

MINUTES OF PENSION FUND COMMITTEE HELD ON 11 SEPTEMBER 2020

Present

Cheshire West and Chester: Cllrs Hogg (Chair), Gould, Lewis and Tonge
Cheshire East: Cllrs Bulman, Corcoran, Findlow and Stott
Halton: Cllr Wharton
Warrington: Cllr Mitchell
Member Representative: Paul Matthews, GMB

In Attendance

Actuary: Hymans Robertson - Gemma Sefton, Robert Bilton
Investment Advisor: Mercer – Joanne Holden, Chris West
External Auditor: Grant Thornton - Stuart Basnett
CW&C Officers: Mark Wynn, Maggie Sheppard, Heidi Catherall, Nick Jones, Steve Wilcock, Debbie Darlington

PART A:

PROCEDURAL MATTERS

1. Declarations of Interest - There were no declarations of interest.

MINUTES OF MEETINGS

2. The minutes of the Pension Fund Committee held on 5 June and 17 July 2020 were reviewed, having previously been distributed and agreed by email. The Minutes of the Local Pension Board held on 14 July 2020 were also reviewed.

STANDING ITEMS

3. The Committee received a report detailing employers who had joined or exited the Fund over the period 1 June to 31 August 2020 (inclusive).

The Committee noted the changes to employers during the reporting period

4. The Committee received the Compliance Update including a summary of the breaches log 1 April to 30 June 2020, noting that 45 breaches had been logged over the period.

The Committee noted the cumulative Breaches Log for 1 April to 30 June 2020 and actions taken.

5. The Committee were presented with the Action Plan performance dashboard summarising progress in meeting actions due in quarters one and two. Members noted that of the three actions identified as amber from quarter one, two have been moved forward to quarter three and will be considered as part of a review of resources. The third action is now green after the Fund was able to onboard the Transactional Service Centre onto the Monthly Interfacing system.



6. Members noted that of the twenty-three actions identified for completion in quarter two, four were amber and the rest were green.
7. Members received an update on the forecast outturn. The Committee noted that the Fund was recruiting additional staff in response to increase casework volumes including that required to implement the McCloud remedy. Committee requested that the staffing establishment be detailed in future budget reports.

The Committee noted progress in delivering the Action Plan and the forecast outturn position.

8. The Committee received a Regulatory Update on recent changes to the LGPS Regulations. The provide greater flexibility to respond to changes in employer circumstances between triennial valuations and clarify regulations on managed exits (which endorse the Fund's existing approach). The Funding Strategy statement will need to be updated to reflect the new regulations
9. The Committee also received a briefing on the Government's proposal to introduce a cap of £95,000 on Exit Payments in the public sector and the recently launched MHCLG consultation on changes to the LGPS to implement the exit payments cap. More information was being received on the impact of the proposals and further reports will be presented in due course.

The Committee:

- a) Noted the greater flexibility to review contribution rates between valuations
- b) Noted the greater flexibility on exit payments through spreading exit payments or entering Deferred Debt Agreements
- c) Noted that the Funding Strategy Statement will have to be reviewed to capture the Fund's policy to reviewing contribution rates, spreading exit payments and entering Deferred Debt Agreements
- d) Noted the update on the Government's proposal to introduce a £95K cap on exit payments in the public sector

CONSULTATION ON THE MCCLOUD JUDGEMENT

10. The Committee received a report on MHCLG's consultation on implementing the McCloud judgement remedy which has a closing date of 8 October 2020.
11. Officers explained the proposed regulatory changes and an initial assessment of the number of Fund members in scope of the proposed remedy. The report highlighted the significant impact upon workload across all areas of the Fund, particularly administration and communication. The Fund is developing a project plan to manage this complex, multi-faceted project.
12. Officers are preparing the Fund's response to the consultation, liaising with advisers and the wider LGPS community. The Committee will receive the Fund's proposed consultation response by Electronic Decision Notice towards the end of September.



13. The Local Pension Board will monitor the Fund's progress in meeting the McCloud project plan and the Committee will receive regular updates on progress.

The Committee noted the content of the consultation on McCloud and that the Committee would be invited to endorse the Fund's response to the consultation via an Electronic Decision Notice.

EXIT CREDIT POLICY

14. The Committee received an update on the responses to the formal employer consultation of the Fund's draft exit credit policy, along with the Administering Authority's proposed replies to those employers who had submitted a response.

The Committee noted:-

- a) Considered and endorsed the administering authority's proposed responses to the feedback to the exit credit policy consultation.
- b) Endorsed that the administering authority implement with immediate effect the exit credit policy as consulted with employers, with no amendments.

LGPS CENTRAL POOLING – PROGRESS UPDATE

15. The Committee received a further report on progress towards delivering investment pooling. The report summarised the current regulatory framework surrounding pooling and that may be the subject of further consultation in the coming months.
16. Appended to the report was a copy of a briefing pooling update provided for Joint Committee which provided more detail on pooling delivery and performance.
17. The report summarised the Fund's pooling progress to date, and planned asset transitions reflecting the Fund's strategic asset allocation (subject to Committee decision).

The Committee noted the position as set out in the report

ADMINISTRATION DATABASE RETENDER

18. The report set out the proposed approach to the re-tender of the benefits administration software system. The tender would be managed using the LGPS framework for pensions administration software. This framework includes three suppliers who would be invited to participate.
19. The report set out the proposed procurement timelines and the intention to have entered into a new contract by 31 March 2021. The Committee noted the indicative evaluation and weightings and that these were subject to further refinement in discussion with legal, procurement and ICT colleagues.

The Committee endorsed:

- a) the proposed procurement approach set out in the report, including the indicative timeline, and



- b) the delegation to officers to complete the selection process.

AUDITED ANNUAL REPORT INCLUDING STATEMENT OF ACCOUNTS 2019-20

20. The Committee received a copy of the Fund's 2019-20 Annual Report, which includes the Statement of Accounts. Both the Annual Report and the Statement of Accounts have now been audited by Grant Thornton.
21. The Committee were advised that there had been no amendments to the primary statements of the draft accounts previously presented at the June Committee meeting. Disclosure notes has been updated for the following:
- Increased disclosure on the impact of Covid-19 on the accounts
 - Removal of disclosure of non-critical accounting judgements
 - Removal of immaterial items from the key sources of estimation uncertainty disclosure
 - Minor presentational amendments
22. Grant Thornton presented their Audit Findings Report (AFR), which includes the findings from the external audit of the Fund for the financial year 2019-20. Grant Thornton's testing was substantially complete, and they expected to issue an unqualified report.
23. Councillor Hogg thanked the pensions finance team and the audit team for their hard work in completing the accounts and audit to such a high standard and to deadlines especially given the impact of COVID-19.

The Committee:

- a) Received the audit findings report from Grant Thornton;
- b) Endorsed the updated Governance Policy included within the Annual Report;
- c) Received the Cheshire Pension Fund Annual Report including the Statement of Accounts for the year ending 31 March 2020 and the Local Pension Board Annual Report;
- d) Requested that the Cheshire West and Chester Audit and Governance Committee approve the Cheshire Pension Fund Statement of Accounts for 2019-20 and sign the Letter of Representation.

INVESTMENT PORTFOLIO – CLIMATE RISK REPORT

24. The Committee received a report which outlined the next steps for the Fund in publicising the findings from its Climate Risk Report and implementing the recommendations within it. It was proposed that the Fund now move to immediately publish a Climate Risk Report which complied with the requirements of the Taskforce on Climate Related Financial Disclosures (TCFD) and to issue a summary document and a media release.
25. The Committee also considered the recommendations contained in its Climate Risk Report and endorsed the following decisions to facilitate their implementation:



- Agree that at least twice a year, agenda time at Pension Fund Committee meetings is dedicated to the discussion of progress on climate strategy;
- Agree at least one training session per year is dedicated to climate specific issues;
- Agree to produce a Climate Strategy document which will include a Climate Stewardship plan, setting out how the Fund will manage and monitor its identified climate risks. Progress will be reported to the Investment Sub-Committee;
- When the Fund's Investment Strategy Statement and Responsible Investment policy is updated in April 2021, include a formal statement of support for the Paris Climate Agreement;
- Conduct a Climate Risk Report once a year with a six month update in between;
- Publish a TCFD compliant report once a year from this point on.

