

	<h2>Local Pension Board</h2> <h3>24 June 2021</h3>
<b>Title</b>	<b>Decisions made by the Pension Fund Committee</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	n/a
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix 1 – Responsible Investment section of Investment Strategy Statement.
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<h2>Summary</h2>	
<p>Part of the role of the Local Pension Board is to ensure the effective governance of the Pension Fund. This role is not clearly defined but is deemed to include considering whether the decision-making processes of the Pension Fund Committee are reasonable or appropriate i.e. soundly based, consider relevant information, are consistent with the objectives and policies of the Fund and are taken after considering appropriate advice. The paper considers recent decisions by the Pension Fund Committee and summarises the rationale, the processes followed and the link with policy documents and regulations.</p>	
<h2>Officer Recommendations</h2>	
<p>That the Local Pension Board notes the procedures applied by the Pension Fund Committee when reaching decisions at recent meetings and considers any issues associated with those procedures and decisions.</p>	

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 The Board's role is to assist the administering authority in securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme and in ensuring the effective and efficient governance and administration of the LGPS for the LBB Pension Fund.
- 1.2 Part of the Board's role is to review the decision-making processes and ensure that these are soundly based, meet regulatory requirements and consider advice received as appropriate. While it is not appropriate for the Board to seek to replace its own judgments for those of the Pension Fund Committee, it is appropriate to review whether decisions have followed an appropriate process. Should the Board wish to make any comments or recommendations, these will be brought to the attention of the Pension Fund Committee.
- 1.3 Since the last Local Pension Board meeting there has been three meetings of the Pension Fund Committee. The paper will highlight decisions made at these meetings.

### **Meeting 24 February 2021**

- 1.4 The meeting was attended by the Investment Advisor (Hymans Robertson), Benefit Administrator (West Yorkshire Pension Fund) and officers from Governance and Finance.
- 1.5 Each of the agenda items for which a paper was presented is discussed below.

#### Administration Report

The Committee considered the report that provided an update on the transition of the administration service to West Yorkshire Pension Fund the current performance including the reissuing of Annual Benefit Statement (ABS), Remediation Plan and GMP reconciliation. Mr Gajra from WYPF was in attendance and discussed the transition of the administration service and current service levels. The content of the report and presentation was a summarised version of the information presented to the February Board meeting. No requests were made.

#### Pension Board Annual Report

- 1.6 The Committee received the annual report of the Local Pension Board, including budget for 2021 and raised no issues, noting that the report will be seen by Full Council.

#### Appointment of Investment Advisor

- 1.7 The outcome of the tender for investment advisory services was reported to the Committee. Two firms had responded to the tender and scoring was undertaken by the Chairman of the Committee and officers including the presentation, which was attended by members of the Pension Fund Committee. The conclusion was that both firms had made good submissions and were credible candidates for the role, but the scoring indicated that Hymans were a better fit for the Committee at the current time. The new contract with Hymans is for five years, with an option to extend to seven years.

## Responsible Investing and Climate Change

Following on from responsible investment (RI) training that commenced November 2019 and a survey of beliefs (both of which Board members participated) a revised Investment strategy statement (ISS) was adopted that included a more explicit statement on responsible investment. A copy of the RI section of the ISS is attached (appendix 1).

There was also an introductory discussion on the work required to comply with the framework established by the Taskforce on Climate Related Financial Disclosures that is expected to be implemented within LGPS Regulations later in 2021 noting that reporting obligations were expected to commence from 2023. The framework is concerned with managing climate risks and is expected to require emission related metrics and targets to be established. Until regulations are published the emphasis is on identifying the climate change actions being taking by fund managers and the availability of consistent data to set metrics.

## Transition and Remediation Costs

- 1.8 At its October meeting the Committee requested a report on the financial arrangements (as relevant to be pension fund) for termination of the pension administration contract with Capita including details of the costs incurred by the pension fund due to poor performance by the previous administrator. The report was discussed and noted.

## Investment Strategy

- 1.9 The Pension Fund Committee in reviewing their investment beliefs had agreed to increase the level of pooling and ESG factors within the quoted equity portfolio. Training was undertaken at both the October and November Committee meetings to review the options available from Legal & General (current listed equity manager) and the London CIV, including manager presentations. Preference was expressed for L&G's Future Worlds portfolio that gives a higher weighting to environmental, social and governance factors within portfolio selection and the London CIV's Sustainable Equity Exclusion fund that invests in business rated as 'sustainable' with some sector exclusions e.g. fossil fuels, tobacco, gambling, alcohol etc. Hymans were asked to review both products and presented their reports to this meeting. Hymans rated both as suitable and proposed allocations were accepted by the Committee; 25% of the portfolio to be invested in Future Worlds, 5% in LCIV Sustainable Equity Exclusion and 10% in L&G RAFI (value-oriented index). This would involve the current 20% allocation to market capitalised equities being sold and the RAFI allocation reduced by half from 20% to 10%. It was agreed to spread the changes over a two-year period.
- 1.10 The Committee had created a 5% allocation to private equity during 2020 and committed \$67.5 million to Adams Street Global Fund, of which less than \$10 million had been invested. These funds are drawn as opportunities arise and it was recognised that this level of commitment will not achieve the target 5% allocation. Hymans reviewed the options and provided a paper recommending a £40 million investment to Adams Street Global Secondary Fund 7. This fund buys partly funded private equity assets, which will enable a faster pace of investments.

## Pension Fund Performance for the quarter to 31 December 2020

- 1.11 The Committee received a report from Hymans Robertson that summarised the Pension Fund investment performance for the quarter to 31 December 2020. The fund achieved a net return of 8.1% in the quarter and was valued at £1,336 million at the quarter end. Two mandates were placed 'on watch' due to staffing changes, but no action was taken or recommended.

### **Meeting 18 March 2021**

An additional meeting attended by Hymans Robertson (investment advisor) had been agreed to discuss a recommendation from Hymans Robertson to commit £60 million to the LCIV Private Debt fund. The London CIV needed a decision by end March to achieve fee savings from the underlying managers. The Pension Fund has an existing 11% allocation to private debt, with regular recommitments required as cash is distributed back to Barnet as underlying investments are sold. Pre meeting training was received from the London CIV and the Committee approved the recommendation based on a suitability report from Hymans Robertson.

### **Meeting 4 May 2021**

The meeting was attended by the representatives from Hymans Robertson (Scheme Actuary and Investment Advisor), BDO (Auditor) and officers from Governance and Finance. Pre-meeting training relating to the London CIV's renewables infrastructure fund was provided by both London CIV and Redington, who supported LCIV.

## Actuarial Valuation Update

- 1.12 The Board's agenda includes a similar update. The Actuary and officers discussed the Government's Actuary's Department report on the 2019 triennial valuation and the acceptance of the Barnet funding plan and the implication of changes since 2019 on the funding level and cost of future benefits. Indications were that contribution levels following the 2022 triennial actuarial valuation would be similar to those agreed following the 2019 valuation.

## Administration Report

- 1.13 The report discussed current performance levels by WYPF, the resolution of the issue related to deleted members records, data remediation, including action to enable annual benefit statements to be issued on time and progress on the GMP reconciliation project. No issues arose and these matters will be discussed the Board meeting.

## Admitted Body Status Report

- 1.14 A report on outstanding admission, cessations and bonds was discussed noting that progress on the backlog continued. The discussion focused on one cessation surplus and a request that the rationale for returning the surplus, or part thereof, be discussed with the Committee at its July meeting.

## External Auditors Planning Report

- 1.15 The new audit partner from BDO introduced the audit plan, which was substantially unchanged from 2020. Much of the discussion concerned the delayed start to the audit and the Committee requested an update on timing for the July meeting. The Board's agenda included the Auditor's plan.

#### Pension Fund Investment Performance

- 1.16 The investment performance to 31 March 2021 was reviewing noting that the fund value had increased to £1,393 million with a net quarterly return of 3.9% an annual return of 27.6%. No new manager issues had arisen. The Committee had requested details of the impact on carbon emissions and reserves of the changes in listed equity agreed at the February meeting. These were estimated as a 39% reduction in emission and 49% reduction in reserves at the end of the phased transition.

#### Risk Management Review

- 1.17 The combined risk register was discussed with the Committee. The risk rating and actions proposed were in line with the discussion with the Board at its February meeting. No changes were made to the risk registers.

#### Investment Strategy

- 1.18 The sole decision was to invest £40 million in the LCIV Renewables Infrastructure fund. The decision was supported by three reports from Hymans Robertson; background to renewables infrastructure, proposal to invest £40 million into the LCIV fund and strategy proposal to increase the allocation to infrastructure from 5% to 8% using part of the unused property allocation that is currently invested in diversified growth funds. Hymans Robertson recommendations were accepted by the Committee.

#### Review of the Performance of Advisors

- 1.19 This paper provides an opportunity to provide feedback to advisors. In view of the recent tenders of actuarial and investment advisory services and direct feedback to the auditor earlier in the meeting, no additional issues were identified.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 The Local Pension Board may wish to review Pension Fund Committee decision making procedures as part of its role in assisting the administering authority on ensuring good governance.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 N/A. The paper does not propose options.

## **4. POST DECISION IMPLEMENTATION**

- 4.1 Recommendations from the Board will be communicated to the next Pension Fund Committee meeting.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities as set out in the Council's Corporate Plan for 2019-2024.

### **5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 None in the context of this report.

### **5.3 Social Value**

5.3.1 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

### **5.4 Legal and Constitutional References**

5.4.1 The LGPS Regulations 2013 place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is LB Barnet. The Public Service Pensions Act 2013 requires the Council to establish a Pension Board, whose role is to assist the Council in securing compliance with legislation, regulation and best practice, including as set out in the Pension Regulator's Code of Practice.

5.4.2 This paper considers the governance arrangement of the LGPS pension scheme that form part of the remit of the Local Pension Board.

### **5.5 Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Good governance is essential to ensuring that risks are identified and managed.

### **5.6 Equalities and Diversity**

5.6.1 There are no Equalities and Diversity issues arising from this report.

5.6.2 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability,

gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

## 5.7 **Corporate Parenting**

5.7.1 N/A

## 5.8 **Consultation and Engagement**

5.8.1 The paper is part of the process of co-ordinating the activities of the Pension Fund Committee and Local Pension Board.

## 5.9 **Insight**

5.9.1 N/A.

## 6. **BACKGROUND PAPERS**

6.1 Papers and minutes of the three Pension Fund Committee Meetings discussed can be located at:

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## Responsible Investment Policy

How Responsible Investment (social, environmental and corporate governance considerations and stewardship) are taken into account in the selection, non-selection, retention and realisation of investments

In this section responsible investment (RI) refers to investment practices that integrate the consideration of environmental, social and governance (ESG) factors into investment management processes and ownership practices recognising that these factors can have a material impact on financial performance. Stewardship and governance refer to acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

### Beliefs

The Pension Fund Committee (The Fund) has reviewed its responsible Investment beliefs with the assistance of a workshop facilitate by its investment advisor and external speakers. This was followed up with a survey of members of both the Pension Fund Committee and Local Pension Board. As a consequence, the Committee has expressed the following beliefs with regards to Responsible Investment.

- Well run companies will generate better long-term returns.
- Incorporating a regard for ESG into investment decision making will help mitigate risk such as climate change.
- The change to a low carbon economy offers both opportunities and risks (stranded assets).
- The Fund should avoid/limit exposure to securities where environmental, social or governance aspects will be financially detrimental to the portfolio.
- Engagement, particularly in collaboration with other investors, is a better approach than disinvestment, although the latter may be appropriate when engagement will not achieve the desired outcomes.
- Obtaining the best long-term financial outcomes remains the primary objective of investment policy and ESG is a factor, but not the only factor in choosing investments

These beliefs will be reviewed annually and will be taken into consideration when making investment decisions both in relation to setting and implementing investment strategy.

The Fund is committed to be a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, training is taken on a regular basis and this will include matters of social, environmental and corporate governance.

### Implementation of Beliefs

The Fund has agreed that investment sustainability and pooling should be enhanced. In doing so the following actions will be / have been taken:

1. The majority of passive quoted equities are currently invested in line with either market capitalisation or a value-based index. Consideration will be given to changing the indices to one's that incorporate ESG factors into the selection of investment particularly with the aim of reducing exposure to climate changing emissions and preferring companies with good social and governance practices.
2. Consideration of moving assets from passive equities to pooled active equities that have a strong sustainability approach to the selection of investments.
3. Consideration of investing into other products offered by the London CIV that focus on opportunities with sustainability characteristics e.g. renewables.
4. Monitor through regular dialogue and reporting that appointed investment managers, including the London CIV (1) integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments, and (2) use their

influence, including through collaboration where appropriate, to promote good practice in the investee companies and markets to which the Fund is exposed.

5. Periodic qualitative and quantitative reviews of the ESG risks within the portfolio and consideration of alternatives.

### Social Investment

The Fund is consistent in the application of risk and returns requirements when evaluating all investment opportunities, including those that address societal challenges. The Fund would invest in opportunities that address societal challenges but generate competitive financial returns. Seeking such opportunities is generally delegated to our external fund managers but will be a factor in selecting managers and investee funds.

### Reporting of Responsible Investment Outcomes

It is expected that the Fund will be required to manage and monitor its exposure to climate change using the framework developed by the Taskforce on Climate-related Financial Disclosures. The Fund will develop its approach to compliance with the framework during 2021 & 2022. Where possible, reporting will also incorporate the social and governance aspects to RI. In doing so, the Fund will take a long-term view on RI, including the direction of travel as well as the current implementation.

### **The exercise of rights (including voting rights) attaching to investments**

#### **Voting rights**

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis.

#### **Stewardship**

The Fund fully endorses the principles embedded in the Stewardship Code. The Fund will be reviewing this position during 2021-22 and will consider becoming a signatory to the Code as part of this review.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects both the London CIV and all directly appointed fund managers to also comply with the Stewardship Code and this will be monitored on an annual basis.