



Pensions Committee

2 December 2022

10.00 a.m.

MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 16 SEPTEMBER 2022

10.00 AM - 1.50 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

Co-Opted Members (Non-Voting):

Byron Cooke

17 Apologies and Substitutions

Apologies were received from Councillor Carolyn Healy, Lindsay Short and Jean Smith. There were no substitutes in attendance.

18 Disclosable Interests

None were declared.

19 Minutes of the Previous Meeting

RESOLVED:

That the minutes of the meeting held on 24 June 2022 be approved and signed by the Chairman as a correct record.

20 Public Questions

Five questions had been received from members of the public. The fourth public questioner was in attendance to ask her question. The other public questioners were not in attendance to ask their questions and they were read out on their behalf by the Head of Pensions – LGPS Senior Officer. There was one response that covered all of the five questions and this was read out by the Executive Director of Resources

(Section 151 Officer). A full copy of the questions and response provided are attached to the web page for the meeting and also attached to the signed minutes.

21 Third Line of Assurance: Internal Audit Outturn Report for Shropshire County Pension Fund 2021/22

The Committee were introduced to Mark Seddon, Auditor, who would shortly be taking over from Peter Chadderton as Peter would be leaving Internal Audit and commencing in his new role as Pension Investment and Responsible Investment Manager.

The Committee received the report of the Head of Audit which provided them with a summary of the work undertaken by Internal Audit for the year ended 31 March 2022. It reported on progress against the annual audit plan agreed with the Head of Pensions – LGPS Senior Officer and also provided the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes when considering the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

RESOLVED:

- a) That Performance against the Audit Plan for the year ended 31 March 2022 be endorsed.
- b) That the Head of Audit's substantial year end opinion on the Fund's internal control environment for 2021/22 based on the work undertaken and Pension Fund management responses received, be endorsed.

22 External Audit - The Audit Findings for Shropshire County Pension Fund 2021/22

The Committee received the report of the External Auditor, Grant Thornton, which summarised the key findings and other matters arising from the statutory audit of Shropshire County Pension Fund and the preparation of the Pensions Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Mr Grant Patterson (Key Audit Partner) and Mr Keith Chaisewa (Audit Manager) were in attendance from Grant Thornton to present the report. They confirmed that work on the audit had been substantially completed and that no material differences had been identified. Attention was drawn to £19.246m of differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2022 and the valuation statements received from the third-party investment managers that had been identified. Management were proposing not to amend the financial statements on the basis that the differences are not material (0.8% of investment assets) and confirmation of this agreement from both the Pensions Committee and the Audit Committee was required.

Regarding the outstanding matter of IT arrangements and the IT systems used by the Fund and the Council, a draft report had been issued to management yesterday and no significant deficiencies had been identified.

The Committee's attention was drawn to the two recommendations for the Pension Fund (page 16 of the report) as a result of issues identified during the course of the audit. The recommendations had been agreed with management and progress on the recommendations would be reported during the course of the 2022/23 audit.

In responding to a question, it was confirmed that in terms of the Pension Fund, Grant Thornton would be in a position to provide an unmodified auditors report by the Committee's next meeting on the 2nd December 2022. However, the issuing of a signed modified opinion was dependant on the auditing of the Council's accounts.

RESOLVED:

That the contents of the report be noted.

23 Pension Fund Annual Accounts 2021/22

The Committee received the report of the Executive Director of Resources (Section 151 Officer) which provided Members with the Shropshire County Pension Fund Annual Report 2021/22 and an update on the annual audit. It was noted that Grant Thornton had substantially completed its annual audit and it was expected that an unqualified opinion would be given.

The Executive Director of Resources advised that overall, it had been a successful year and that in the year to the end of March 2022, the Fund increased in value by £145 million to £2.339 billion.

Members' attention was drawn to the fund being recognised as a tier 1 signatory to the Stewardship Code, the highest rating given by the Financial Reporting Council, which was very positive news and how the fund is currently working on becoming a signatory to the revised Stewardship Code. This confirms how seriously the fund takes responsible investment and environmental, social and governance issues. Reference was also made to the fund publishing its first Task Force on Climate-related Financial Disclosures (TCFD) aligned report in November 2020. The fund was one of the first LGPS funds in the UK to publish its public TCFD report, this included a number of recommendations which the fund then implemented during 2021/22.

