possible. There was evidence of improved private markets reporting which would be captured in the March 2024 data.

**Resolved:**

That the Pension Fund Investment Sub-Committee notes the contents of the report.

**7. 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 Part 1 of Schedule 12A of the Local Government Act 1972.

**8. Engagement Report**

The Sub-Committee held a confidential discussion.

**9. Passive Tilted Global Equity Review Report**

The Sub-Committee held a confidential discussion.

**10. Funding Update**

The Sub-Committee held a confidential discussion.

**11. Quarterly Investment Monitoring Report Q1 2023**

The Sub-Committee held a confidential discussion.

**12. General Activity Update**

The Sub-Committee held a confidential discussion.

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

**Resolved:**

That the exempt minutes of the meeting held on 6 March 2023 be approved as an accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 13:02.

.....  
Chair

## **Pension Fund Investment Sub-Committee**

**11 September 2023**

### **Review of the Minutes of the Warwickshire Local Pension Board Meeting of 25 April 2023**

#### **Recommendation**

That the Pension Fund Investment Sub-Committee notes and comments on the minutes of the Local Pension Board meeting of 25 April 2023.

#### **1. Executive Summary**

- 1.1 Set out at appendix 1 are the minutes of the Local Pension Board meeting of 25 April 2023 for information.

#### **2. Financial Implications**

- 2.1 None

#### **3. Environmental Implications**

- 3.1 None

#### **4. Timescales associated with the decision and next steps**

- 4.1 None

#### **Appendix**

- Appendix 1 – Minutes of the Warwickshire Local Pension Board meeting of 25 April 2023.

	<b>Name</b>	<b>Contact Information</b>
Report Author	John Cole, Senior Democratic Services Officer	johncole@warwickshire.gov.uk Tel: 01926 736118
Director	Andrew Felton, Director of Finance	andrewfelton@warwickshire.gov.uk
Executive Director	Rob Powell, Executive Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin, Deputy Leader and Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): not applicable

Other members: none

# Warwickshire Local Pension Board

Tuesday 25 April 2023

## Minutes

### Attendance

#### Committee Members

Keith Bray (Chair)  
Jeff Carruthers  
Sean McGovern  
Councillor Ian Shenton  
Mike Snow

#### Officers

Andy Felton, Assistant Director - Finance  
Andy Carswell, Democratic Services Officer  
Liz Firmstone, Service Manager (Transformation)  
Victoria Jenks, Pensions Admin Delivery Lead  
Victoria Moffett, Pensions and Investments Manager  
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk & Insurance)  
Sarah Cowen, Delivery Lead - Corporate (Legal Services)  
Martin Griffiths, Technical Specialist Pensions Fund Policy and Governance

### 1. Introductions and General Business

#### (1) Apologies

Apologies were received from Keith Francis.

The Chair reminded members that Alan Kidner had decided to stand down as a member of the Board. The Chair thanked him for the valuable contributions he had made during his time as a Board member.

#### (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.

#### (3) Minutes of the Previous Meeting

The minutes of the meeting held on 31 January 2023 were approved as an accurate record.

## **2. Minutes from March Pension Committees**

The contents of the minutes of the meetings of the Staff and Pensions Committee and Pension Fund Investment Sub Committee held on 6 March 2023 were noted by members.

Regarding a point raised by Councillor Shenton about the maturity of Stratford-on-Avon District Council referenced in the minutes of the Pension Fund Investment Sub Committee, it was confirmed this related to the age profile of members and the fact there was a greater number of deferred pensioners than active.

## **3. Pensions Administration and Performance Update**

The item was introduced by Vicky Jenks (Pensions Admin Delivery Lead), who outlined the work that had been undertaken by the Pensions team and provided updates.

The number of pensioners using the member self-service portal had increased and 16.4 per cent of pensioners had registered. The portal was updated on a monthly basis, so users could be confident the information provided on the portal was up to date. There had been 2,500 requests to sign up to the portal after 9,500 letters were sent out to all current pensioners to inform them paper payslips would no longer be sent out from May with a view to improving admin efficiency and achieving environmental benefits, unless members opted in to continue receiving them. Vicky Jenks said it was anticipated that more queries about paper payslips would be received from June onwards, and more communication work was planned to inform pension holders of the change. It would be assumed that if a pension holder did not contact the Fund, they did not require a paper payslip. However they could continue to contact the Fund to request one. P60 forms would continue to be sent out as a paper copy however.

Councillor Shenton said it would be interesting to see the demographic breakdown of the 16.4 per cent of pensioners using MSS. Vicky Jenks said there was a desire to do age profiling of the Fund's entire membership, to see if certain age groups either weren't interested in engaging or could not access the portal.

Responding to a point raised by Jeff Carruthers, Vicky Jenks said pension holders who did not personally have access to a computer were allowed to use an email address of a family member so they could receive information on their account. This particularly applied in cases where a family member had registered power of attorney.

Sean McGovern asked how the Fund knew when a pension holder died. Vicky Jenks said the majority of cases were reported through a 'tell us once' service used by registrars that automatically informed any pension scheme or benefit provider when a death had been registered by a family member. Alternatively family members contacted the scheme directly, or the Fund would identify them through the National Fraud Initiative. Overseas pension holders had to submit life certificates to the Fund to continue receiving payments.

Regarding Key Performance Indicators, Vicky Jenks said the majority were on target and performance had been improving in the areas that had not reached their targets. More information outlining the work being done to improve the performance of KPIs that were not reaching their targets would be presented at the next meeting, which would include the numbers involved rather

than just a percentage. The KPI that was performing least well related to letters detailing transfer in quotes. Vicky Jenks explained that in many cases people held pensions with more than one scheme and liaising with them all to get the requested information was a time consuming exercise.

It was noted there were no red breaches, and the issues relating to an Academy that had been causing a red breach previously in the year had now been resolved. Vicky Jenks said all employers in the scheme had now signed up to iConnect, which had helped reduce the number of breaches. Responding to a question from Councillor Shenton, Vicky Jenks said employers that did not engage with the Fund on key issues would have breaches escalated more quickly to a red breach, and the employer would be warned of this. A breach would usually be escalated to red after four months where there was engagement but no sign of a resolution. There were however also examples where an employer would be shown some leniency if they had not resolved their issue after three months, but had demonstrated they were actively trying to take steps to solve it and resolution was anticipated in the near future. In the example of the parish council referenced in the main report, this was because of staff capacity and resource issues that had delayed the submission of data.

The valuation had been completed and the Funding Strategy Statement formally signed off. There were outstanding queries on three employers regarding their rates and membership of the Fund.

There were no outstanding IDRPs cases. Three complaints had been received, which had all received official responses and there had been no follow up required to any of them.

The pensions dashboard scheme had been delayed, and new timescales were expected to be released before the summer.

Jeff Carruthers noted there had been a low take-up regarding shared cost additional voluntary contributions (AVC). Vicky Jenks said this was likely to be due to a lack of awareness by members for options to top up their pensions, and the additional benefits they gave to employers. Andy Felton (Assistant Director, Finance) observed that general affordability for some people could be a natural barrier to people choosing not to access an AVC arrangement.

#### **4. Governance and Policy Update**

The item was introduced by Martin Griffiths (Technical Specialist, Pension Fund Policy and Governance), who outlined the governance issues affecting the Fund. Regarding the risk register there were three issues that had been identified as presenting a severe level of risk. These were climate change, long-term market risk, and cyber security. The Fund was doing as much work as it could to mitigate against each of these identified risks, whilst acknowledging that climate change was a global issue.

Martin Griffiths said there was a revised climate risk policy, which had been created by Hymans Robertson. The risk management, training, and bribery and fraud policies, as well as the internal dispute resolution procedure, had all been reviewed and the Funding Strategy Statement had been made available to view online. Results from the Hymans Robertson knowledge and skills assessment had been released. The training schedule had been updated accordingly and Board members would be kept informed of upcoming training events.

Members were told there had been a delay to the Single Code of Practice and an update was unlikely to be available until early June. Martin Griffiths said officers were working to fill the vacancy on the Board following Alan Kidner's resignation. Martin Griffiths echoed the Chair's earlier comments thanking Alan Kidner for his years of service on the Board. Jeff Carruthers said he would be willing to switch back to being a Scheme Member representative if this helped facilitate filling the vacancy. Andy Felton said consideration was being given to increasing the Board's diversity as part of the recruitment process.

Responding to a question raised by Councillor Shenton regarding reducing greenhouse gas emissions, Victoria Moffett (Lead Commissioner, Pensions and Investment) said the Fund was working with a firm called GHGSat to monitor emissions being made by companies with which the Fund held investments. Companies needed to state what their plans were to get to net zero carbon emissions by 2050, although it was accepted that in some instances there may be a spike in emissions before they started to reduce. The Fund and others that had stewardship responsibilities, such as Border to Coast, could, as a last resort, divest from companies that were not demonstrating their commitment to reducing emissions. However engagement with such companies was viewed as a preferred option.

Martin Griffiths said online scams were the most likely cyber security risk that the Fund would be presented with, as this could potentially lead to ransomware demands. This had affected other local authorities but it was not clear how these issues had been resolved.

## **5. Warwickshire Pension Fund Business Plan Report**

The item was introduced by Chris Norton (Strategy and Commissioning Manager - Treasury, Pension, Audit and Risk), who said membership of the Fund and the number of employers continued to grow. This had led to the management of the Fund becoming increasingly complex, although this had been the case for some time. The core objective remained to pay pensions accurately and on time, and to have the funds available to do this. A lot of work was taking place regarding workforce planning, as there were difficulties in recruiting and retaining staff. Sustainability had been added as a new category in the list of actions.

It was confirmed that as of March 2023 the value of the Fund was £2.65billion.

## **6. General Investment Update**

The item was introduced by Victoria Moffett, who highlighted the value of the Fund had increased by 1.7 per cent over the last quarter and the Fund value remained on an upward trajectory. However the Fund was cashflow negative as the value of contributions being made by members and employers was less than that of the value of the benefits being paid out. Officers were aware of this and cashflow management was a high priority. The cash balance represented two per cent of the Fund's value, which was in line with the previous year.

Members were told that Border to Coast had appointed a new chief investment officer. It was expected that he would attend the Pension Fund Investment Sub Committee meeting in September. Victoria Moffett said that concerns had been raised regarding the performance of the Equity Alpha Fund, and conversations relating to this had taken place with the relevant investment portfolio managers. It was felt that appropriate action was being taken, and the situation was



attributable partially to current market circumstances. Members' attention was drawn to voting activity relating to equity funds that had been taking place.

Responding to questions from members about cashflow, Victoria Moffett said the current situation was attributable to the ten per cent rate of inflation and a deterioration in the economic environment. This, along with the maturity of the Fund, was leading to an increase in the amount of benefits being paid out. Contribution rates had remained stable. Equities portfolios were being looked at with a view to improving cashflow, as there was a risk the Fund could become cashflow negative.

The Chair referred to the issue of divesting from certain portfolios for environmental or social reasons, but stated that if the Fund were to do this then there was the possibility of the ownership transferring to less responsible shareholders. During these discussions the Chair referred to BP; Andy Felton stated that when BP had announced its intention to draw back from its transition plan in relation to greenhouse gas emissions its share price had rallied, demonstrating why maintaining a strong policy of influencing high carbon companies through shareholder rights was a potentially more sustainable strategy to achieve climate ambitions than divesting.

## **7. Any Other Business**

There were no other items of business to discuss.

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

It was resolved unanimously to approve the motion to exclude the public from the remainder of the meeting.

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

The exempt minutes of the meeting held on 31 January 2023 were approved as an accurate record.

## **ACTION POINTS**

1. Board members to be kept informed of upcoming training events.

The meeting rose at xxx

.....  
Chair

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## Pension Fund Investment Sub-Committee

11 September 2023

### Pension Fund Governance Report

#### Recommendation

That the Pension Fund Investment Sub-Committee considers and comments on the items contained within the report.

#### 1. Executive Summary

- 1.1 This report summarises the main governance issues currently affecting the Warwickshire Pension Fund. These areas include the Forward Plan, Risk Monitoring, updated Policies and Training.

#### 2. Financial Implications

- 2.1 There are no financial implications arising directly from this report. Where changes to policies are recommended, any implications arising from those changes are covered in the body of the report.

#### 3. Environmental Implications

- 3.1 As stated in previous Governance Reports, Climate Risk is identified as a key risk on the Fund's Risk Register.

#### 4. Supporting Information

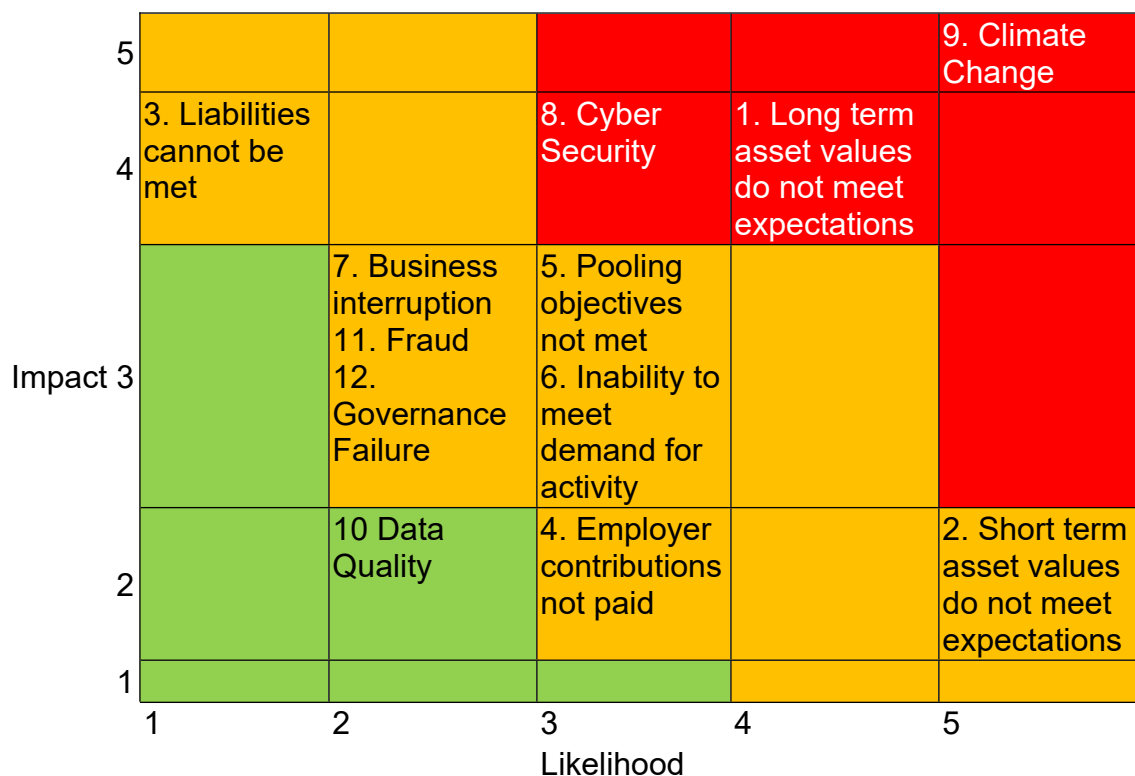
##### *The Forward Plan*

- 4.1 The purpose of including the Forward Plan in this Report is to provide an updated version of the document for the Pension Fund Investment Sub-Committee's review and awareness. It has been rolled forward to cover the year ahead. The Plan is set out (in Appendix 1) and the Committee's comments are welcomed.

##### *Risk Monitoring*

- 4.2 This section provides an update on the risks facing the Fund and the management actions necessary to address them.

- 4.3 As mentioned, and agreed in previous reports, the full Risk Register will be provided once a year in the June Committee via a link contained within this Report. It can of course be provided to Committee members at any point on request.
- 4.4 Fund Officers ask members to pay particular attention, as always, to the red risks shown on the register. These are Climate Change, Long Term Market Risk, and Cyber Security.
- 4.5 A number of updates have been made to the commentary in the Risk Register, but these have not altered any of the risk scores. They relate particularly to issues faced by the Warwickshire Pension Fund, like others when trying to recruit staff as vacancies arise. Officers are currently starting to discuss a Workforce Planning Strategy, which will be a requirement of the Scheme Advisory Board Governance Review, when it is announced next year.
- 4.6 The Warwickshire Pension Fund’s Net Risk chart is shown below:



**Policies**

- 4.7 The Fund’s Responsible Investment Policy has been reviewed by officers and it is felt that no changes are required to this document. It is an area, however, that Officers continue to consider with the Fund’s advisors.

## Training

4.8 Details of future training events have been summarised in the table below:

Date	Training	Delivered by
18 September 2023 (AM)	Role and Responsibility of the Committee and Local Pension Board/ SAB Good Governance Review/ The General Code of Practice	Ian Colvin (Hymans Robertson)
18 September 2023 (PM)	Update from Border to Coast Pension Partnership	Border to Coast CEO
11 October 2023 (AM)	Accounting and audit Procurement and contract management	Aon Hewitt
24 November 2023 (AM)	AGM	Officers and Advisors

## Appendices

Appendix 1 – Forward Plan

	Name	Contact Information
Report Author	Martin Griffiths, Victoria Moffett, Chris Norton	martingriffiths@warwickshire.gov.uk victoriamoffett@warwickshire.gov.uk chrisnorton@warwickshire.gov.uk
Director	Andy Felton, Director of Finance	<a href="mailto:andrewfelton@warwickshire.gov.uk">andrewfelton@warwickshire.gov.uk</a>
Executive Director	Rob Powell, Executive Director for Resources	<a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Portfolio Holder	Councillor Peter Butlin, Deputy Leader and Portfolio Holder for Finance and Property	<a href="mailto:peterbutlin@warwickshire.gov.uk">peterbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local Member(s): n/a

Other members: Councillor Christopher Kettle and Councillor Bill Gifford

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**APPENDIX 1**

**Pension Fund Investment Sub-Committee**

**Forward Plan**

**Standing items**

Forward Plan
Governance & Risk Monitoring
General Investment Activity Update
Investment Fund Performance
LGPS Pooling Update
Local Pension Board Minutes of Meeting

**Specific items**

11 September 2023	11 December 2023	4 March 2024	June 2024
		National Knowledge and Skills Assessment	

**Manager Presentations (Regular Border to Coast Partnership Presentations)**

11 September 2023	11 December 2023	4 March 2024	June 2024
18 September Additional Presentation by CEO of Border to Coast		Knowledge and Skills Assessment	

**Manager Presentations, now made outside the PFISC Meetings**

**Policy Reviews by the Pensions and Investment Sub-Committee**

<b>11 September 2023</b>	<b>11 December 2023</b>	<b>4 March 2024</b>	<b>June 2024</b>
Responsible Investment Policy (ESG)	Training: Policy	Climate Risk Policy	Voting and Stewardship Policy
		Risk Management Review and Policy	Investment Strategy Statement

**Policy Reviews by the Staff and Pensions Committee**

<b>11 September 2023</b>	<b>11 December 2023</b>	<b>4 March 2024</b>	<b>June 2024</b>
Administration Strategy	Cyber Security Policy	Fraud Prevention Policy	Breaches Policy
Admission and Termination Policy	Conflicts of Interest Policy	Business Continuity Plan	Communications Policy
Governance Compliance Statement*		Internal Dispute Resolution Procedure Review	Data Retention Policy
		Fund Discretions	
		Governance Process *	
		Business Plan	

\*Review will take place next year on the release of SAB Good Governance Review



## **Pension Fund Investment Sub-Committee**

**11 September 2023**

### **Carbon Transition Update**

#### **Recommendation**

That the Pension Fund Investment Sub-Committee notes and comments on this report.

#### **1. Executive Summary**

- 1.1 This paper indicates that the Pension Fund Investment Sub-Committee (PFISC) is due to consider the Fund's carbon transition plan as part of exempt item 'Global Equity Allocation and Suitability Notes'.
- 1.2 A core item for discussion is the intention to decarbonise slightly ahead of the markets and economies within which the Fund invests.
- 1.3 This is a discussion that continues at each PFISC and is taken very seriously.

#### **2. Financial Implications**

- 2.1 None

#### **3. Environmental Implications**

- 3.1 There are environmental implication if the PFISC decides to the decarbonisation of the markets and economies in which the Fund invests sooner than is currently indicated.

#### **4. Timescales associated with the decision and next steps**

- 4.1 Continue to make iterative improvements each quarter.

#### **Background Papers**

1. 2023 June PFISC – Carbon Footprint Paper

	<b>Name</b>	<b>Contact Information</b>
Report Author	Paul Higginbotham, Victoria Moffett	paulhigginbotham@warwickshire.gov.uk, victoriamoffett@warwickshire.gov.uk
Director	Andy Felton, Director of Finance	<a href="mailto:andrewfelton@warwickshire.gov.uk">andrewfelton@warwickshire.gov.uk</a>
Executive Director	Rob Powell, Executive Director for Resources	<a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Portfolio Holder for Finance and Property	Cllr Peter Butlin	<a href="mailto:peterbutlin@warwickshire.gov.uk">peterbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local members: not applicable

Other members: Cllrs Kettle and Gifford

## Pension Fund Investment Sub-Committee

11 September 2023

### Macroeconomic Update

#### Recommendation

That the Pension Fund Investment Sub-Committee (PFISC) notes and comments on the report.

#### 1. Executive Summary

- 1.1 The purpose of this report is to provide a six-monthly update on the wider factors having the greatest influence on the Pension Fund's performance, particularly from a macroeconomic perspective.
- 1.2 The key areas brought out by the *Camdor Global* report (Appendix 1) are:
  - UK interest rates, with inflation taken into consideration (real rates), continue to rise as the sell-off in the bond markets continues. This is a key consideration informing the Fund's decision on whether to implement the proposed protection portfolio restructure which relies on 20yr real rates being above 0.5%.
  - The market is finding it difficult to predict which way interest rates are going to move, especially in the short term. This is having an impact upon all markets.
  - There are continued signs of weakness in the UK economy, as both manufacturing and services suffer. This is particularly evident in the rise in company insolvencies. However, there are signs that inflation is starting to fall, which could mean the end of rising rates (in the UK at least).
  - Public debt continues to rise, resulting in higher interest bills for the government and therefore resulting in less money for tax cuts and other stimulus packages.
  - UK commercial property rent expectations have fallen, as have capital value expectations. This continues to be reflected in the Fund's property holdings, which are showing no signs of recovery. Housebuilders are also struggling as market demand falls due to higher borrowing rates.
  - Concerns over the cost of becoming carbon neutral continue to weigh on markets and governments.
  - Geopolitics continue to weigh heavy on global markets, as ongoing issues continue unresolved (e.g. the Ukrainian War and US Tech tariffs) whilst the risk of a further banking crisis is still real, especially in the US.

## 2. Financial Implications

2.1 None

## 3. Environmental Implications

3.1 None arising directly from this report. However, the comments covered by *Camdor* in their general overview may be useful when considering how environmental impacts may affect the overall portfolio.

## 4. Supporting Information

4.1 See Appendix 1.

## Appendices

Appendix 1 – The Bigger Picture (*Camdor Global Advisors*)

	<b>Name</b>	<b>Contact Information</b>
Report Author	Paul Higginbotham, Victoria Moffett	paulhigginbotham@warwickshire.gov.uk, victoriamoffett@warwickshire.gov.uk
Director	Andrew Felton, Director of Finance	andrewfelton@warwickshire.gov.uk
Executive Director	Rob Powell, Executive Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin, Deputy Leader and Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Councillors Kettle & Gifford.



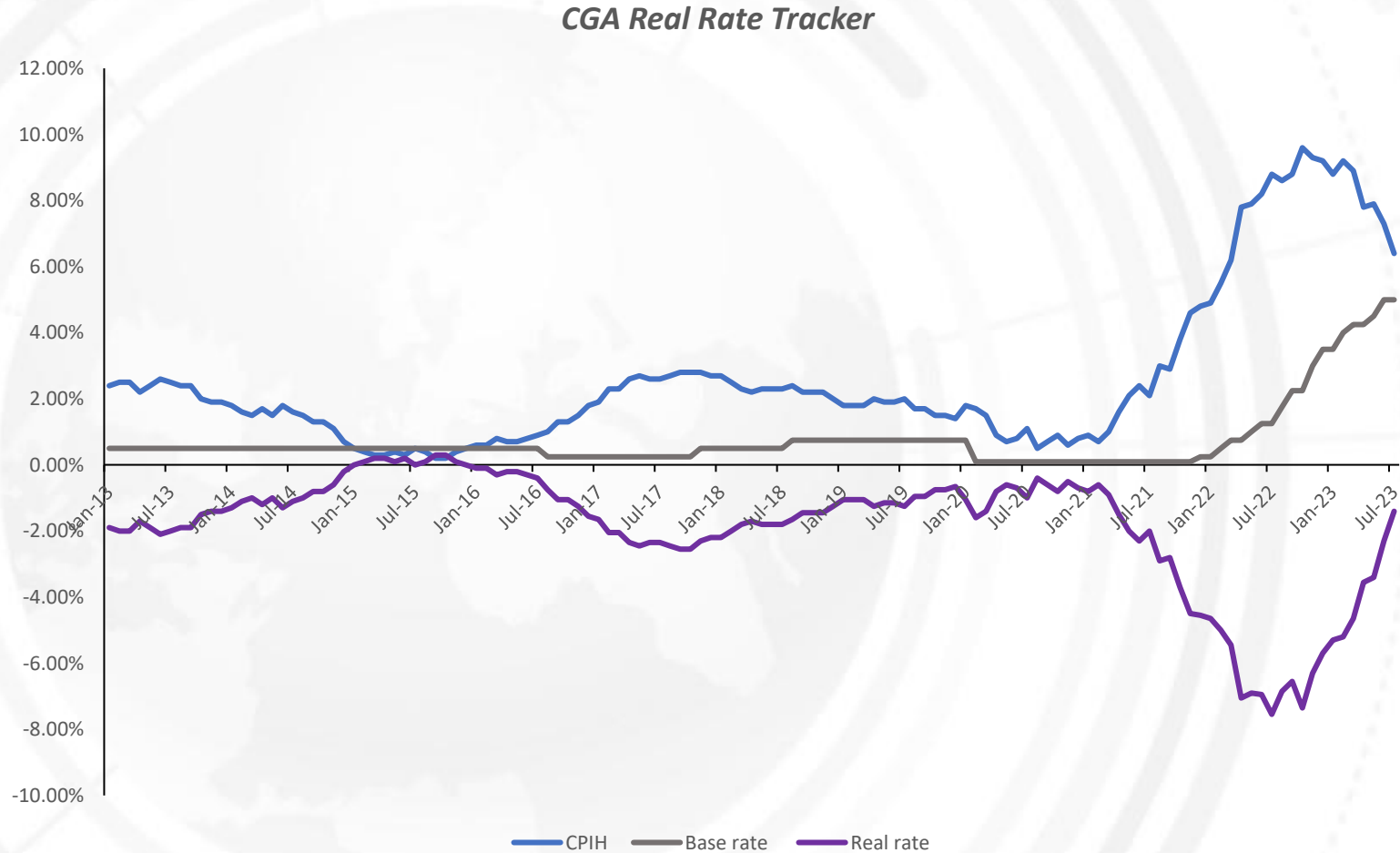
## THE BIGGER PICTURE

*Key macro dynamics of relevance*

*Q3 2023*

*Dr Bob Swarup  
Camdor Global Advisors*

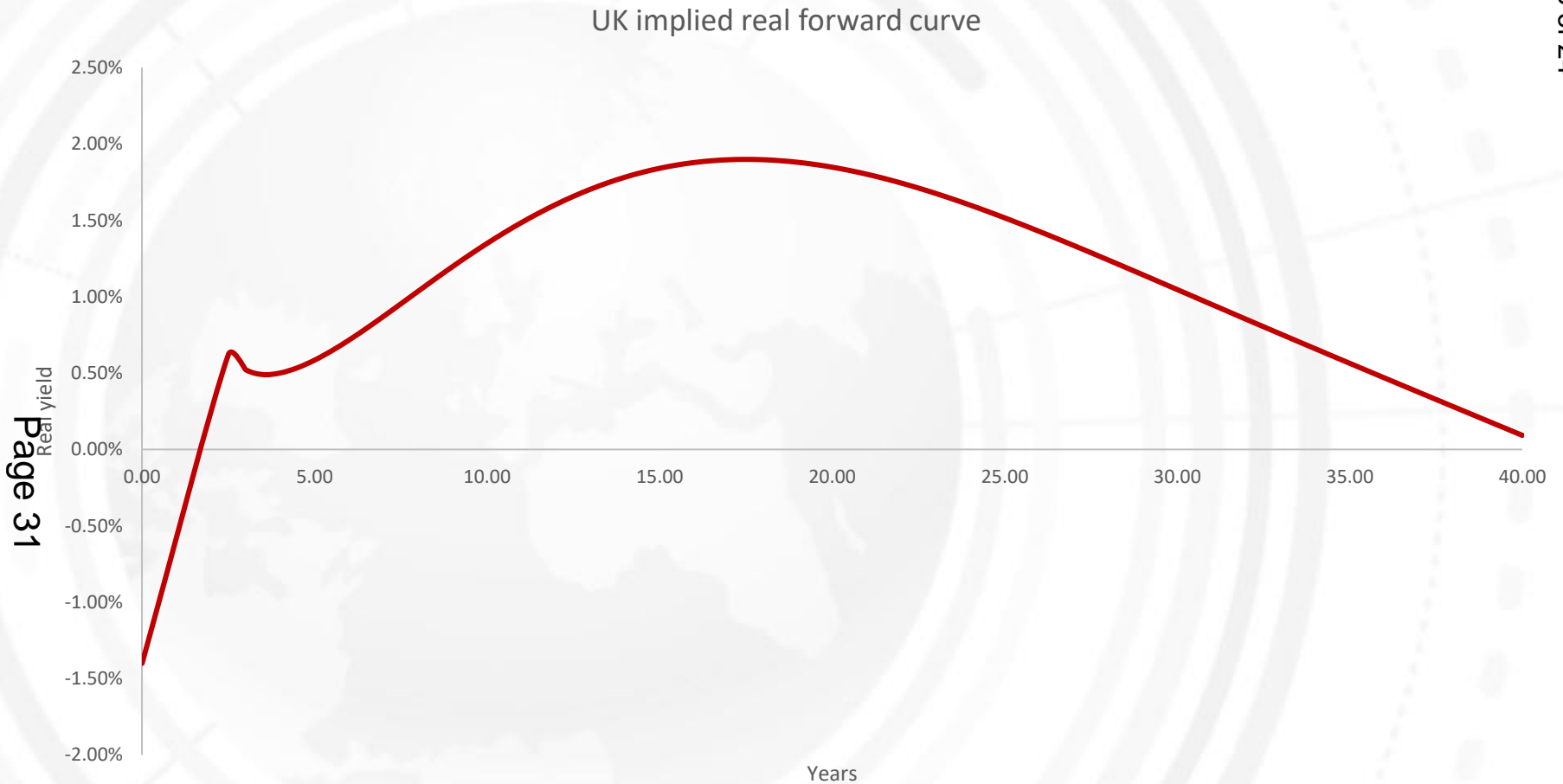
# UK real rates are rapidly rising



Source: Camdor Global, ONS

We noted last report that real rates looked like they were bottoming out. Since then, they have risen sharply, and it is likely will turn positive in the coming months.

# What does the prognosis look like?



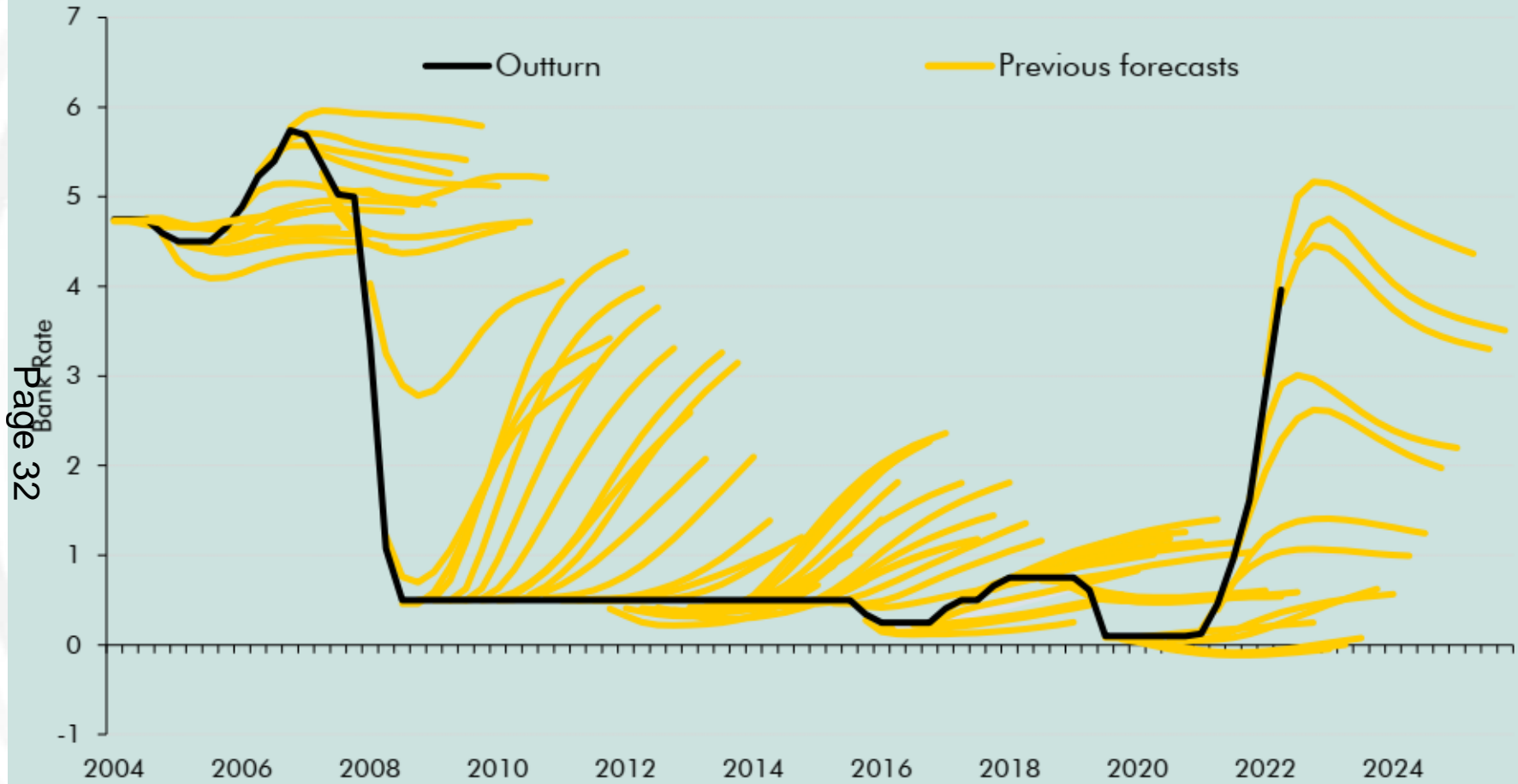
Page 31

Source: Bloomberg Finance L.P., Tradeweb and BoE calculations, Camdor Global

Real rates are expected to rise and stay at elevated levels significantly into the future currently. This implies people do not expect rates to come down in a hurry.

# Are markets good at predicting rates?

Chart A: Financial market-implied and actual Bank Rate path

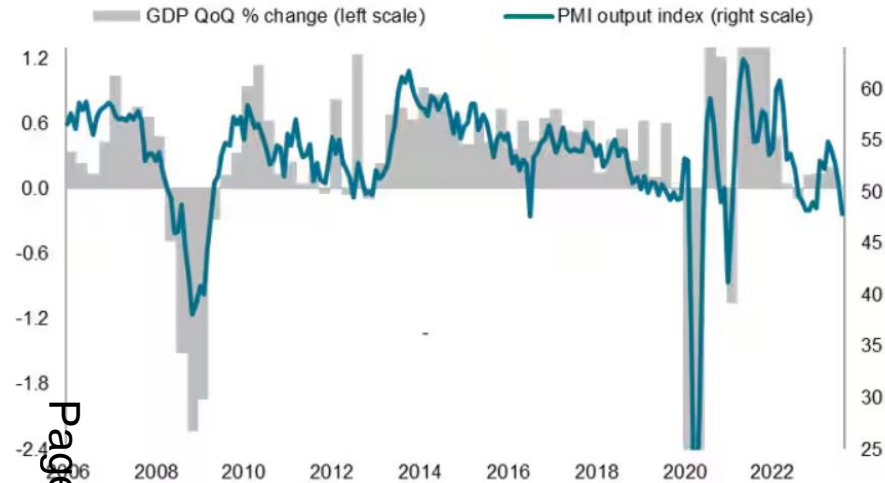


Source: Bank of England, OBR



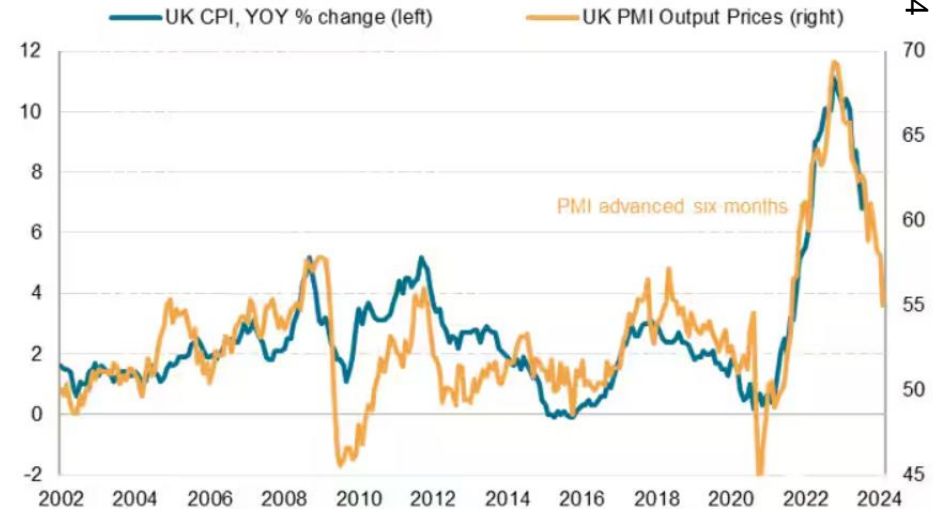
# Renewed weakness in the UK economy

### UK GDP (economic growth) and the flash PMI



Data compiled August 23, 2023.  
PMI covers manufacturing and services, 50 = no change on prior month  
Sources: S&P Global PMI with CIPS, ONS via S&P Global Market Intelligence.  
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### UK inflation



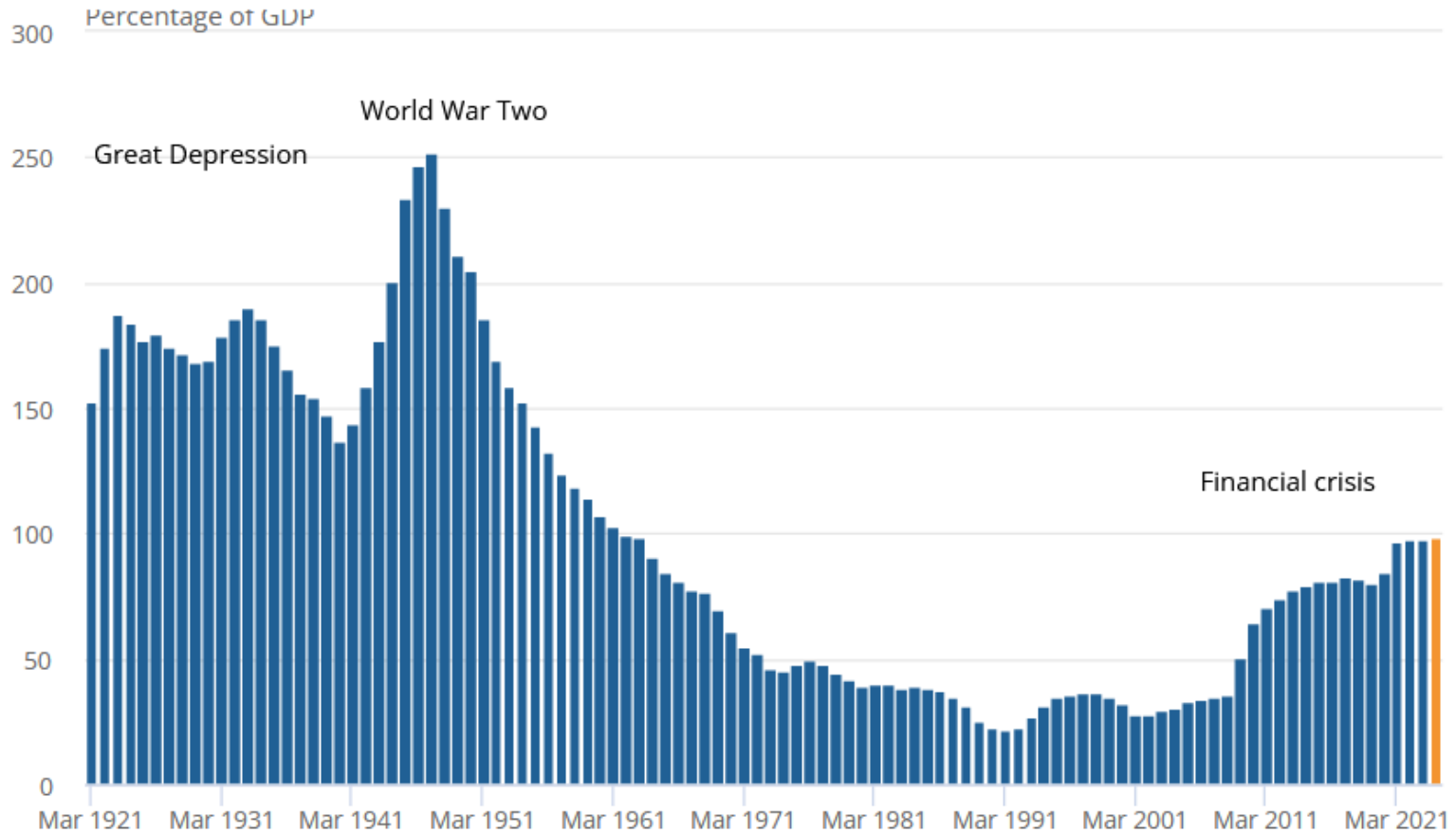
Data compiled August 2023 including flash PMI data to August 2023.  
PMI based on 50 = no change on prior month, covers manufacturing and services.  
Source: S&P Global PMI with CIPS, ONS via S&P Global Market Intelligence.  
© 2023 S&P Global.

