

Pension Fund Investment Sub-Committee

Monday 13 June 2022

Minutes

Attendance

Committee Members

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

Officers

John Cole, Democratic Services Officer
Jan Cumming, Senior Solicitor and Team Leader (Commercial and Contracts)
Andy Felton, Assistant Director, Finance
Shawn Gladwin, Senior Finance Officer, Pensions Investment
Hannah Greyson-Gaito, Treasury Management Officer
Martin Griffiths, Technical Specialist – Pension Fund Policy and Governance
Victoria Moffett, Lead Commissioner (Pensions and Investment)
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit and Risk)
Sukhdev Singh, Senior Accountant, Pensions Investment

Others Present

Rachel Elwell, Chief Executive, Border to Coast Pensions Partnership
Anthony Fletcher, Independent Advisor
Chris Hitchen, Chair, Border to Coast Pensions Partnership
Philip Pearson, Hymans Robertson
Bob Swarup, Independent Advisor
Richard Warden, Hymans Robertson

1. General

The Chair paid tribute to his predecessor, Councillor John Horner, who sadly passed away on 10 May 2022. The Chair led a minute's silence in remembrance of Councillor Horner.

Councillor Gifford praised the contribution made by Councillor Horner, stating that the Pension Fund was in a healthy position due in no small part to Councillor Horner's knowledge and dedication.

The Chair stated that Councillor Horner was a diligent and highly respected chair with a strong grasp of detail as well as an understanding of the bigger picture. He would seek to follow Councillor Horner's example

(1) Apologies

There were none.

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

None.

(3) Minutes of the Previous Meetings

Resolved:

That the minutes of the meetings held on 7 March 2022 and 17 May 2022 be approved as a correct record and signed by the Chair.

There were no matters arising.

2. Appointment of Vice-Chair

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

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. 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. He advised that, following discussion with officers, it was proposed to remove specific COVID-19 risk scores from the Risk Register as these risks would be included within the other general items within the Register.

In response to Councillor Millar, Martin Griffiths acknowledged that COVID-19 remained an ongoing threat, however, individual risks associated with the Pandemic had been allocated across specific risk categories.

Councillor Gifford suggested that a broader 'pandemic' risk be included within the Risk Register. It was impossible to predict when the next pandemic could occur, but the experience of COVID-19 demonstrated the importance of being prepared.

In response to Councillor Gifford, Chris Norton (Strategy and Commissioning Manager, Treasury, Pension, Audit and Risk) advised that employers' ability to pay contributions was monitored closely. A register of 'breaches' was maintained, and action would be taken if an employer failed to meet their obligations. He stated that this was a very uncommon occurrence and information relating to employer contributions was regularly reported to the Local Pension Board.

In response to the Chair, Victoria Moffett (Lead Commissioner, Pensions and Investment) advised that risk scores were reviewed on a quarterly basis with a focus on long-term and short-term market risks. These were covered in the Quarterly Investment Monitoring Report (agenda item 8).

Resolved:

That the Sub-Committee notes the content of the report.

4. Carbon Footprint Report

Philip Pearson (Hymans Robertson) presented the report which provided details of the Fund's carbon exposure and sought approval for the adoption of a set of metrics against which carbon exposure could be measured and tracked.

In response to Councillor Millar, Philip Pearson advised that, in many circumstances, engagement with investment managers was a more effective means of lowering carbon emissions than divestment. By requesting details of a company's plans to reduce carbon, and holding it accountable for delivery of the plan, long-term asset owners could act positively to lower emissions. If a company failed to engage or meet its targets, the Pension Fund could choose to withdraw its investment.

Councillor Millar underlined the importance of a defined timescale for this process. For example, a carbon-intense company could prevaricate and delay implementation of a carbon reduction plan. She asked if a definitive cut-off date would be mandated.

Philip Pearson advised that failure to deliver a carbon reduction plan would be an adequate reason for divestment. He stated that a plan should have tangible milestones to enable monitoring of its implementation. As soon as a commitment was not met, the manager or asset owner should divest. In practice, this could be challenging as it required considerable effort by investment managers to monitor the progress made by companies against carbon reduction plans.

Councillor Gifford expressed support for engagement with the backstop of divestment. He highlighted the importance of ensuring that investment managers act promptly to prevent 'green washing' by companies not fully committed to achieving their targets.

Bob Swarup (Independent Advisor to the Sub-Committee) highlighted the benefits of establishing a clearly defined governance framework for climate change which identified approaches to monitoring and oversight as well as risks and opportunities. He highlighted the areas of hidden risk, such as investment in infrastructure where there was an increased risk of flooding.

Anthony Fletcher (Independent Advisor to the Sub-Committee) stated that active investment managers were engaging with companies on behalf of the Pension Fund. However, there was a need to focus on passive investments which could otherwise be overlooked.

In response to Councillor Millar, Rachel Elwell (Chief Executive, Border to Coast Pensions Partnership) advised that Border to Coast Pensions Partnership (BCPP) had made a commitment to reach net zero by 2050. The Company was also a member of Climate Action 100+. She stated that BCPP was developing a roadmap to net zero carbon. Governance would be determined by a joint committee which would develop metrics to track carbon. A workshop would be held in July 2022 to set targets. Approval of the roadmap would be sought from the Company's Board, prior its publication in October 2022.

Chris Hitchen (Chairman, BCPP) emphasised that effective governance was key to lowering emissions. He expressed support for engagement, stating that BCPP would engage with companies with the option of divestment if no progress was made.

Councillor Hammersley queried whether prioritisation of climate change considerations could present a barrier to the Fund's principal responsibility, to act in the best financial interest of its members.

Councillor Gifford commented that the Fund was a long-term investor. He emphasised the importance of considering the long-term effects of climate change and its impact on investments. The Fund would be exposed to risk if it chose to ignore climate change. He stated that it was prudent to develop an understanding of investment risks and opportunities presented by climate change.

Councillor Millar stated that it was possible to act in the best interests of members of the Pension Fund and invest responsibly to reduce emissions. She emphasised that for many people, the effects of climate change would result in uncomfortable conditions for retirement.

In response to the Chair, Philip Pearson advised that climate change risk could be separated into three areas: physical risk, such as flooding or heatwaves; transition risk, where a carbon-intense company continues to operate until it is eventually shut down by government; and litigation risk, where a company is considered by courts to have acted irresponsibly. The most significant of these was transition risk; enacting measures to reduce carbon was compatible with the Pension Fund's fiduciary obligation.

In response to the Chair, Philip Pearson advised that, if the Fund decided to divest from all companies that did not meet the criteria for residual carbon emissions, a share of approximately 35% of the UK market would be available for investment. This would increase the volatility of investment returns, potentially to the extent that these stocks would be of interest to multiple investors at an increased cost.

The Chair stated that a potential loss of 65% of the UK market demonstrated the importance of engaging with companies to reduce carbon impacts.

In response to the Chair, members indicated support for the recommendations of the report.

Resolved:

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

1. Approves the adoption of the metrics at paragraph 1.3; and
2. Requests that an annual report be brought to the PFISC setting out progress towards the metrics chosen.

5. 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.

6. Funding Update

The Sub-Committee received a confidential briefing.

7. Cashflow Management

The Sub-Committee received a confidential briefing.

8. Quarterly Investment Monitoring Report

The Sub-Committee received a confidential briefing.

9. General Activity Update

The Sub-Committee received a confidential briefing.

10. Border to Coast Presentation

The Sub-Committee received a confidential briefing.

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

The motion was unanimously accepted.

11. Equity Portfolio Review

The Sub-Committee received a confidential briefing.

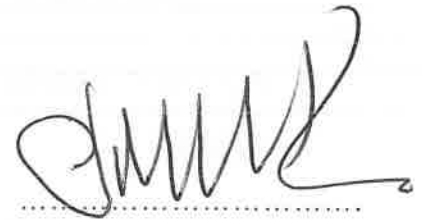
12. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 7 March 2022 be confirmed as a true and accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 13:30.


Chair