In response to a question regarding the Fund's Climate Change Strategy and the Governance of Climate Change Risk, the Head of Pensions – LGPS Senior Officer stated that the Fund had approved the Climate Change Strategy less than a year ago and at the Pensions Committee next meeting in December, updates would be provided with the Fund's third Climate Risk report and the second TCFD report being presented.

A Member commented that when the Committee had agreed to set a net zero target by 2050, they had expected regular monitoring of the journey to achieving this and showing how it had developed to be undertaken. They did not get the sense that this was being properly addressed, so that it was completely understood, and had expected a report on this to be considered at this meeting. The Head of Pensions – LGPS Senior Officer responded that this information would be provided within the Climate Risk report at the December Pensions Committee's meeting. The impact on the carbon footprint and the Fund's carbon emissions and how they have reduced over the last twelve months particularly, following the two recent decisions of the

Fund to transition into a sustainable equity fund and low carbon net zero aligned passive equity fund in May/March 2022, would be detailed within this report. It was also confirmed that carbon emissions would be on an absolute basis along with the incremental basis.

RESOLVED:

- a) That the Pension Fund Annual Report 2021/22 be approved.
- b) That the Chair and Executive Director of Resources sign the letter of representation for Grant Thornton.

24 Responsible Engagement Overlay Service (REO)

The Committee received a presentation from Ms Anais Cothureau and Ms Moira Gorman, Columbia Threadneedle Investments (formerly BMO), on the Responsible Engagement Overlay Service (REO).

Members were reminded that the Responsible Engagement Overlay Service (REO) allows investors to receive market leading corporate engagement on equity and corporate bond holdings and proxy voting services. The presentation covered engagement on Shropshire County Pension Fund holdings from 01 July 2021 – 30 June 2022, their approach to climate change which was a stewardship-led approach, Shropshire County Pension Fund's Climate Stewardship Plan and engagement updates and finally, engagement case studies on companies such as Duke Energy, Glencore and Compass Group.

Regarding Glencore, Columbia Threadneedle Investments had five engagement activities with them in the past twelve months and were meeting with them again on Monday. They had voted against the company's climate plan and some of the issues to be raised with them during Monday's meeting were outlined. The outcome of this meeting would be reported to the Head of Pensions – LGPS Senior Officer.

Columbia Threadneedle Investments explained that they used their expertise and experience to engage in dialogue with companies in order to bring about positive changes. If companies did not respond or make the necessary changes, there were a number of escalation tactics that were used.

It was requested that an update be received at the December Pensions Committee meeting as to when Columbia Threadneedle Investments report to The Head of Pensions – LGPS Senior Officer where the work they are doing is clearly not getting the traction that is required and divestment would be recommended. In responding, Ms Cothureau commented that as part of the REO Service, they did not make recommendations on whether or not to divest from companies. Rather, they would provide data points, the transparency on the engagement activities and the progression of engagement. Investment managers have delegated authority to make investment decisions on the Funds behalf and significant due diligence is undertaken into all the companies they invest in and they are regularly monitored to inform their investment decisions. A further update on Glencore will be included in the Funds third climate risk report being presented at Committee in December.

A comment was made that whilst Members had a responsibility to increase the pension fund, this had to be done responsibly and correctly.

25 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 April 2022 to 30th June 2022.

The Committee requested that their thanks be placed on record to the staff involved in pulling the Corporate Governance Monitoring report together each quarter and commented that it involved an immense amount of work.

RESOLVED:

That the position as set out in the report of the Investment Officer, Manager Voting Reports at Appendix A (A1 & A2), Columbia Threadneedle Investments (formerly BMO Global Asset Management) Responsible Engagement Overlay Activity Report at Appendix B (B1 & B2) and LGPS Central Stewardship Update at Appendix C be accepted.

