



Pensions Committee

24 June 2022

10.00 a.m.

**MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 18 MARCH 2022
10.00 AM - 1.00 PM**

Responsible Officer: Sarah Townsend

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Present:

Members of the Committee:

Councillor Thomas Biggins (Chairman)

Councillors Roger Evans, Simon Harris and Brian Williams

Co-Opted Members (Voting):

Councillors Rae Evans and Carolyn Healy

Co-Opted Members (Non-Voting):

Jean Smith and Lindsay Short

57 Apologies and Substitutions

Apologies were received from Mr Byron Cooke (Co-Opted Member, Non-Voting, Employee Representative).

Ms Lindsay Short (Co-Opted Member, Non-Voting, Employee Representative) was welcomed to her first meeting of the committee, having replaced Ms Laura Hoskison.

58 Disclosable Interests

None were declared.

59 Minutes of the Previous Meeting

Consideration was given to the minutes of the meeting held on 17 January 2022 and the following points were made:

- Minute 48 (Council Motion Report) page 4 – In terms of short and medium term plans and the need to set short term and medium term targets, it was requested that the minutes reflect that short term targets had been discussed as being eighteen months - two years and that it was important to not lose sight of what short term actually means.
- Minute 48 (Council Motion Report) page 4 – In terms of engagement with employers, reference be made to the fact that although engagement was for a

four week period, there were only a few responses. This may have been because employers had been written to during the summer holidays when schools were closed.

- Minute 48 (Council Motion Report) page 4 – There had been a discussion regarding how carbon is actually measured and this had not been included within the minutes, although it was acknowledged there was a further presentation on this at the meeting to address and discuss this further.

RESOLVED:

That with the above amendments, the minutes of the meeting held on 17 January 2022 be approved and signed by the Chairman as a correct record.

60 Public Questions

Two questions had been received from members of the public. Both questions were read out by the Head of Treasury and Pensions and the Executive Director of Resources provided a single response that covered both questions. A full copy of the questions and responses provided are attached to the web page for the meeting and also attached to the signed minutes.

61 Informing the Audit Risk Assessment for Shropshire County Pension Fund 2021/22

Members received the report of the External Auditor, Grant Thornton, which detailed responses received from the Fund's management in respect of a series of questions relating to the areas of General Enquiries of Management, Fraud, Laws and Regulations, Related Parties and Accounting Estimates. Mr Grant Patterson, Key Audit Partner, from Grant Thornton was in attendance to present the report.

In response to a question, further information was provided regarding material fraud in terms of what it would look like and the level at which it would be classified as material. It was noted that no areas with a high risk of material fraud had been identified.

It was noted that a full Audit Plan would be considered at the next meeting of the Pensions Committee once it had been completed and discussed with Officers.

RESOLVED:

That the contents of the report be noted.

62 Update on Task Force on Climate-Related Financial Disclosures (TCFD)

Mr Patrick O'Hara and Ms Laura Michie, LGPS Central, were in attendance to present this item with Ms Michie taking Members through the report which described the way in which climate-related risks are currently managed within the Fund and aimed to provide an up-to-date overview of the Fund's approach to managing climate risks, encompassing both the recent changes to the Fund's climate strategy and the findings of the 2021 Climate Risk Report.

In terms of extreme weather events, which had been classified as a long term risk with the definition 'we expect these risks could principally cause impacts 10 years and beyond', it was commented that this should really be classified as a short and medium term risk, given that they are happening now.

A comment was made that climate scenarios of 1°C and 1.5°C should also be modelled within the report, particularly as 1.5°C was what was being aimed for. It was also questioned whether a climate scenario of 4°C was necessary.

Questions were asked regarding the benchmark in the context of a carbon footprint and how it was calculated, how the Fund's performance compares to other similar organisations, the fossil fuel industry, engagement examples and how Members can influence the decisions taken where engagement is not working with a particular company.

Members noted that the 2022 figures would show a substantial reduction in the carbon footprint of the Fund as a result of the two changes to its investment strategy agreed at the last Pensions Committee meeting. The first to invest in a global sustainable equity fund and the second to invest in a low carbon global passive index with Legal & General.

63 Responsible Investment and Engagement Update

Mr Patrick O'Hara and Ms Laura Michie, LGPS Central, were in attendance to present this item and took Members through the presentation which covered the 2020 Stewardship Code, ESG Tool, Climate Targets and Russia. In response to a question, the Head of Treasury and Pensions confirmed that the presentation was a public paper.

Regarding the Net Zero update, Members were informed that a credible net-zero strategy will be expressed in absolute emissions, not emissions intensity only and that there would be an increased focus on this within climate risk monitoring.

Referring to the summary of the Net Zero update, it was requested that going forwards, real measurables be included. A comment was also made that given the discussion on short term targets of eighteen months - two years at the last Pensions Committee meeting, as well as the latest IPCC report which stresses the need for greater urgency and much more action in the next couple of years, the figures in the presentation did not reflect this latest thinking. Mr O'Hara responded that there was a need to recognise how challenging it would be for some organisations to achieve the targets of 7.6% per annum, 50% reduction by 2030 and Net Zero by 2050 and that the appropriateness of the targets would be constantly kept under review. He also commented that they were in line with what was agreed at Paris and Glasgow and what international governance around the world have agreed to.

In terms of Russia, the Head of Treasury and Pensions explained that a number of Partner Funds within LGPS Central made a public statement on Russia and Ukraine and as Shropshire County Pension Fund were part of LGPS Central, they would be supporting this statement. Whilst it was noted that Shropshire County Pension Fund's direct exposure to Russia is zero, they strongly supported the statement that LGPS Central were making on behalf of all Partner Funds and it would be uploaded onto the Fund's website.

