

Pension Fund Investment Sub-Committee

Monday 7 March 2022

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
John Cole, Democratic Services Officer
Andrew Felton, Assistant Director, Finance
Shawn Gladwin, Senior Finance Officer, Pensions Investment
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)
Sukhdev Singh, Senior Accountant, Pensions Investment
Nichola Vine, Strategy and Commissioning Manager (Legal and Democratic)

Others Present

Robert Bilton, Hymans Robertson
Anthony Fletcher, Independent Advisor
Philip Pearson, Hymans Robertson
Bob Swarup, Independent Advisor
Richard Warden, Hymans Robertson

1. General

(1) Apologies

There were none.

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

Councillor Millar stated that she was a member of the Local Government Pension Scheme from previous employment.

(3) Minutes of the previous meeting

Resolved:

That the minutes of the meeting held on 13 December 2021 be approved as a correct record and signed by the Chair.

There were no matters arising.

2. Review of the Local Pension Board minutes of the meeting of 20th October 2021

Resolved:

That the Pension Fund Investment Sub-Committee notes the minutes of the Local Pension Board meeting of 20 October 2021.

3. Forward Plan

Neil Buxton (Technical Specialist - Pension Fund Policy and Governance) introduced the report which provided an updated Forward Plan for the Pension Fund Investment Sub-Committee rolled forward to cover the year ahead. He encouraged members to participate in the Knowledge Assessment and take advantage of upcoming training opportunities.

Councillor Simpson-Vince expressed sympathy for the plight of Ukrainians, stating that it was likely that the war in Ukraine would have a long-term impact on the Pension Fund. She suggested that a standing item be added to the Forward Plan to enable the issue to be considered at future meetings. This was agreed.

Resolved:

That the Pension Fund Investment Sub-Committee notes the Forward Plan which will be updated with a standing item relating to the ongoing implications of the war in Ukraine.

4. Warwickshire Pension Fund Business Plan 2022/23

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk) presented this report which set out the Business Plan for Warwickshire Pension Fund for 2022/23, including objectives, strategic priorities, and an action plan. He stated that the total membership of the Fund had increased by 5% over the course of a year. The objectives of the Fund remained unchanged and actions to monitor activity for the coming year had been set out within the Plan.

Councillor Gifford praised the commitment within the Plan to continue to develop Environmental, Social and Governance (ESG) monitoring and to respond to climate change. He stated that the implications of the war in Ukraine further demonstrated the need to transition away from fossil fuels.

In response to the Chair, Chris Norton advised that membership of the Fund had expanded due to an increase in the number of people changing jobs and moving between organisations, as well as an influx of personnel employed by academy trusts.

Councillor Kettle stated that, although Risk Monitoring would be covered as a separate agenda item, it was important that the Business Plan refer to specific risks. For example, the war in Ukraine constituted a political risk which required consideration when managing a global portfolio. He stated that a 5% increase in membership was positive; however, this also presented an economic risk should demographics change in the longer-term.

Councillor Kettle stated that it was positive that the Plan recognised the importance of cashflow management; however, inclusion of a five-year projection would be informative. He stated that there was a good understanding of the Fund's liabilities but suggested that evidence of the scale of cashflow operations (and underlying asset management) be included.

Councillor Kettle highlighted reference in the Business Plan to pooling. He emphasised that Border to Coast Pension Partnership (BCPP) was not the Fund's sole partner and raised concerns at the prospect of BCPP diversifying. He stated that there was a need for well-researched products, adding that specific attention was required to the potential risks of the Fund working with multiple partners.

The Chair observed that, unlike the Pension Fund Business Plan, most commercial business plans were not made publicly available. He asked what scope was present to include detailed information relating to the Fund's strategy.

Chris Norton advised that more detail could be added to the Plan without compromising confidentiality, including information relating to risk monitoring and cashflow.

In response to the Chair, Andrew Felton (Assistant Director, Finance) advised that Investment Beliefs agreed by the Sub-Committee had set pooling as the preferred approach; however, there was scope to move in other directions.

Councillor Gifford commented that pooling had been introduced with the intention of cutting costs and providing a means to fund domestic infrastructure projects. He suggested that it would be informative to ascertain if a reduction in fees had been realised.

The Chair stated that, as a shareholder of BCPP, Warwickshire Pension Fund could exert influence; however, if the Fund's objectives were not being met, it could withdraw from the arrangement. He emphasised that government policy continued to advocate pooling; however, new guidance was anticipated later in the year.

Councillor Kettle stated that information such as the value of the Fund and the number of contributors was already publicly available in audited accounts. He stated that having this information in the Business Plan would contribute to an improved understanding of the status of the Fund for interested parties.

There was discussion of additional material to be added to the Business Plan. The Chair sought a view on whether to approve the Business Plan or request changes.

It was suggested that amendments be made to the Business Plan prior to delegated approval being sought from the Chair. Details would be circulated to members of the Sub-Committee.

Resolved:

That the Pension Fund Investment Sub-Committee delegates responsibility for approval of a reworked Warwickshire Pension Fund Business Plan for 2022/23 to the Chair with input from the Assistant Director for Finance, prior to circulation of the finalised document to members of the Sub-Committee.

5. Pension Fund Risk Monitoring

Chris Norton (Strategy and Commissioning Manager – Treasury, Pension, Audit & Risk) presented this report which provided an update on risks to the Fund and actions taken to manage them. He advised that significantly more time was now being dedicated to analysis of risk; however, it was not possible to foresee all eventualities. Measures were in place to improve preparedness for unexpected circumstances.

Andrew Felton (Assistant Director, Finance) stated that, although the initial effect of COVID-19 was severe, it had been resolved to take a long-term view. As an outcome, the Pension Fund was in a better position. He recommended that decision-making take account of the long-term nature of the Fund.

Councillor Gifford highlighted the risk posed by rising inflation. He stated that wage inflation could be significantly detrimental to the Fund.

Councillor Kettle stated that a long-term view was required. He highlighted the impact of the war in Ukraine and the likely economic and geo-political outcomes which could take up to 30 years to manifest.

The Chair stated that, despite the challenges of risk forecasting, it was possible to demonstrate a broad awareness of potential risks. For example, there has been widespread speculation of the risk posed by future global pandemics.

There was discussion of macro risk and possible outcomes of the war in Ukraine.

Resolved:

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

6. Macroeconomic Update

Bob Swarup (Independent Advisor to the Sub-Committee) presented this report which provided a six-monthly update on factors influencing the Pension Fund from a macroeconomic perspective. The report focused on four key areas: negative real interest rates in the UK; inflation, including supply chain issues; geopolitics; and investors' capital deployment. Attention was also given to the implications of the war in Ukraine.

Members praised the quality of the update, stating that the macroeconomic forecast presented some daunting prospects.

In response to Councillor Simpson-Vince, Dr Swarup advised that deglobalisation was a forecasted trend, characterised by nations seeking to withdraw from supply chains outside of their control. Energy security presented a challenge, evidenced by US and European interest in accessing oil and gas resources from Venezuela to break free of dependency on Russia. Bilateralism was an emerging trend as nations acted for themselves. He stated that with risks came opportunities; nuclear power was likely to experience a renaissance, alongside investment in resources to achieve efficiencies and improved security, such as vertical farming.

In response to Councillor Kettle, Dr Swarup stated that a positive outcome could result from China choosing to prioritise trading interests with the West. However, China had demonstrated a limited regard for the interests of other nations and was focused primarily on its own ambitions. It was prudent to plan for both scenarios to protect the interests of the Pension Fund.

Philip Pearson (Hymans Robertson) advised that deglobalisation could lead to higher inflation. It was prudent to consider how all possible scenarios could impact upon the Fund.

Resolved:

That the Pension Fund Investment Sub-Committee notes the content 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. Precepting Employers' Contribution Rates

Resolved:

That the Pension Fund Investment Sub-Committee:

1. Notes the report;
2. Agrees to maintaining the current funding strategy for all of the precepting employers at the 2022 valuation;
3. Agrees to continue to apply a long-term contribution stabilisation mechanism;
4. Agrees that for the three-year period beginning on 1 April 2023, the contribution rates be as follows:
 - i. Stratford-on-Avon District Council and Nuneaton and Bedworth Borough Council rates to reduce by 1% p.a. over each of the next 3 years
 - ii. Rates for the other five precepting employers (Warwickshire County Council, Warwickshire Police, North Warwickshire Borough Council, Warwick District Council and Rugby Borough Council) to be frozen at their current (2022/23) levels.

9. Investment Monitoring Report

Resolved:

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

10. Asset Liability Modelling

Resolved:

1. That the Pension Fund Investment Sub-Committee (PFISC) notes the report.
2. That the PFISC agrees to 'Proposal 3 – Blended Approach' as the Fund's long term investment strategy.
3. That the Fund commissions a paper from Hymans Robertson covering implementation considerations such as the equity portfolio mix, property portfolio mix, protection assets allocation and decarbonisation options
4. That the Investment Strategy Statement is updated in line with the decisions made.

11. Alternatives Commitments

Resolved:

That the Pension Fund Investment Sub-Committee:

1. Notes the report
2. Approves the investment of £40m in Border to Coast Pension Partnership's (BCPP) Series 2a Private Equity Fund
3. Approves the investment of £30m in BCPP's Series 2a Infrastructure Fund
4. Approves the investment of £30m in BCPP's Series 2a Private Debt Fund
5. Approves the indicative commitment amounts for 2023 and 2024 as set out in Table 8 of Appendix 1 of the report (and below):

Table 8 – proposed commitments to alternatives for the next 3 years

Commitment	Private Equity	Infrastructure	Private Debt
2022	£40m to BCPP Series 2	£30m to BCPP Series 2	£30m to BCPP Series 2
2023 – <i>indicative</i>	£40m to BCPP Series 2	£30m to BCPP Series 2 £75m to one/two alternative managers	£30m to BCPP Series 2 £105m to one/two alternative managers
2024 – <i>indicative</i>	£40m to BCPP Series 2	£30m to BCPP Series 2	£30m to BCPP Series 2

6. Commissions Hymans Robertson to carry out third party fund manager evaluations for the non-BCPP commitments set out in Appendix 1 Table 8 (also above) and supports the officer recommendation that a mix of fund managers are included in the market exercise rather than just incumbents and GLIL as recommended by Hymans.

12. General activity update

At 13:00, the Chair moved that the meeting continue beyond three hours' duration. Councillor Gifford seconded the motion.

The motion was unanimously accepted.

Resolved:

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

13. LGPS Pooling

Resolved:

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

14. UK Stewardship Code

Resolved:

That the Pension Fund Investment Sub-Committee (PFISC):

1. Notes the report.
2. Delegates final approval of the UK Stewardship Code report submission to the Strategic Director for Resources in consultation with the Chair of the PFISC.
3. Commissions officers to procure a carbon footprinting exercise for the Fund.

15. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 13 December 2021 be approved as a correct record and signed by the Chair.

There were no matters arising.

The meeting rose at 13:12.

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Chair