The UK looks like it's beginning to weaken again, with declines across both services and manufacturing. The latter in particular saw the sharpest decline in factory orders since the last financial crisis (excluding the more aberrant start of Covid).

On the brighter side, inflation continues to decline, indicating that falls will continue and we are reaching the end of the interest rate rise cycle. That is likely positive for markets.

# Public debt has grown substantially...

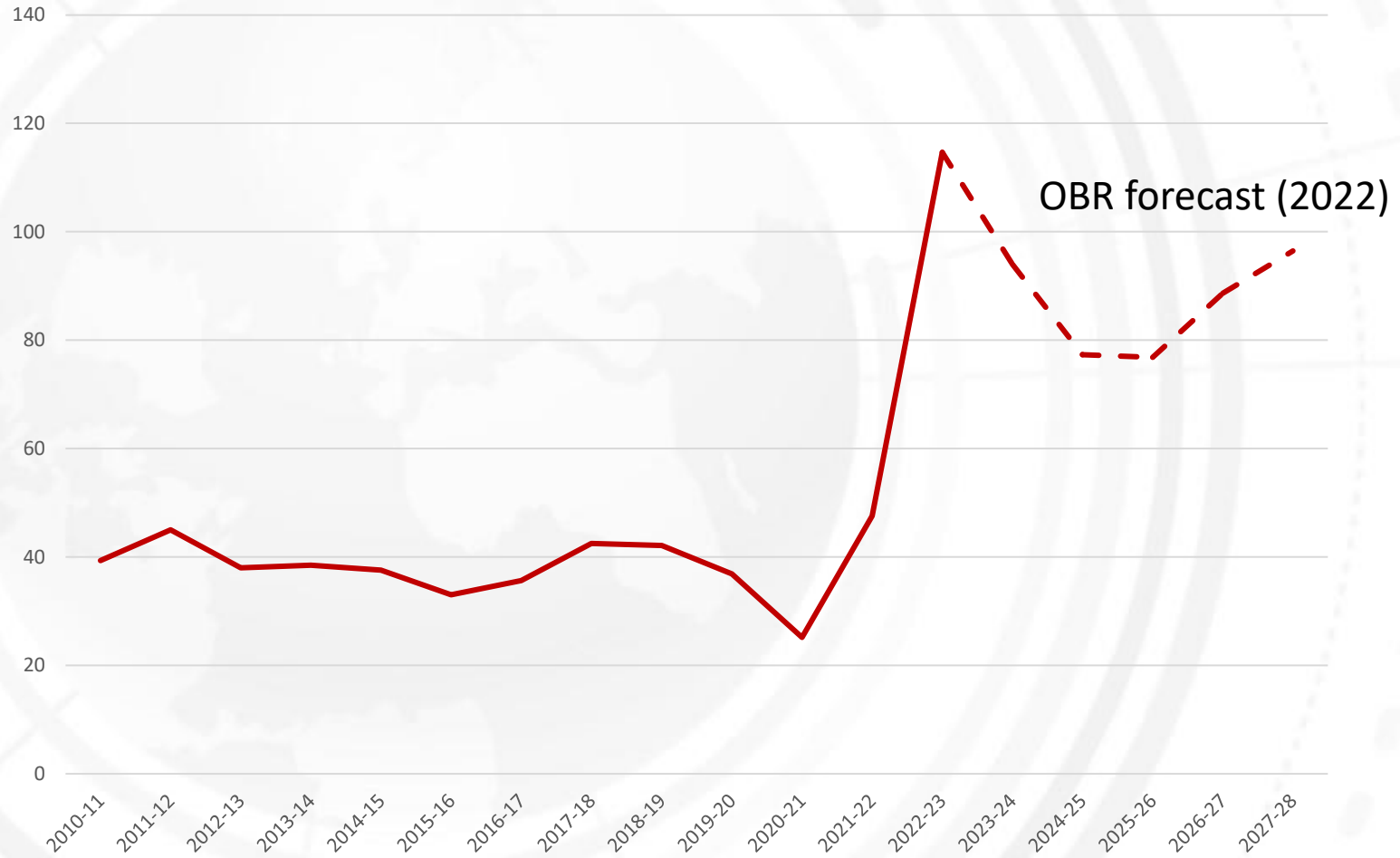
**Public sector net debt excluding public sector banks, percentage of GDP,  
UK, financial year ending (FYE) 1921 to July 2023**



Source: OBR, ONS

# ...as has the cost of servicing it

### Central Govt Net Debt Interest - Actual and Forecast (£bn)

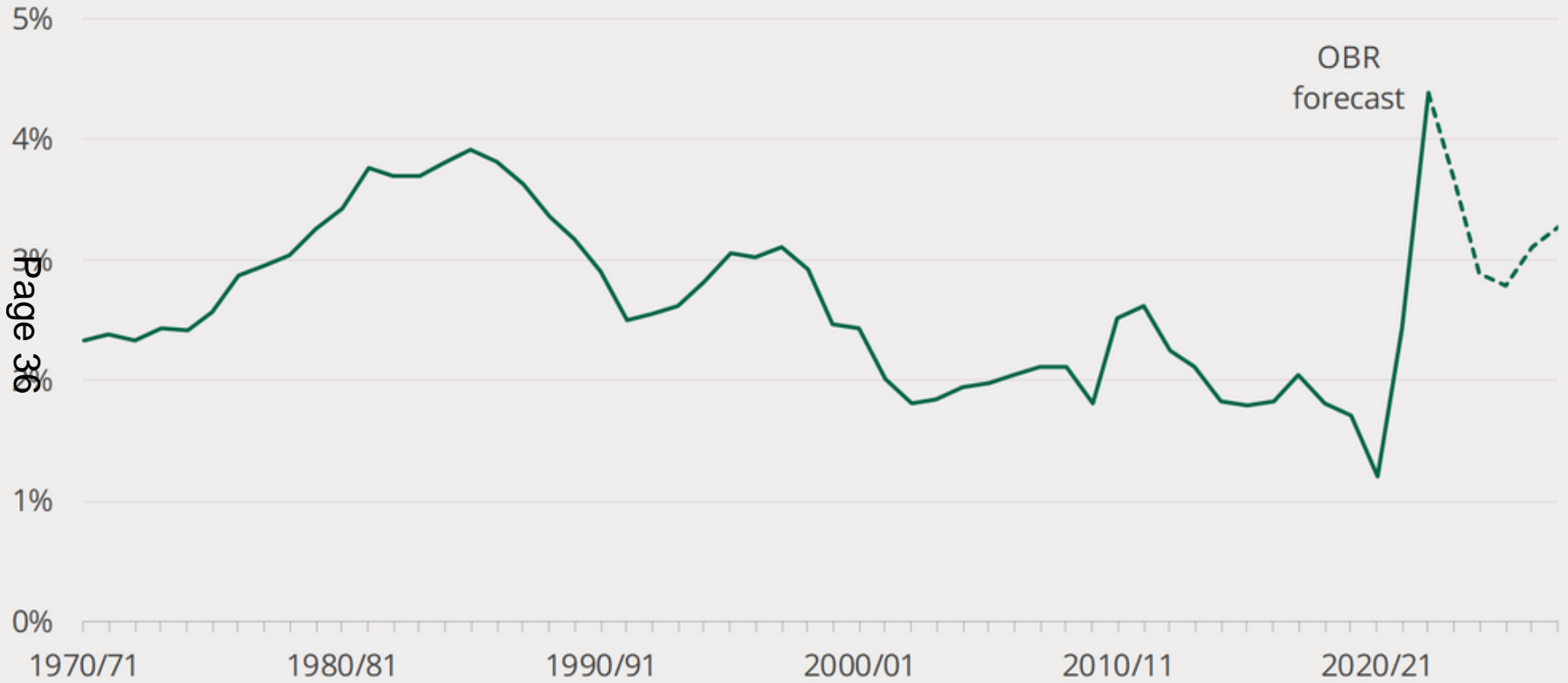


OBR forecast (2022)

Source: OBR, HMT

# Another longer-term perspective

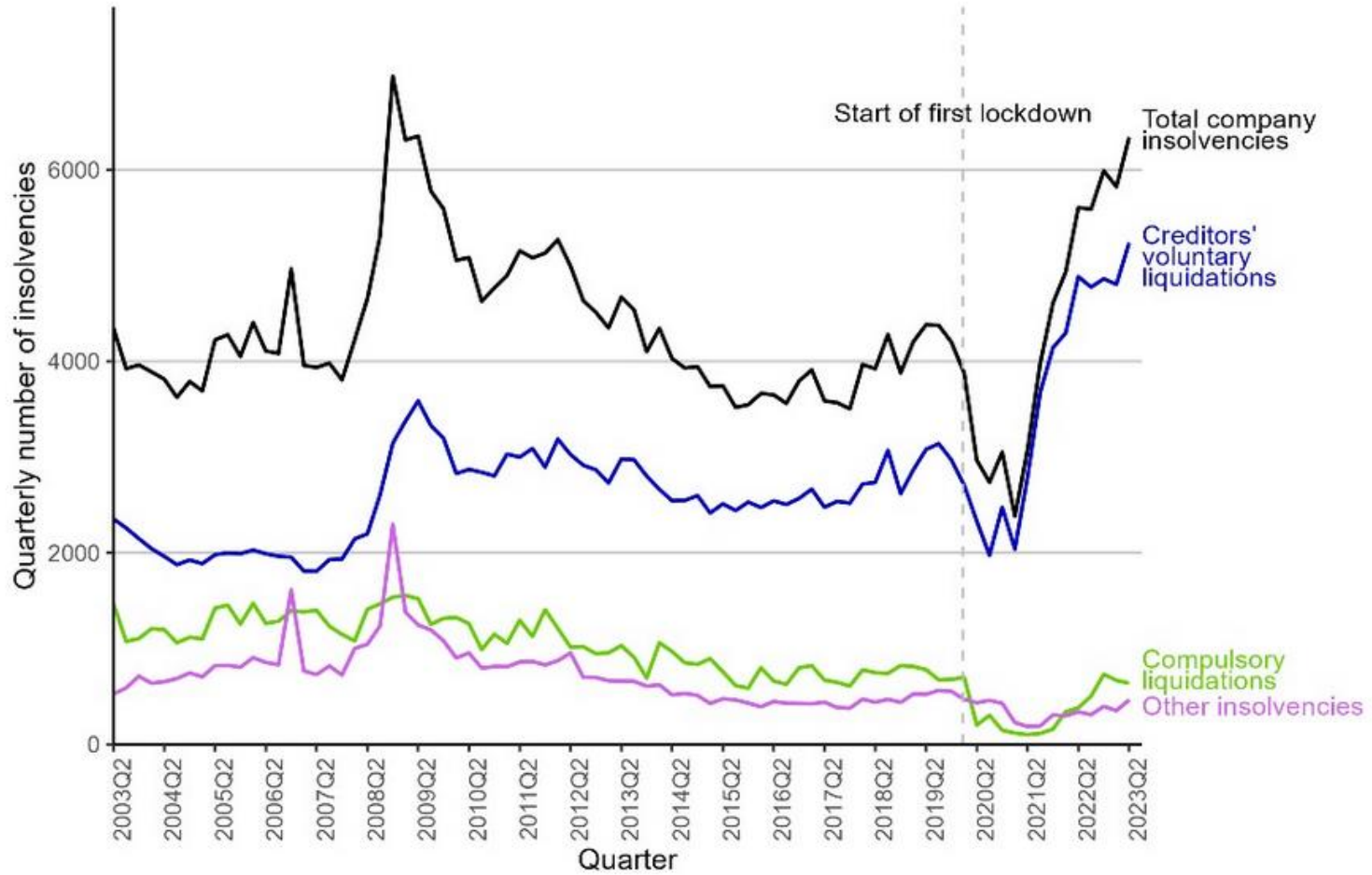
## Central government debt interest, % of GDP



