

Pension Fund Investment Sub-Committee

Monday 13 January 2025

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, Senior Democratic Services Officer
Paul Higginbotham, Investment Analyst – Pensions and Investment
Purnima Kandula, Director of Finance
Chris Norton, Head of Investments, Audit, and Insurance
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

Others Present

Anthony Fletcher, Independent Advisor
Sam Hampton, Hymans Robertson
Douglas Sharp, Independent Advisor

1. General

The Chair expressed his thanks to attendees for responding promptly to the request to hold a meeting at short notice. This was to meet the deadline of the Local Government Pension Scheme Fit for the Future consultation.

(1) Apologies

Apologies for absence were received from Councillor Yousef Dahmash.

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

There was none.

2. LGPS Fit for the Future Consultation - Warwickshire Pension Fund Response

The Chair thanked Chris Norton (Head of Investments, Audit, and Insurance) and Dapo Shonola (Pension and Investment Manager) for their work over the Christmas period to produce a proposed response to the Local Government Pension Scheme (LGPS) Fit for the Future consultation for consideration by the Sub-Committee.

Chris Norton introduced the report which included draft responses to consultation questions. The consultation had a deadline for responses of 16 January 2025. He stated that the consultation gave a clear idea of the Government's proposed course of action. Therefore, it was considered that a pragmatic approach was appropriate to improve the likelihood of influencing outcomes. The proposed response included a focus on the boundary between investment strategy and investment implementation, setting out the belief that LGPS funds should retain control over strategic asset allocation.

Chris Norton highlighted that the consultation included a proposal that pools act as primary advisors to LGPS funds on investment strategy. This presented a potential conflict of interest which had been outlined within the draft response to consultation questions. The consultation response also highlighted concerns about the proposed timescale for implementation of changes to pooling arrangements. The need for clarification of what was meant by 'local investing' was also covered in the draft response, including how funds could have access to the widest possible investment opportunity set. The draft response also covered governance proposals including resourcing requirements for the proposed changes.

Councillor Gifford highlighted that the consultation included an emphasis on geographically focused pools. Border to Coast Pensions Partnership (BCPP) was not a collective of neighbouring pension funds in same way as some other pension pools. Its membership encompassed funds across England.

Councillor Hammersley stated that the details of the consultation raised several key concerns, including the proposed timescale for implementation as well as the prospect of pools providing principal investment advice to pension funds. It was possible that pools would not be able to replicate the same quality of advice as funds received from independent advisors. The provision of impartial, unbiased advice was of fundamental importance.

The Chair suggested that the Sub-Committee examine each of the proposed responses to consultation questions in turn. This was agreed.

The draft response to question one was agreed with no proposed changes.

Consideration was given to question two, "do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?"

Councillor Gifford stated that the prospect of pools determining strategic asset allocations on behalf of pension funds constituted a potential conflict of interest. This point had been covered well in the draft response.

Councillor Millar agreed that the proposed approach presented a potential conflict of interest. She highlighted that there was increased interest by members of the public in pension fund investment decision making. Existing arrangements provided clear democratic accountability. This would be lost if control over decision making was delegated to pools.

The Chair highlighted that there were 11 partner funds within BCPP with diverse demographics and investment requirements. He emphasised the importance of ensuring that the structure of strategic asset allocations reflected individual funds' requirements.

Sam Hampton (Hymans Robertson) stated that it would be important for funds' individual values and beliefs to be factored into any collective investment strategy.

Councillor Millar stated that this concern had been addressed well within the draft response which set out the fundamental difference between setting and implementing a strategy. She highlighted the key importance of accountability, stating that the Fund was ultimately accountable to its members for delivery of strategic objectives.

The Chair suggested that a sentence be added to the draft response to question two highlighting the diversity of pooled partnership funds. An awareness of individual funds' requirements would be necessary should implementation of investment strategies be delegated to pools. This was agreed.

Attention was given to question three, "do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?"

Councillor Millar stated that any measures to promote openness and transparency were to be welcomed. The Fund had a responsibility to be open about its investments. The proposed response covered this consideration well.

The draft response to question three was agreed with no proposed changes.

Attention was given to question four, "what are your views on the proposed template for strategic asset allocation in the investment strategy statement?"

In response to the Chair, Chris Norton advised that clarification was required to determine how responsibilities for specific allocation requirements would operate in practice. Each fund had a separate strategic asset allocation, and amalgamating allocation strategies could prove to be challenging for pools if these strategies were substantially different.

Sam Hampton highlighted that the draft response referred to the need for clarification of the definition of 'cash' and whether this related only to investment-related cash holdings, or also operating cashflows for the payment of benefits and receipt of contributions. He suggested that clarification was also needed around the definition of 'other alternatives' within the template for strategic asset allocation.

In response to the Chair, the Sub-Committee agreed that the draft response to question four be updated to request clarification of what was meant by 'other alternatives' within the template for strategic asset allocation.

Attention was given to question five, “do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?”

Councillor Millar highlighted the importance of there being a diversity of views to inform investment decision making. It would not be beneficial to reduce the range of advice available to the Sub-Committee.

There was discussion of current arrangements in which the Fund received guidance from Hymans Robertson as well as two independent advisors. If the Fund was dissatisfied with the quality of advice it received, it could appoint new advisors. The Fund would be disadvantaged if it did not have direct control over its choice of advisors. This point had been included in the draft response.

The draft responses to questions five to nine were agreed with no proposed changes.

Attention was given to question 10, “do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?”

The Chair stated that implementation of the proposed changes would be extremely challenging for some pension funds. The approach taken by BCPP was aligned with many of the objectives outlined within the consultation which would help to simplify the transition for Warwickshire Pension Fund. However, actuarial valuations of pension funds were scheduled in March 2025. Potentially, this could stretch resources making it more difficult to prepare for the proposed changes.

Councillor Gifford expressed support for the statement within the draft response that “the proposed timetable is too quick for changes to be implemented effectively, and government should reflect on how to assure itself that changes can be delivered securely and with appropriate pace.”

The draft response to question 10 was agreed with no proposed changes.

Attention was given to question 11, “what scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?”

Sam Hampton advised that increased collaboration between pools was proposed to maximise benefits. However, there was a need to consider the potential risks of collaboration.

Anthony Fletcher (Independent Advisor to the Sub-Committee) stated that it was not possible to judge the advantages of increased collaboration between pools at this stage. This would only be possible once a measurable track record had been established over a period of around five years showing which pools had superior knowledge and expertise in specific areas.

The draft responses to questions 11 and 12 were agreed with no proposed changes.

Attention was given to question 13, “what are your views on the appropriate definition of ‘local investment’ for reporting purposes?”

Chris Norton advised that it was likely that pension funds' views would vary in response to this question. Funds located in areas where there were many options and opportunities for investment would be more likely to support a hyperlocal interpretation of 'local investment'. Elsewhere, funds might favour a broad definition of local investment which encompassed the whole of the UK.

Councillor Gifford emphasised the Fund's fiduciary duty to its members and expressed support for the statement in the draft response that "we fundamentally disagree with the suggestion in paragraph 68 of the consultation that '...it is in the interests of members that their investments support the prosperity of their local areas...'. This does not follow and fundamentally compromises the purpose of the Pension Fund..."

The draft responses to questions 13 to 22 were agreed with no proposed changes.

Attention was given to question 23, "do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?"

Chris Norton advised that there were concerns about whether there would be sufficient capacity to deliver biennial reviews, particularly at the initial stages.

Consideration was given to the resourcing and cost implications of the proposed biennial reviews. It was resolved that a sentence be added to the draft response to note that these reviews would have an associated cost, and it would be important to ensure that overall costs and benefits were proportionate and justified.

Attention was given to question 24, "do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?"

There was discussion of the implications of any changes to current arrangements to provide training to members of pension committees. Pension fund investment was a complex and technical subject. Developing an understanding of its key principles could often be time consuming. When committee membership changes occurred, it could take time for new members to develop an understanding of investment principles.

Rob Powell (Executive Director for Resources) advised that the consultation referred to 'a reasonable period' for new committee members to reach the training requirement. However, the precise timescale had not been specified.

It was agreed that a paragraph be added to the draft response outlining these concerns. The response would highlight the importance of enabling pension committees to have regard to the practicalities of arranging and delivering training whilst still enabling the business of the Fund to be conducted in a timely manner.

The draft response to question 25 was agreed with no proposed changes.

Attention was given to question 26, "what are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?"

It was recognised that independent members formed part of other committees, such as the Audit and Standards Committee, and this arrangement had proved to work well. However, a decision to introduce independent members to the Pension Fund Investment Sub-Committee could risk replicating existing arrangements for the Local Pension Board. Members emphasised that the input of independent advisors was highly valued.

It was resolved that a sentence be added to the draft response indicating that the Fund benefitted from the support and advice of its independent advisors who contributed to training sessions and provided valuable advice at meetings.

The draft responses to questions 27 and 28 were agreed with no proposed changes.

Attention was given to question 29, “do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?”

Rob Powell stated that there was a need for minimum reporting standards for pools in terms of content and timeliness of reporting. This would support consistency of practice, particularly if there were fewer, larger pools. It was agreed to include this observation in the response.

The draft response to question 30 was agreed with no proposed changes.

The Chair sought the Sub-Committee’s approval for the recommendations of the report, including authorising the Executive Director for Resources to make final amendments to the consultation response incorporating the Sub-Committee’s suggested revisions. This was agreed.

The Chair sought the Sub-Committee’s agreement to authorise the Chair and Vice Chair to review the updated consultation response and make any final amendments prior to its submission. The response to the consultation would also be inspected by the Portfolio Holder for Finance and Property, and Portfolio Holder for Customer and Transformation prior to being submitted to the Ministry of Housing, Communities and Local Government. This was agreed.

Resolved:

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

1. Notes the proposed response to the Local Government Pension Scheme (LGPS) Fit for the Future consultation and approves the response for submission.
2. Authorises the Executive Director for Resources in consultation with the Chair of the PFISC to make any final amendments prior to submission, and for officers to submit the response on behalf of the Warwickshire Pension Fund.

The meeting rose at 11.00.

.....
Chair