Mr O'Hara read out LGPS Central's statement on Russia and Ukraine and confirmed that some LGPS Funds had minimal exposure to Russia and Ukrainian stocks. These were not the Funds SCPF is invested in.

A question was asked regarding Glencore, its continuation of trading with Russia and what pressure was being exerted on companies like them to stop trading. Mr O'Hara confirmed that they would be engaging with Glencore on this issue, with engagement meetings due to happen shortly.

RESOLVED:

That the LGPS Central Statement on Russia and Ukraine be endorsed by the Pensions Committee.

64 Corporate Governance Monitoring

The Committee received the report of the Investment Officer which informed them of Corporate Governance and socially responsible investment issues arising in the quarter period 1st October 2021 to 31st December 2021.

RESOLVED:

That the position as set out in the report of the Investment Officer, Manager Voting Reports at Appendix A (A1, A2 & A3) and BMO Global Asset Management Responsible Engagement Overlay Activity Report at Appendix B (B1 & B2) be accepted.

65 Strategic Allocation and Implementation Update

Members received a presentation from Mr Louis-Paul Hill, Aon, regarding an update on the Funds Strategic Asset Allocation and Implementation, which detailed a reminder of recent investment strategy review objectives, the strategic asset allocation and future considerations.

It was suggested that when presenting the strategic asset allocation, the degree of protection on the equity position should also be shown.

A question was asked regarding Absolute Return Strategies and Mr Louis-Paul Hill confirmed that the allocation to Absolute Return Strategies had not been increased. However, this would be reviewed in the future.

66 Russia and Ukraine and Impact on Financial Markets

Members received a presentation from Mr Louis-Paul Hill, Aon, regarding Russia and Ukraine and the impact on financial markets. The presentation covered the areas of inflation and interest rates, the Russia-Ukraine war and investment implications, key areas for discussion and asset class views. It was commented that the current level of uncertainty made it a very challenging financial market environment.

67 Pensions Administration Monitoring

The Committee received the report of the Pensions Administration Manager which provided them with monitoring information on the performance and issues affecting the pensions administration team.

A question was asked regarding whether the Fund's usual in-person annual meeting would be happening this year, having not been held in 2020 and 2021 due to restrictions in place because of the Covid-19 pandemic and it was commented that if it was unable to go ahead, it should be held virtually. The Pensions Administration Manager responded that it would be taking place if Covid-19 restrictions allowed it to do so. However, all of the information due to be covered at the annual meetings was available to members on the Fund's website, Members were communicated with via email and the team could be contacted at any time with any queries that they might have. It was also noted that newsletters were sent to pensioners and employees and the Pensions Committee had a Pensioner Representative and Employee Representatives. Mrs Jean Smith commented that she had received a lot of comments from people during the past year regarding how much they enjoyed receiving the 'In Touch' magazine.

In response to a question regarding the agenda setting of Pensions Committee meetings, the Executive Director of Resources explained that this was discussed with the Chairman. However, there was a lot of business that the Committee had to consider and therefore, much of the agenda was set automatically. Opportunities were available for training in between meetings and issues could be raised both during and in-between committee meetings.

Questions were also asked regarding monthly deficit payments, the Fund's training policy and divestment training, with the Head of Treasury and Pensions commenting that the amount of training that the Committee had undertaken over the last two years had greatly increased.

RESOLVED:

1. That the position as set out in the report of the Pensions Administration Manager be accepted.
2. That the revised Training Policy (Appendix C to the report) be approved.
3. That the revised Governance Compliance Statement (Appendix D to the report) be approved.
4. That the review of the Breaches Policy (Appendix E to the report) be approved.

68 Pension Fund Treasury Strategy 2022/23

The Committee received the report of the Head of Treasury and Pensions which explained that Shropshire Council as the Administering Authority maintains a small working cash balance for the Pension Fund that is invested separately to the Council's own cash and is managed under the defined Treasury Strategy as set out within the report.

In responding to a question, the Head of Treasury and Pensions confirmed that the small working cash balance (currently around £4 million), was not cash. Rather, it was invested in line with Shropshire Council's Treasury Strategy.

RESOLVED:

1. That authority be delegated to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.
2. That the Pension Fund Treasury Strategy be approved.
3. That the Scheme Administrator (Section 151 Officer) be authorised to place deposits in accordance with the Pension Fund's Treasury Strategy.
4. That authority be delegated to the Scheme Administrator (Section 151 Officer) to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Administering Authority's creditworthiness policy.

69 Exclusion of Press and Public

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to Agenda Items 14 to 17, be not conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the categories specified against them.

70 Exempt Minutes of the Previous Meeting (Exempted by Category 3)

RESOLVED:

That the exempt minutes of the meeting held on 17 January 2022 be approved and signed by the Chairman as a correct record.

71 Equity Protection Update (Exempted by Category 3)

Mr Louis-Paul Hill, Aon, was in attendance to present this item which provided Members with an equity protection update.

72 Investment Monitoring Report - Quarter to 31 December 2021 (Exempted by Category 3)

The Committee received the exempt report of the Head of Treasury and Pensions which provided them with monitoring information on investment performance and managers for the quarter period to 31 December 2021 and reported on the technical meetings held with managers since the quarter end.

RESOLVED:

That the recommendations as set out in the exempt report by the Head of Treasury and Pensions be approved.

73 Governance (Exempted by Category 3)

The Committee received the exempt report of the Pensions Administration Manager which informed them of governance arrangements across the Pension Fund, focusing on the quarter period to 31 December 2021. Breaches, appeals and cyber security issues were all considered within the report.

RESOLVED:

That the recommendations as set out in the exempt report by the Pensions Administration Manager be approved.

Signed (Chairman)

Date: