Pension Fund Investment Sub-Committee

Monday 9 September 2024

Minutes

Attendance

Committee Members
Councillor Christopher Kettle (Chair)
Councillor Brian Hammersley

Officers
John Cole, Senior Democratic Services Officer
Paul Higginbotham, Investment Analyst – Pensions and Investment
Purnima Kandula, Director of Finance
Chris Norton, Head of Investments, Audit, Insurance, and Risk
Rob Powell, Executive Director for Resources
Dapo Shonola, Lead Commissioner – Pensions and Investment
Nic Vine, Head of Legal and Governance
Alistair Wickens, Technical Specialist – Pension Fund Policy and Governance
Rebecca Yip, Trainee Solicitor

Others Present
Anthony Fletcher, Independent Advisor
Jennie Green, Aon Hewitt
James Glasgow, Hymans Robertson
Daniel Kanaris, Aon Hewitt
Anthony Kerr, Independent Advisor
Philip Pearson, Hymans Robertson
Richard Warden, Hymans Robertson

1. General

The Chair welcomed Ms Janet Palmer and the delegation from Warwickshire Climate Alliance (WCA) who were present to observe the meeting.

(1) Apologies

Apologies for absence were received from Councillor Bill Gifford, Councillor Sarah Millar, and Councillor Mandy Tromans.

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

There was none.

(3) Minutes of the Previous Meeting

Resolved:

That the minutes of the meeting held on 10 June 2024 be approved as an accurate record and signed by the Chair.

There were no matters arising.

2. Review of the Minutes of the Warwickshire Local Pension Board Meeting of 16 April 2024

Resolved:

That the Pension Fund Investment Sub-Committee notes the minutes of the Local Pension Board meeting of 16 April 2024.

3. Pension Fund Governance Report

Alistair Wickens (Technical Specialist, Pension Fund Policy and Governance) introduced this report which provided updated governance information including details of Warwickshire Pension Fund's Forward Plan, risk monitoring, policies, and training. He highlighted that the Risk Monitoring Chart had been updated to slightly reduce the risk of climate change in recognition of the mitigating actions in place. These were anticipated to have some impact. The likelihood of governance failure had been slightly upgraded to reflect increased governance requirements placed on LGPS funds. The risk of 'inability to meet demand' had also been slightly increased to reflect recruitment and retention challenges within the Service. He advised that work was underway to review the results of the Knowledge and Skills Assessment. Training opportunities for the Sub-Committee (and Local Pension Board) would be arranged covering specific areas identified by the Assessment.

The Chair highlighted that climate change and cyber security continued to be the two areas of highest risk. He emphasised the need for constant vigilance, stating that cyber risks could be mitigated by ensuring that the right security measures were in place.

Chris Norton (Head of Investments, Audit, Insurance, and Risk) advised that a bespoke Cyber Security Policy was in place which included provision for data to be regularly backed up, ensuring that information would not be lost in the event of a cyber attack.

Resolved:

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

4. General Activity Update

Paul Higginbotham (Investment Analyst, Pensions and Investment) introduced this report which provided a general update of investment-related activities.

The Chair highlighted commentary in the report relating to the Government's Pensions Review which included a policy focus on "encouraging further pension investment into UK assets to boost growth across the country." He emphasised that the Fund's purpose was to act in the interests of its members rather than support broader national objectives for investment. The Government Review would also seek to achieve "a greater focus on value to deliver better outcomes for future pensioners, rather than cost." He expressed his view that Warwickshire Pension Fund had enacted robust arrangements to secure value for money whilst enabling the Fund to benefit from a high standard of support from its advisors.

There was discussion of the implications of potential consolidation of LGPS funds and further consolidation of LGPS pension fund pools. The Sub-Committee would take a close interest in any future developments in these areas.

Resolved:

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

5. Climate Risk Policy

Chris Norton (Head of Investments, Audit, Insurance, and Risk) introduced the report which outlined the Pension Fund's updated Policy and Strategy for managing risks and opportunities generated by climate change. The Climate Risk Policy had been produced collaboratively with the Fund's investment advisor, Hymans Robertson. He advised that detailed attention had been given to how the Fund would measure climate change impacts as well as approaches to engagement with fund managers to monitor action taken to decarbonise investments.

Philip Pearson (Hymans Robertson) emphasised the complexity of work to achieve climate change objectives. He highlighted that biodiversity considerations had been included in the revised Policy. The Fund would take account of decarbonisation strategies which had a positive impact on biodiversity and seek to avoid those which had a negative impact. He advised that consideration had been given to the long-term aims of the Fund. Many pension funds had set a hard target date for decarbonisation. This had the potential to be counterproductive. For example, if economies decarbonised more slowly than expected, a specific net zero target date could require pension funds to invest in increasingly concentrated portfolios of lower emissions companies, increasing investment risk and potentially compromising returns. If decarbonisation occurred more quickly than expected, a specific net zero target date could expose a pension fund to excessive transition risk. At an earlier meeting, it had been resolved to decarbonise moderately ahead of the economies in which the Fund was invested, but no later than the prevailing global target date of 2050.

Philip Pearson advised that carbon dioxide was known to have a very long atmospheric lifetime. A calculation of cumulative emissions over time would inform investment decision making. He highlighted the need for alignment with a recognised decarbonisation pathway. The report provided details of the International Energy Agency (IEA) Net Zero 2050 Scenario. This was a well-regarded, scientifically based framework which complied with the Paris Agreement. It aimed to achieve an orderly transition whilst safeguarding energy security. He advised that Border to Coast Pensions Partnership (BCPP) had adopted the IEA Net Zero 2050 Scenario to support its work on decarbonisation.

Philip Pearson highlighted details within the report outlining proposed interim targets to guide decision making on new investments. The report also included information relating to strategies for capital reallocation and stewardship. He highlighted the benefits of effective engagement with portfolio companies and other stakeholders to reduce carbon emissions and drive real-world change.

Councillor Hammersley highlighted that the principal duty of the Fund was to invest prudently to ensure that it could continue to pay benefits to its members. It would be important to achieve the right balance to achieve environmental objectives without placing the Fund at risk. He emphasised the importance of monitoring to ensure that managers and portfolio companies complied with their commitments to reduce emissions.

The Chair expressed support for an approach which rewarded companies seeking to develop climate solutions. By making astute investments, the Fund could fulfil its fiduciary duty to members and achieve reduced emissions. Companies which demonstrated an unwillingness to decarbonise would eventually become outdated and unprofitable. In these circumstances, the Fund would have no interest in making an investment. He highlighted the significance of ‘transition risk’. This was difficult to measure and required an understanding of a company’s willingness (and levels of resource) to make the required changes.

Philip Pearson agreed that ‘transition risk’ was of critical importance. There were examples of companies which arguably had long-term futures but were reluctant to take decisive steps towards decarbonisation. Transition risk also encompassed companies being effectively put out of business by regulatory changes. There was no definitive measure of transition risk; however, investors could make judgements based on companies’ decarbonisation plans and evidence of their progress to reduce emissions. The Fund would need to press investment managers to supply this information. A progressive approach was needed to address the challenge. If the Fund sought to reduce emissions too quickly, it could find itself in a vulnerable position. If progress to decarbonise was too slow, the Fund would be more exposed to transition risk. Effective stewardship was key to delivering the transition plan.

Anthony Kerr (Independent Advisor to the Sub-Committee) expressed support for the approach outlined within the report. The proposed introduction of a core set of measures mitigated the potential risk of attempting to monitor climate outcomes across too broad a range of indicators.

Anthony Fletcher (Independent Advisor to the Sub-Committee) stated that a holistic approach was needed when monitoring companies’ progress to decarbonise. The effect of climate change on the physical environment was difficult to monitor; pension funds were more likely to make poor judgements by attempting to forecast these impacts. A company which failed to transition to lower carbon risked becoming a stranded asset. Companies were unlikely to take this risk.

There was discussion of reporting of carbon impacts by non-listed companies. It was recognised that standards of reporting were improving; however, not all non-listed companies measured emissions by Weighted Average Carbon Intensity (WACI). There was agreement that a common set of metrics would support improved comparative analysis of carbon impacts.

In response to the Chair, Rob Powell (Executive Director for Resources) advised that it would be possible to write to fund managers to emphasise the importance of reporting on carbon emissions within set timescales using established metrics (such as WACI). It was agreed that the letter would be sent by Rob Powell on behalf of Warwickshire County Council as the administering authority for Warwickshire Pension Fund.

The Sub-Committee agreed the recommendation of the report, recognising that the Climate Risk Policy was an evolving document which could be reviewed again if there was a need for the inclusion of any new measures.

Resolved:

That the Pension Fund Investment Sub-Committee approves the Warwickshire Pension Fund Climate Risk Policy and Net Zero Strategy attached at Appendix 1 of the report.

6. Warwickshire Pension Fund Voting Policy

Dapo Shonola (Lead Commissioner, Pensions and Investment) introduced the report which provided details of the updated Voting Policy for Warwickshire Pension Fund. Given the proportion of listed equity assets managed by Border to Coast Pensions Partnership (BCPP), it was considered that the Voting Policy should be aligned with BCPP's voting policies. The revised Policy was broadly similar to the existing version. However, it provided more detail on how fund managers would be expected to vote on certain issues. He highlighted specific changes, including the requirement that 30% of non-executive board members be classed as independent directors, and updated expectations for reporting by companies on progress to meet climate change objectives.

In response to the Chair, the Sub-Committee agreed the recommendations of the report.

Resolved:

That the Pension Fund Investment Sub-Committee:

1. Notes the report.
2. Approves the Fund's Voting Policy.

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. Quarterly Investment Monitoring Report Q2 2024

The Sub-Committee held a confidential discussion.

9. Funding Risk Update and 2025 Valuation Planning

The Sub-Committee held a confidential discussion.

10. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 10 June 2024 be approved as an accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 12:58.

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Chair