

Pension Fund Investment Sub-Committee

Friday 14 October 2022

Minutes

Attendance

Committee Members

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

Officers

Amy Bridgewater-Carnall, Senior Democratic Services Officer
John Cole, Senior Democratic Services Officer
Jan Cumming, Senior Solicitor and Team Leader – Commercial and Contracts
Andy Felton, Assistant Director, Finance
Victoria Moffett, Lead Commissioner – Pensions and Investment
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit and Risk)
Tatenda Taruvinga, Trainee Solicitor

Others Present

Anthony Fletcher, Independent Advisor
James Glasgow, Hymans Robertson
Milo Kerr, Border to Coast Pensions Partnership
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

There were none.

(3) Minutes of the Previous Meeting

Resolved:

That the minutes of the meeting held on 13 June 2022 be approved as a correct record and signed by the Chair.

There were no matters arising.

2. Review of the Minutes of the Warwickshire Local Pension Board Meetings of 2 February 2022 and 26 April 2022

Resolved:

That the Pension Fund Investment Sub-Committee notes the minutes of the Local Pension Board meetings of 2 February 2022 and 26 April 2022.

3. Governance Report

Victoria Moffett (Lead Commissioner – Pensions and Investment) introduced the report which provided updated governance information relating to Warwickshire Pension Fund's forward plan, risk monitoring, training, and policy. She highlighted the changes that had been made to the Risk Monitoring Chart, including an increased climate change risk. This had been upgraded following discussion at the previous meeting of the Sub-Committee, and in recognition that climate change was moving at an accelerated pace.

In respect of climate change risk, Councillor Millar queried the statement that "the Fund on its own can have limited impact on what happens globally." She emphasised the symbolic value of divestment, which had been a subject of many letters and emails from members of the public.

Victoria Moffett advised that the highest category of risk had been allocated to climate change. It would not be possible to upgrade the risk status; however, the wording could be amended to reflect this point.

Councillor Gifford stated that he had also received a high number of letters and emails calling for divestment from carbon-intense companies. He emphasised that this was a reasonable request; however, it was debatable whether divestment would lead to a better outcome than engagement with investment managers. By engaging, the Pension Fund was able to exert influence. If a company failed to engage or meet agreed targets, the Fund could withdraw its investment.

The Chair stated that he had received a high amount of correspondence relating to divestment. He would draft a statement in response emphasising the advantages of engagement and share this document with members of the Sub-Committee. He highlighted that relatively few companies were responsible for the highest proportion of emissions globally. However, a much larger number of companies made use of their services.

Councillor Gifford highlighted the importance of seeking a commitment from companies to achieve net zero carbon. This was not restricted to big fossil fuel companies, but any company that used

fossil fuels to some extent. He suggested that the Chair's statement include reference to the Fund's commitment to investing in renewable energy.

Councillor Millar emphasised the actions that the Pension Fund could take to hasten the end of the fossil fuel era. As an activist shareholder, the Pension Fund could seek to mitigate the harm caused by climate change. She emphasised that for many people, the effects of climate change would result in uncomfortable conditions for retirement.

In response to the Chair, Andy Felton (Assistant Director, Finance) advised that the proposed Responsible Investment Policy reflected the principle that divestment was not purposeful if there was scope to exert influence to reduce carbon impacts. To do so, it would be necessary to secure a measurable commitment for carbon reduction. He advised that there were other investors willing to step in if the Pension Fund chose to divest and these investors would not seek to challenge companies on their environmental practices.

Councillor Millar emphasised the importance of maintaining a strong focus on engagement with investment managers to ensure that the Responsible Investment Policy was kept under review as an iterative process.

Philip Pearson (Hymans Robertson) provided an overview of the proposed amendments to the Responsible Investment Policy. These included updated Investment Beliefs, a more robust Stewardship of Assets Policy, and an emphasis on effective engagement. It was considered that engagement was most effective when focused on a limited number of priorities.

Philip Pearson advised that two options were available to the Sub-Committee – to adopt the Responsible Investment (RI) priorities of Border to Coast Pensions Partnership (BCPP) to ensure closer alignment, or for the Fund to agree its own RI priorities and seek to implement them as far as practicable. He advised that Hymans' recommendation was to adopt the priorities set out by BCPP which included decarbonisation.

Councillor Gifford suggested that the Fund adopt BCPP's RI priorities. He accepted that there were advantages to the Fund setting out its own priorities. However, this could limit the effectiveness of engagement.

Councillor Millar agreed that adopting the RI priorities of BCPP made good sense. However, she asked if the Fund, as a shareholder of BCPP, would be able to influence development of these priorities on an on-going basis.

The Chair highlighted BCPP's priority to achieve "low carbon transition". He suggested that this be reworded to "a transition to low carbon". He expressed support for the adoption of BCPP's RI priorities.

In response to the Chair, Milo Kerr (BCPP) advised that other pension funds had opted to adopt BCPP's RI priorities. He stated that BCPP would welcome the Sub-Committee's input on on-going development of priorities. In respect of the suggested rewording of "low carbon transition", he stated that, provided there was alignment in sentiment and meaning, inconsistency in the wording would not present a problem.

Bob Swarup (Independent Advisor to the Sub-Committee) suggested that 'Continuous Improvement' be included as a policy objective. This would give a clear message that the Fund's commitment to carbon reduction was a long-term, evolutionary process. This suggestion was supported by members.

The Chair suggested that 'Opportunities for Energy Reduction' also be included as a policy objective.

Andy Felton advised that it would be possible to include 'Continuous Improvement' and 'Opportunities for Energy Reduction' as policy objectives within the Responsible Investment Policy.

The Chair highlighted the statement that "divestment or exclusion may be appropriate where... the Committee expects all divestments or exclusions to be justified on financial grounds." This could lead to a conflict in circumstances when an opportunity arose to invest in a concern which had a poor Environmental, Social, and Governance (ESG) record but presented exceptionally good financial benefits.

Philip Pearson advised that, in practice, this was unlikely to present a problem. Financial return must be the overriding consideration; however, it would be possible to invest in a company which had a superior ESG record, provided the investment return was comparable. In respect of investment in fossil fuels, a long-term view would be taken, recognising that the timeline for production of fossil fuels was limited.

Councillor Millar stated that clarification of this point was required. For example, the Fund had resolved to take a moral stance to divest from Russian-related assets. Similarly, it would not invest in company that profited from child labour irrespective of the investment return.

Philip Pearson advised that it would be possible to amend the wording of the Responsible Investment Policy to reflect these concerns, making it clear that the Fund was mindful of its investment responsibilities.

In summary, the Chair stated that the Sub-Committee was content to adopt the RI priorities of BCPP subject to the amendments specified. Redrafting of the Responsible Investment Policy would be undertaken by Hymans.

Members agreed to delegate responsibility for approval of the revised Responsible Investment Policy to the Chair.

Resolved:

That the Pension Fund Investment Sub-Committee:

1. Notes the items contained within the Governance Paper, including how training and development for members can be made more accessible.
2. Authorises the Chair to approve the proposed changes to the Responsible Investment Policy.

4. 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. He advised that the report had been produced for the postponed 12 September 2022 meeting. Therefore, it did not include details of recent economic turbulence.

Bob Swarup advised that:

- Rising inflation would impact on households; mortgage rates had doubled and were likely to remain high. The impact of inflation was difficult to predict, leading to increased volatility. This would affect growth.
- The geopolitical landscape was unsettled. Geopolitical divides were evident between western nations, Russia and China, and nations that had chosen not to introduce sanctions against Russia in response to the invasion of Ukraine. This would impact upon supply chains, potentially leading to increased costs and higher inflation.
- The Pension Fund was an 'All Weather Fund', capable of withstanding unfavourable economic and market conditions.
- In the S&P 500, valuations were highly reliant on intangible assets.
- In the USA, there was evidence of increased political polarisation on Environmental, Social, and Governance (ESG) investment principles.

In response to the Chair, Bob Swarup advised that the threat of war was high compared to the relatively benign conditions of recent times. The Fund was capable of withstanding unfavourable economic conditions, but it would be important to understand geopolitical dynamics to make informed investment choices.

In response to the Chair, Bob Swarup advised that consistency in cashflow provided protection for the Pension Fund. This would be a focus of the next update.

Anthony Fletcher (Independent Advisor to the Sub-Committee) advised that the government's use of Liability Driven Investment (LDI) strategies had introduced volatility, leading to pressure on pension funds. In time, this would impact upon the types of assets that pension funds chose to hold.

Resolved:

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

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. Initial Valuation Results

The Sub-Committee received a confidential briefing.

7. Private Debt Manager Selection

The Sub-Committee received a confidential briefing.

8. 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 Update - Climate Metrics and Product Development

The Sub-Committee received a confidential briefing.

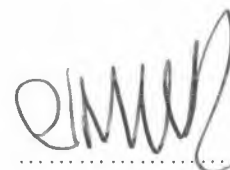
11. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 13 June 2022 be confirmed as an accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 17:37.



Chair