Source: OBR, HMT

# More widely, businesses are under pressure

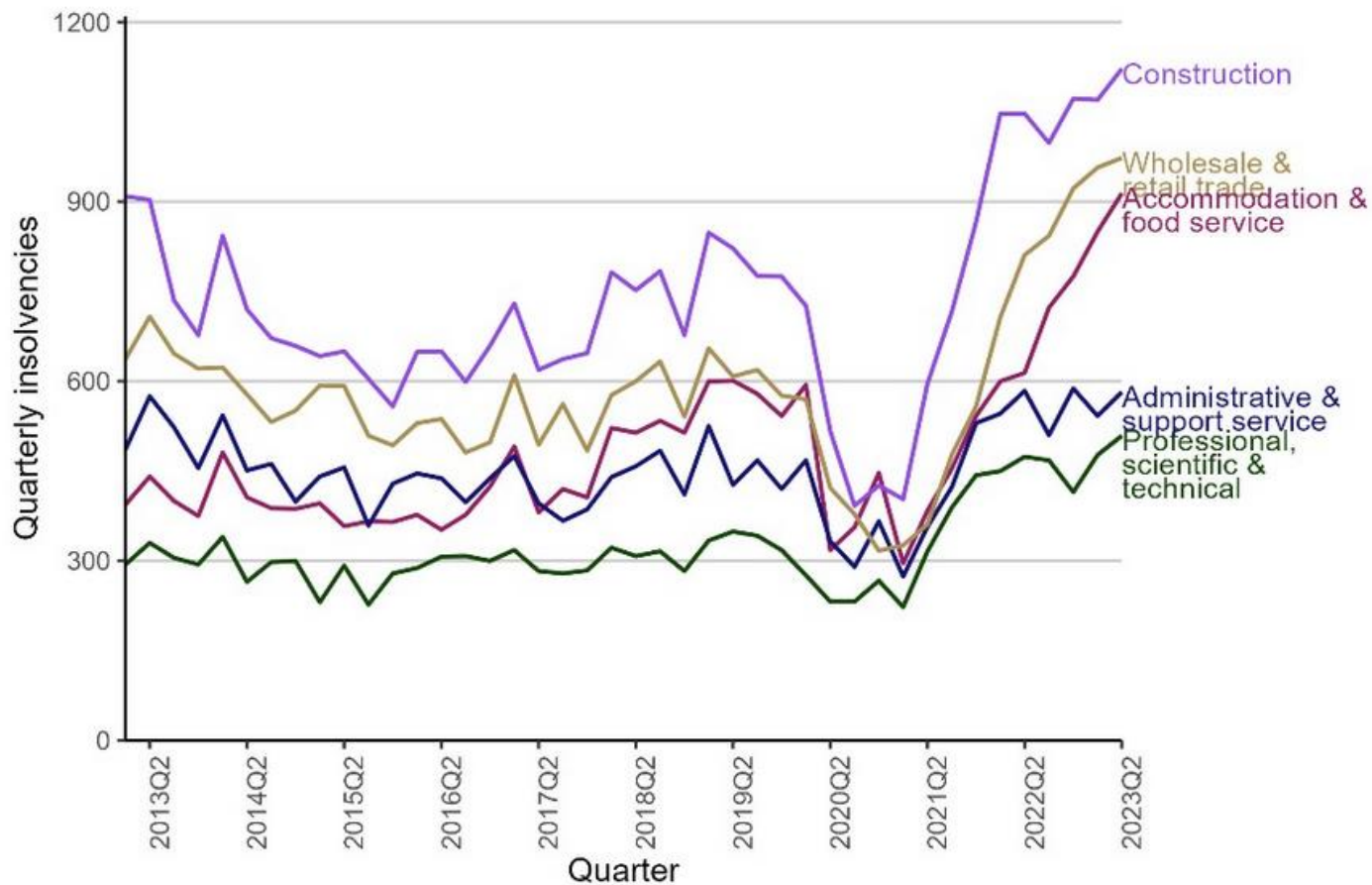
England and Wales, Q2 2003 to Q2 2023, seasonally adjusted



Source: Insolvency Service, Companies House

# Where is the pain really?

Number of insolvencies in the top five sectors (between Q2 2022 and Q1 2023), England and Wales, Q2 2013 to Q2 2023, not seasonally adjusted

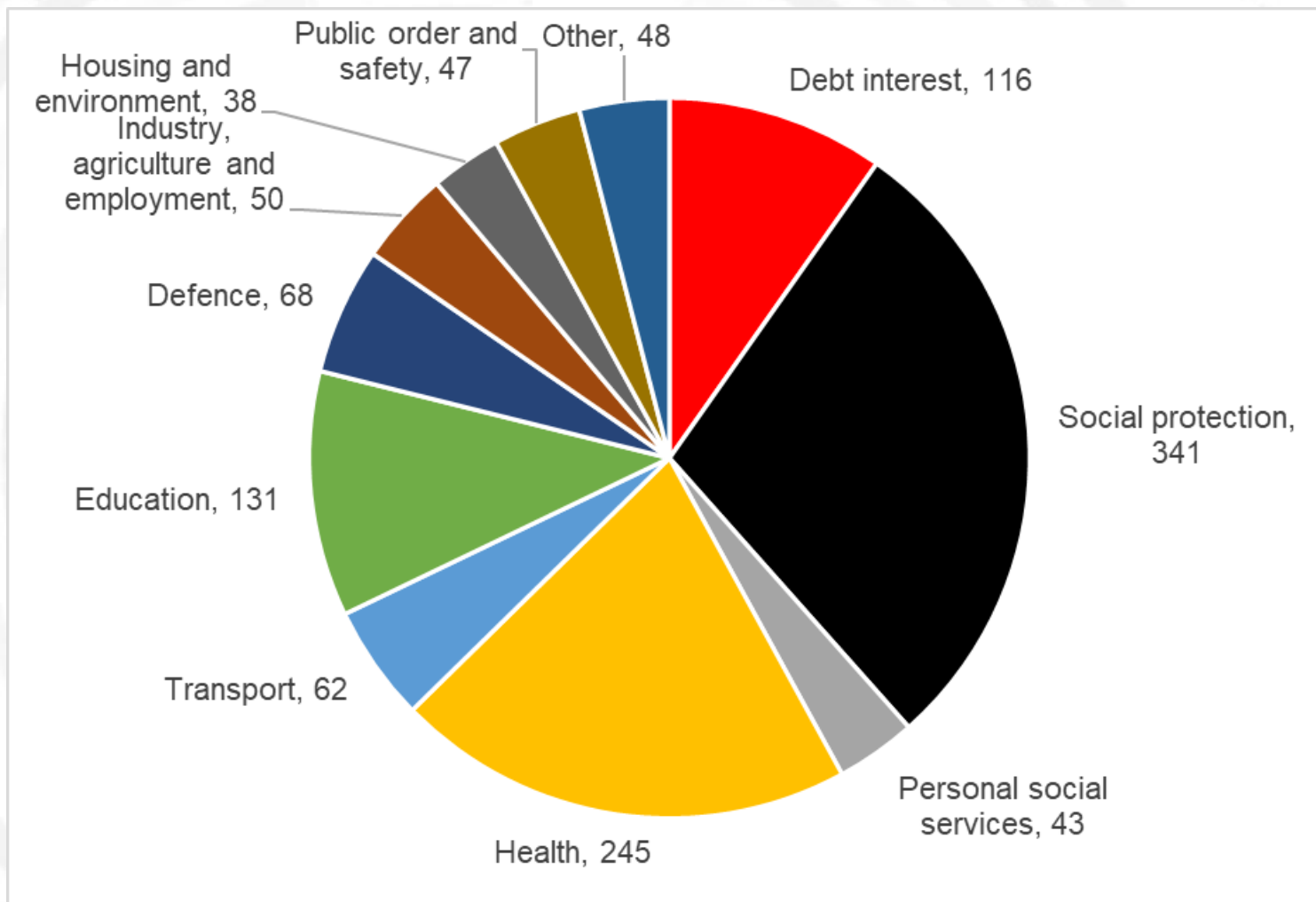


Source: Insolvency Service, Companies House

# The gap between income and expenses

- In the financial year to May 2023, central government receipts grew by £3.2bn compared to a year ago.
- **BUT** over the same period....
- **Expenses were up much, much, much more**
  - Increases in benefit payments (up £7.1 billion)
  - Staff costs (up £4.6 billion)
  - Additional costs of the energy support scheme (up £3.4 billion)
  - Procurement (up £2.7 billion)
  - Higher debt interest payable (up £2.6 billion)
- The local government balance sheet is much the same when it comes to the mismatch between revenues and demands on the budget.

# Lots of growing demands on the public purse

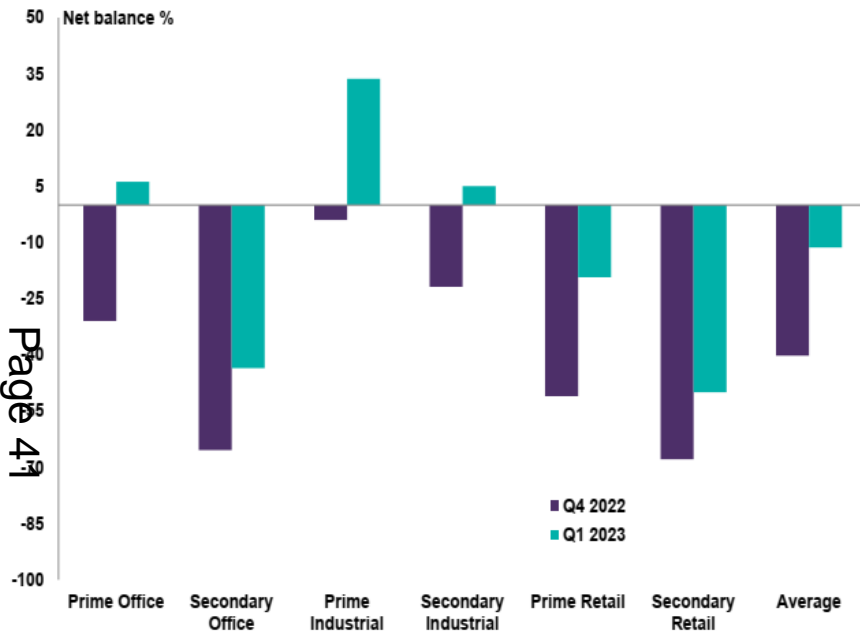


Source: OBR, HMT

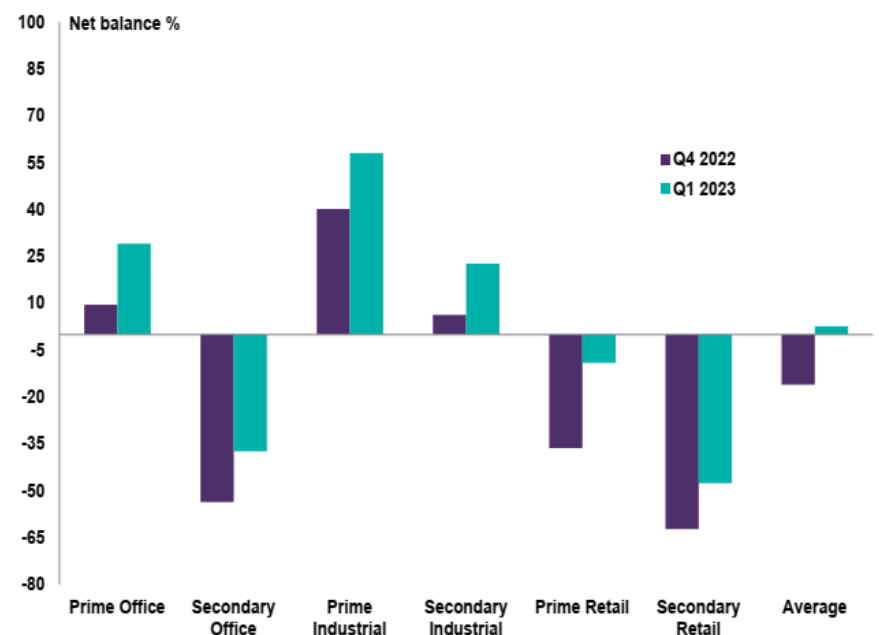


# Asset valuations and income are under pressure

12-month capital value expectations



12-month rent expectations

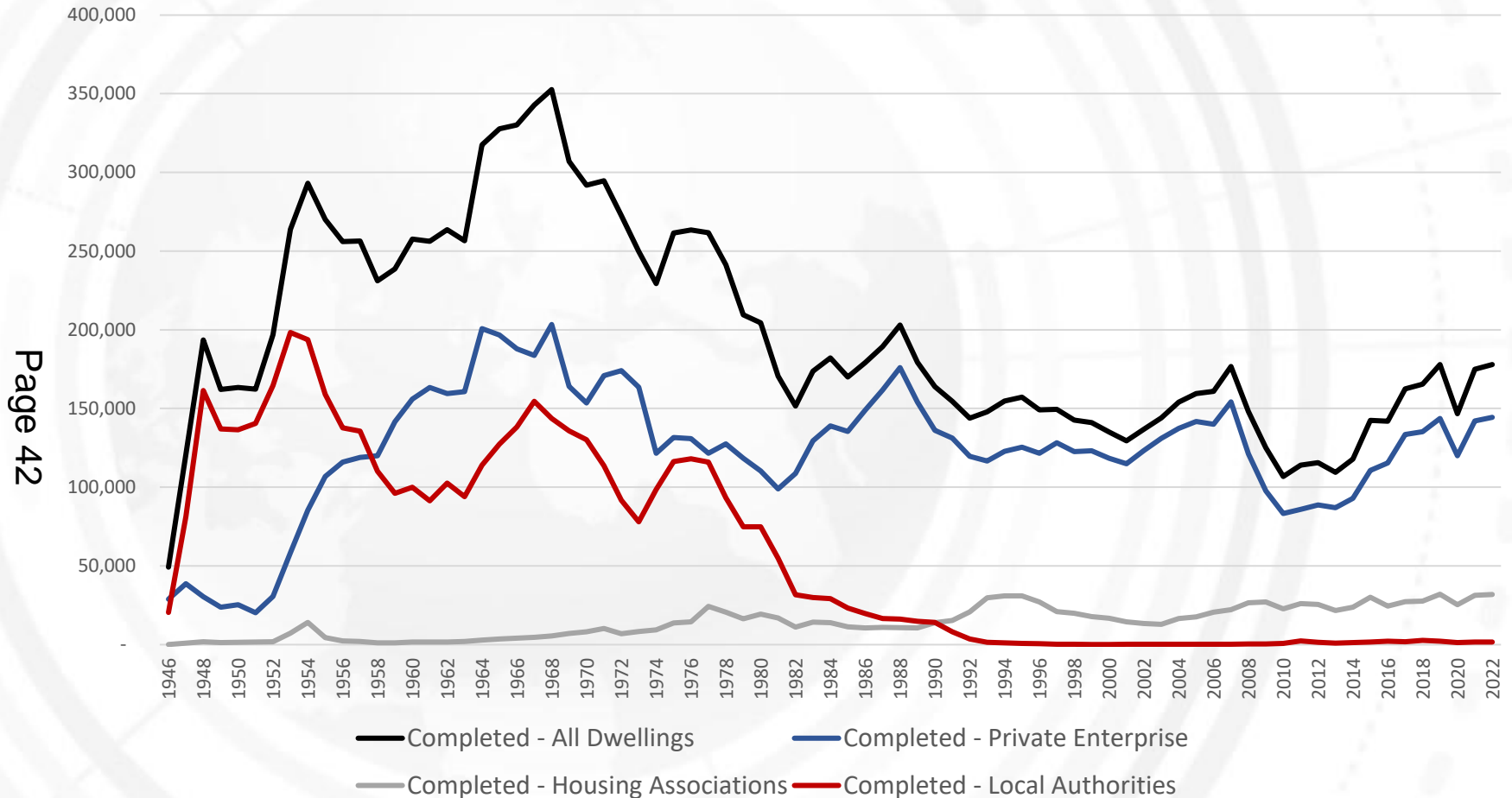


Source: RICS

Fragilities beneath the surface are rising, while even portfolios with strong occupancy are seeing falling lease lengths, tenants downsizing or postponing plans, rising capex needs and rising costs of capital.

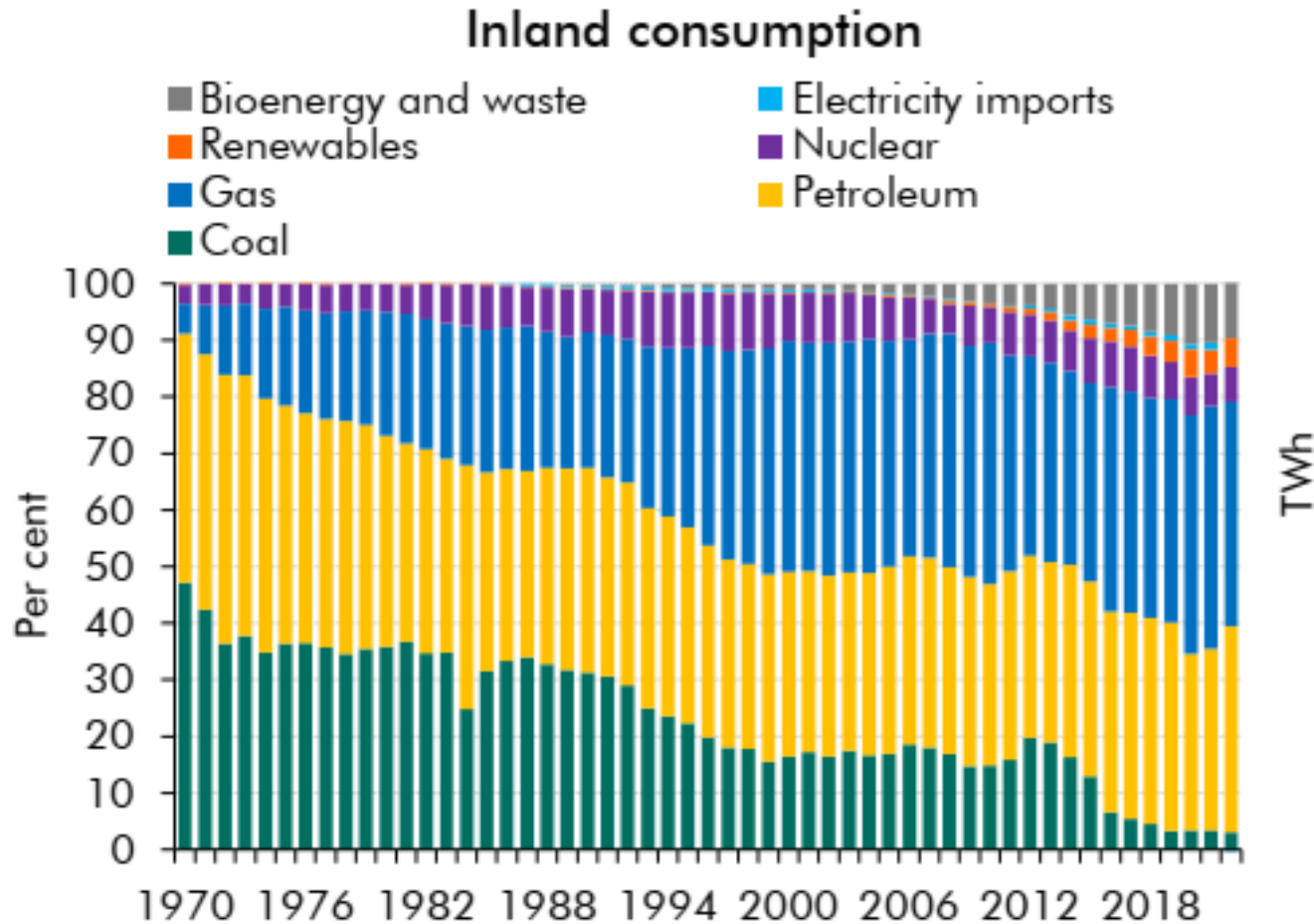
# Who has the capacity to solve the housing problem?

Housebuilding: Permanent dwellings completed by sector, England (1946-2022)



Source: ONS, Camdor Global Advisors

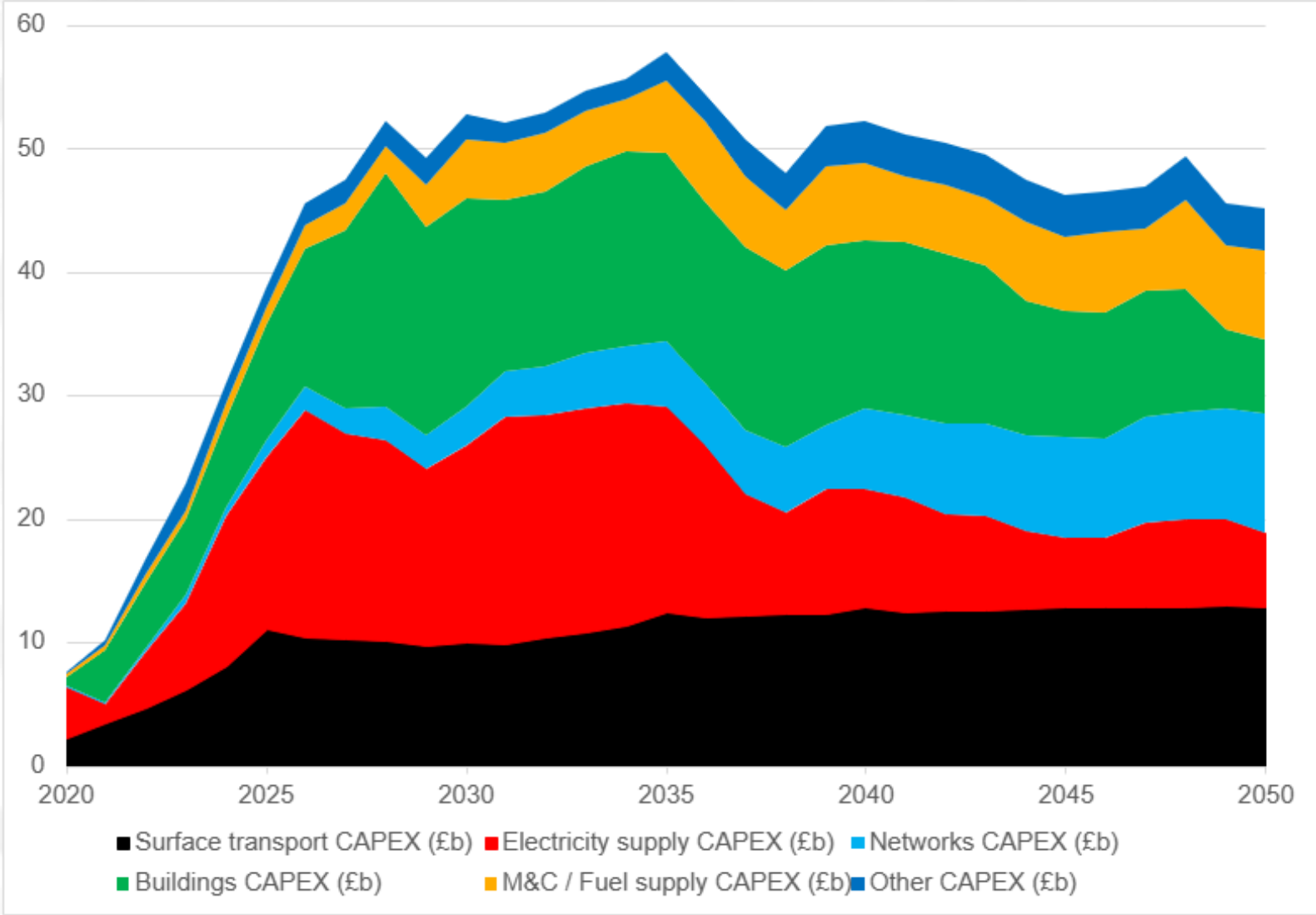
# On the climate side, the hard work begins now



Note: Before 1998, gas exports includes exports of primary electricity.  
Source: DESNZ

The UK had the largest reduction in carbon emissions of any G7 country since 1990, but that was by switching to gas! What now?

# Everyone says we need more money spent



Source: Climate Change Committee, 6th Carbon Budget (2020).

# But can we afford it?

## Headlines



### Revealed

UK plans to drop flagship £11.6bn climate pledge

4h ago

**Climate crisis** Monday was hottest day for global average temperature on record

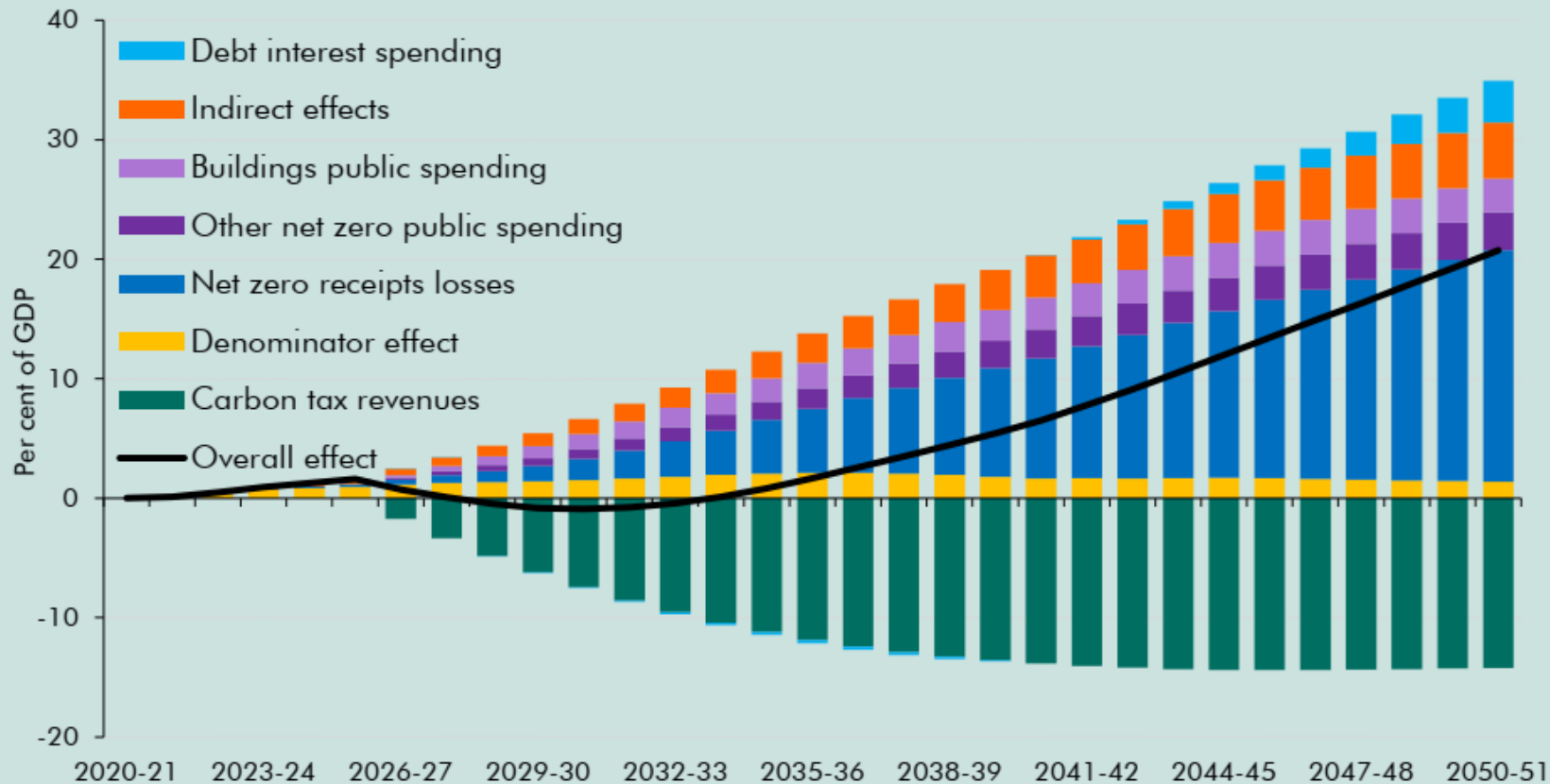


### Labour waters down £28bn green investment pledge

Rachel Reeves says she cannot be "reckless" with spending and will ramp up investment to reach the figure by 2027.

# Public debt in a net zero world

### Chart E: Impact of net zero transition on public debt



Source: OBR

# Green Financing is the main challenge to overcome

- Pathways to net zero – estimating your financing needs
- Triangulate vs available revenues, sensitivity analysis vs budgets and economic outcomes.
- Net zero or adaptation? How does the need and cost look under different climate scenarios?
- How does the E correlate to the rest, e.g. climate vs biodiversity, social cohesion, cost of living, ability to sustain increased costs, governance needs
- Are you resilient, and is your local community resilient?
- Plan for different outcomes and the associated financing / resourcing needs
- What are the priorities in terms of projects?
- Public vs private – PWLB, National Infrastructure Bank, insurers, LGPS

# Emerging geopolitics – hidden risks?

- Remember the pandemic(?) and Russian invasion of Ukraine
  - Strained global leaders, socio-economic tensions, reduced living standards, new alliances, supply chain and technology shifts, and reshaped global dependencies.
- Emerging geopolitical issues
  - Sino-Russia partnership, NATO expansion, Saudi-Iran diplomatic deal
  - U.S. tech tariffs and industrial policy, mass protests and upcoming elections
- Complex backdrop
  - Return of banking sector risks, likelihood of interest rate hikes, and rising prospects of a recession leading to systemic risk.
- Geopolitical Supercycle
  - Rapid expansion characterized by dramatic shifts in the international system.



# APPENDIX

# Presenter Bio

**Dr Bob Swarup** is a respected international expert on financial markets, investment strategy, alternatives, ALM and regulation. He is Principal at Camdor Global Advisors, an advisory firm that works with institutions and investors around the world on strategic investment, risk management, ALM and business issues. He also served as Senior Investment Advisor to the Pensions Regulator, advising them on the development of the new regulatory framework for DB schemes from an investment, risk and governance perspective.

Bob was formerly a partner at Pension Corporation, a leading UK-based pension buyout firm, where he ran alternative investments, was Chief Risk Officer and oversaw Thought Leadership.

Bob is a former Senior Visiting Fellow at Cass Business School; on the Advisory Council of the Columbia Committee for Global Thought and on the Editorial Board of the *Journal of Alternative Investments*. He holds a PhD in cosmology from Imperial College London and an MA (Hons) in Natural Sciences from the University of Cambridge. Bob has written extensively on diverse topics, with his work being featured in the Financial Times, Economist, Guardian, CNBC, Bloomberg, Pensions Week and IPE amongst others. He is also the author of the internationally acclaimed bestseller *Money Mania* on two millennia of financial crises and the lessons to learn (Bloomsbury, 2014).

# Contact Us

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