26 LGPS Central Company Update

The Committee received a presentation from Mr Matthew Jones and Mr Mike Weston, LGPS Central, on an LGPS Central Company update which covered the following areas:

- Pooling and Company update
- Investment Funds:
 - SCPF's investments in LGPS Central Funds
 - SCPF's investment performance
 - Product Development
 - Responsible Investment and Engagement
- Staffing and Recruitment

In responding to a question regarding staff recruitment and retention faced by many Pools, including LGPS Central, Mr Weston explained that whilst their level of staff turnover was higher than they would like it to be, they were committed to bringing it down. This was a key challenge, but one that they were very focused on solving and they were managing to recruit people. Reasons such as the quality and skills of staff making them attractive to alternative employers, remote working resulting in people no longer required to work in an office every day, career progression and a review of work / life balance following Covid-19 were many of the explanations cited as to reasons for people leaving LGPS Central.

In responding to a question, it was commented that all staff within LGPS Central were all focused on similar things and particularly regarding climate related issues and investment.

In responding to a question regarding the ultimate aim of LGPS Central, it was noted that ideally, LGPS Central were trying to provide the single investment function for all of the various partner funds and were in constant dialogue regarding the products and services that were required from them.

27 Pensions Administration Monitoring

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

It was reported that Pensions Awareness Week which was a national initiative aimed at making all individuals aware of pensions and retirement issues had been rescheduled and would now be running from Monday, 31 October 2022 to Friday, 4 November 2022.

A question was asked regarding whether a decision had been made yet regarding the holding of the Fund's usual in-person annual meeting and if so, whether this would be held virtually or in person. The Head of Pensions – LGPS Senior Officer confirmed that discussions were still ongoing in conjunction with the Chairman of the Pensions Committee. However, the Communications Policy had been updated due to the new ways of working, there was a lot of information available to members on the Fund's website, Pension Fund Officers could be contacted with any queries that they might have and the Pensions Committee had a Pensioner Representative and Employee Representatives. It was further explained that the level of communications had expanded when compared to previous years and Pensions Fund Officers were happy to hold both one to one meetings and group meetings with individuals of the scheme and employers, if needs be and particularly if they did not have access to digital technology or, were unfamiliar with it.

The Pensions Administration Manager confirmed that they had not been contacted by any member requesting an in-person meeting and commented that they had recently targeted some big employers and had gone out to them, to provide them with a presentation and discuss pensions issues.

It was commented that a decision needed to be made as to whether or not a meeting would be held, either in-person or virtually, and that the decision should be clearly communicated to all members of the Fund.

RESOLVED:

1. That the position as set out in the report of the Pensions Administration Manager be accepted.
2. That the revised Communications Policy Statement at Appendix C of the report be approved.

28 Exclusion of Press and Public

RESOLVED:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to Agenda Items 13 to 18, 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.

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

RESOLVED:

That the exempt minutes of the meeting held on 24 June 2022 be approved and signed by the Chairman as a correct record.

30 Investment Strategy / Equity Protection Update (Exempted by Category 3)

The Committee received a presentation from Mr Colin Cartwright, Aon, on Investment Strategy which covered a Market update, Equity Protection, Targeted Return and Next Steps.

31 Targeted Return Fund (Exempted by Category 3)

The Committee received a presentation from Mr Colin Pratt and Ms Ana Cukic, LGPS Central, on Targeted Return and the LGPS Central Targeted Return Fund.

32 Investment Monitoring - Quarter to 30 June 2022 (Exempted by Category 3)

The Committee received the exempt report of the Head of Pensions – LGPS Senior Officer which provided them with monitoring information on investment performance and managers for the quarter period to 30 June 2022 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 Pensions – LGPS Senior Officer be approved.

33 Governance (Exempted by Category 3)

The Committee received the exempt report of the Pensions Administration Manager which informed them of regulatory breaches arising in the quarter 1 April 2022 to 31 June 2022 that had been recorded in the breaches log. The report also reported on any stage 1 or stage 2 appeals which had been received under the internal dispute resolution procedure (IDRP).

RESOLVED:

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

34 New Employers (Exempted by Category 3)

The Committee received the exempt report of the Pensions Administration Manager which provided them with details regarding new employer admissions to the Fund under Schedule 2 Part 3 Regulation 1(d) (i) of the Local Government Pension Scheme Regulations 2013, New Schedule 1 Part 1 Scheme Employers (academies) and New Schedule 2 Part 2 Scheme Employers (designated bodies).

RESOLVED:

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

Signed (Chairman)

Date: