

Pension Fund Investment Sub-Committee

Monday 9 December 2024

Minutes

Attendance

Committee Members

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

Officers

John Cole, Senior Democratic Services Officer
Paul Higginbotham, Investment Analyst – Pensions and Investment
Liv Hilton, Trainee Solicitor
Purnima Kandula, Director of Finance
Chris Norton, Head of Investments, Audit, Insurance, and Risk
Rob Powell, Executive Director for Resources
Dapo Shonola, Pension and Investment Manager
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
James Glasgow, Hymans Robertson
Sam Hampton, Hymans Robertson
Milo Kerr, Border to Coast Pensions Partnership
Dave Knight, Border to Coast Pensions Partnership
Douglas Sharp, Independent Advisor

1. General

The Chair welcomed Mustak Hafiji, Barclay Lane, and Belinda Pyke of Justice for Palestinians (Leamington Spa) who were present to observe the meeting.

The Chair also welcomed Douglas Sharp, who had recently been appointed as an Independent Advisor to the Sub-Committee, as well as Sam Hampton who had recently taken on the role of advisor to the Sub-Committee on behalf of Hymans Robertson.

The Chair expressed his thanks to Philip Pearson, who had previously provided advice to the Sub-Committee on behalf of Hymans Robertson, emphasising that Philip's contributions had been valued and highly respected.

(1) Apologies

Apologies for absence were received from Councillor Sarah Millar as well as Steve Robbins (Head of Finance Transformation and Transactions).

(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 9 September 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 9 July 2024

Resolved:

That the Pension Fund Investment Sub-Committee notes the minutes of the Local Pension Board meeting of 9 July 2024.

3. Responsible Investment Policy

Dapo Shonola (Pension and Investment Manager) introduced the report which provided details of the Fund's Responsible Investment (RI) Policy for review and approval by the Sub-Committee. He reported that the Fund's equity holdings were either pooled or under the supervision of Border to Coast Pensions Partnership (BCPP). The Fund's RI Policy was aligned to the BCPP RI Policy. He advised that the latest review of BCPP's RI Policy had not led to any material changes being made. The Fund's RI Policy remained fit for purpose and therefore, no changes had been made to this iteration of the Fund's RI Policy.

Dapo Shonola advised that the Sub-Committee had approved the latest iterations of the Fund's Climate Risk Policy and Voting Guidelines at its meeting on 9 September 2024. Reviews since undertaken by BCPP had resulted in limited changes to their equivalent policies. He highlighted details outlined in the report relating to arrangements to mitigate deforestation risk, stating that the Fund's equivalent policies sat above those of BCPP, and the changes made by BCPP were not in conflict with the Fund's approved Climate Risk and Voting Guidelines policies.

Councillor Gifford commented that it was positive that BCPP's Climate Risk Policy was regularly reviewed and that the effect of deforestation had been taken into consideration. He emphasised

the importance of investment policies being regularly reviewed to ensure awareness of a broad range of environmental and geopolitical factors.

Councillor Hammersley highlighted the importance of ensuring that investment managers complied with RI policies set out by BCPP. He asked what measures were in place to ensure that organisations honoured their commitments.

Milo Kerr (Border to Coast Pensions Partnership) advised that BCPP worked closely with its external engagement service provider, Robeco, to ensure adherence to RI principles. Robeco held events throughout the year focusing on different engagement themes. An active approach was taken to managing holdings.

The Chair stated that the Sub-Committee was often contacted by residents and local organisations to highlight areas of potential concern around investments. He stated that policy changes to address deforestation showed that RI policies were frequently reviewed in response to issues and concerns as they arose.

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

Resolved:

That the Pension Fund Investment Sub-Committee (PFISC) approves the Fund's Responsible Investment Policy attached at Appendix 1 of the report.

4. Quarterly Investment Management Review

The Chair stated that it had been proposed to withdraw this item from consideration. Councillor Hammersley moved that the report be withdrawn from the meeting and was seconded by Councillor Gifford. This was agreed by the Sub-Committee.

5. Government Review of the Local Government Pension Scheme

Chris Norton (Head of Investments, Treasury and Audit) introduced the report which provided details of the Government's 'LGPS Fit for the Future' consultation. He advised that the Government had instigated a review of the Local Government Pension Scheme (LGPS) and the wider pensions industry. The Fund had recently responded to a 'call for evidence' relating to the review. Since then, the 'LGPS Fit for the Future' consultation had been launched with a deadline for responses of 16 January 2025.

Chris Norton advised that the consultation had three themes: reforming LGPS asset pooling; boosting investment in localities and regions in the UK; and strengthening the governance of LGPS funds and pools. The proposals around pooling suggested an approach to bring all areas of the LGPS to the same position and same minimum standard – likely with fewer, larger pools. He advised that Border to Coast Pensions Partnership (BCPP) was already well positioned against the minimum standards for pools. It was regulated by the Financial Conduct Authority (FCA), and its partner funds were well progressed on the road to being fully pooled. Additionally, BCPP had a long-term strategy which was aligned with the direction proposed by the consultation.

Chris Norton highlighted that the phrasing of the consultation questions gave a strong indication of expected outcomes. He highlighted key issues relevant to the formal response to the consultation. These encompassed an awareness of pension funds' control over setting of the strategic asset allocation, arrangements for investment advice, and clarity around how local investing would operate in practice. It was considered that a broader definition of the word 'local' in this context was needed. It was not proposed at this stage to mandate any mergers of pools or funds. However, greater clarity of the Government's expectations would be required so that funds and pools could better understand the likely circumstances under which mergers would be expected or potentially imposed. A special meeting of the Sub-Committee would be held in early January 2025 to consider the formal response to the consultation. The Chair of the Staff and Pensions Committee would also be invited to this meeting.

Councillor Gifford highlighted concerns about the assertion within the consultation that "it is in the interests of members that their investments support the prosperity of their local areas". He commented that many Warwickshire Pension Fund members had moved elsewhere. It could not be assumed that they would necessarily be concerned about local prosperity. He queried the definition of 'local' in this context. For example, international companies were among some of the largest employers in Warwickshire, but it was unclear whether it was being suggested that investment in these companies would fulfil the desired objective.

Councillor Gifford highlighted commentary in the report relating to the implications of the Devolution White Paper and the potential interaction of devolution proposals with pensions reform. A broad definition of 'local' investment covering the whole of the UK would require careful management should mayors or combined authorities seek to influence investment decisions. He expressed concern about the prospect of undue influence by external parties which could potentially compromise the Fund's fiduciary responsibility. He commented that the Fund was fortunate to be a shareholder in BCPP, whose strategy was well-aligned with the approach set out by the consultation. The Government Review included a focus on improving the efficiency of local government pension funds. He highlighted that funds were well managed and efficient; a better awareness of this was required by government.

Milo Kerr (Border to Coast Pensions Partnership) stated that better clarity from the Government was needed on specific points. He highlighted that BCPP's strategy already did much of what was being proposed. BCPP would continue to build on its success and act in the best interests of its partner funds.

The Chair highlighted that a joint response from partner funds of BCPP was being drafted with input from the Warwickshire Pension Fund. The special meeting of the Sub-Committee in January 2025 would focus on the Fund's individual response to the consultation. He stated that the Fund performed well with robust measures in place to ensure that fiduciary responsibilities were given foremost priority. BCPP was a strong collective and there was a good quality of debate at Joint Committee meetings. It would be important to maintain the focus on high-quality pooled investments, and the Fund should be wary of any proposals by Government designed to address shortcomings by other LGPS pools. He queried what was meant by 'local' investments, stating that the Fund's purpose was to act in the interests of its members rather than support any broader objectives. It was possible that investments selected solely to support the prosperity of the local area would not deliver the same levels of return as other investments.

Councillor Hammersley stated that there were several areas which required clarification, and that the Fund should seek to avoid investments which did not deliver the best possible return on behalf of its members. He referred to the joint response from BCPP partner funds. It was noted that there were differing opinions between partner funds on some matters and a consensus may not be achievable. Potentially, this could weaken the effectiveness of the joint response.

Anthony Fletcher (Independent Advisor to the Sub-Committee) highlighted that the proposals would require funds to take principal investment advice from their pools. There was an inherent risk here which potentially disadvantaged pension funds. Funds could not alter the amounts they were required to pay to members, but they did have control over investment returns and contribution rates. He emphasised the importance of funds retaining sovereign decision making for strategic asset allocations. The proposals outlined to date lacked detail in these areas. He advised that many of his clients had expressed concerns about the prescriptive language of the consultation questions, many of which were phrased “do you agree that...” This would not necessarily gauge respondents’ sentiments as effectively as more open questions.

Chris Norton stated that, when responding to these questions, it would be possible to include some commentary to indicate the Fund’s expectations should the proposed changes be implemented.

Sam Hampton (Hymans Robertson) highlighted similar concerns about the proposed requirement for funds to take principal investment advice from their pools. It would be necessary to ascertain how pools would be held to account for provision of impartial investment advice. Clarity around the definition of ‘local’ investing was also required. However, it was a consultation and there would be opportunities for amendments to be made prior to reforms being enacted. He highlighted the timetable for implementation of the proposed reforms, stating that the transfer of legacy illiquid assets would be a key concern.

Douglas Sharp (Independent Advisor to the Sub-Committee) stated that many pension funds had expressed similar concerns to those raised at the meeting. A relatively strong response to consultation questions on these points could prevent problems further ahead.

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

Resolved:

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

1. Notes the report; and
2. Approves holding a special meeting of the PFISC in January 2025 to sign off a formal response to the Government’s ‘LGPS Fit for the Future’ consultation from the Warwickshire Pension Fund.

6. Pension Fund Governance Report

Alistair Wickens (Technical Specialist Pensions Fund Policy and Governance) introduced this report which provided updated governance information including details of the Pension Fund’s Forward Plan, risk monitoring, policies, and training. He highlighted the risk control actions which had been added to the Risk Register following its most recent review. These related to cyber security, the risk of governance failure, and data quality. Details were included within the report.

He highlighted that the Training Policy had been updated following the recent Code of Practice Review by Aon. The revised Training Policy would be presented to the Sub-Committee at its meeting in March 2025.

Councillor Gifford stated that it was positive that the risk of climate change was acknowledged within the Risk Monitoring Chart. Cyber security was also a high priority area. He highlighted commentary in the report relating to staff training on phishing with additional cyber security training provided as required.

Alistair Wickens advised that the Cyber Security Policy had been reviewed in 2024. Data asset mapping work had been undertaken with all suppliers to ensure that each link in the chain was secure. Staff training had focused on phishing as part of wider cyber security training provided to staff.

In response to the Chair, Alistair Wickens advised that the Data Management Plan referred to within the report had not identified any essential data missing from the Fund's pension records. The scores for the data management exercise had been good, and effective processes were in place to identify and put right any incorrect data.

Rob Powell (Executive Director for Resources) emphasised that the report outlined details of risk controls which supplemented existing cyber security arrangements. Risk monitoring work had not identified any concerns about the robustness of the cyber security systems in place.

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. Review of the BCPP Global Equity Alpha Fund

The Sub-Committee held a confidential discussion.

9. Investments - General Activity Update

The Sub-Committee held a confidential discussion.

10. Quarterly Investment Monitoring Report

The Sub-Committee held a confidential discussion.

11. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 9 September 2024 be approved as an accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 12:59.

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Chair

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