26. The Committee acknowledged there were a small number of recommendations which could not be delivered in house due to lack of expertise/knowledge or lack of resources. These were centred around detailed monitoring of the Fund's equity and bond managers to assess their activity regarding shareholder engagement and voting. It was agreed that officers explore options to access the appropriate level of external support and expertise. This might involve procuring the services of a stewardship, engagement and voting provider or buying additional support from an existing partner.

27. The Committee considered options for setting climate related targets for the Fund. It was agreed that officers would produce a report setting out the options for further, more detailed, consideration by the Investment Sub Committee.

The Committee endorsed:

- a) the publication of the Fund's first Climate Risk report (as set out in Appendix A) on its website, formatted to comply with industry best practice as set out by the TCFD.
- b) the publication on the Fund's website of a short 'Climate Risk Report – key findings' document as set out in Appendix B.
- c) the issuing of a media release to all major employers and media outlets as set out in Appendix C.
- d) the Fund's Climate Risk Resource Plan, as set out in Appendix D, which sets out how the Fund will respond to the recommendations included in its full Climate Risk Report.
- e) The policy decisions set out in para. 9 which will underpin the Fund's approach to managing climate risk.

ANY OTHER BUSINESS

28. No matters were raised.



PART B – NOT FOR PUBLICATION

The Committee resolved that:

The details of the following items remain confidential on the grounds that they/it involve the likely disclosure of exempt information as defined by Paragraph 3 Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and that the public interest would not be served in publishing the information.

PROCEDURAL MATTERS

29. The Committee noted that the draft Minutes from the Investment Sub-Committee meeting, which took place on the 15 May 2020 and had been circulated via email.

INVESTMENT PORTFOLIO – INFRASTRUCTURE INVESTMENT PROPOSAL

30. The Committee received a report which set out the business case to invest in the new LGPS Central (LGPSC) Infrastructure Fund.
31. The Committee had previously endorsed a 5% allocation to the infrastructure asset class in its revised Investment Strategy Statement published in April 2020 and subsequently approved a 2.5% investment with an existing manager to enable time for the LGPSC fund to be launched and to build momentum.
32. The Committee considered the key characteristics of the LGPSC Infrastructure Fund which would have two risk/return profiles which could be accessed via 'sleeves':
- Core / Core Plus**
Expected to exhibit a lower risk & return profile and greater focus on predictable income streams; and
- Value Add / Opportunistic**
Expected to target a higher return by taking on riskier growth opportunities.
33. The geographic weighting of the new Fund was:
- Minimum 50% of the portfolio invested in the UK,
 - Maximum 10% in non-OECD country investments,
 - Local (within the footprint of LGPS Central) investment permitted, so long as risk adjusted returns are at least in line with similar non-local opportunities.
34. The Committee reviewed some of the examples of prospective managers that LGPSC may consider for the Core/Core Plus sleeve; members raised questions regarding the one of the potential fund managers and officers promised to alert LGPSC so they could thoroughly assess if the fund in question progressed to the due diligence stage. Further queries were raised about the potential impact of the Government's planning proposals on the development of social housing, which was included within the remit of the Fund and officers promised to review this in more detail and report back. Other members noted the undesirable nature of the four-year lock in period (during which no withdrawals would be permitted), but officers confirmed that such restrictions were invariably attached to investments such as infrastructure which were very illiquid.



35. The Committee also considered the views of the Fund's investment advisor, Mercer on the proposed mandate and possible managers, the climate change and Responsible Investment characteristics of the Fund as well as the potential transition costs and estimated fee savings.

The Committee endorsed:

- a) An investment of £150m into the LGPS Central Infrastructure Fund over a three-year period, with a cap on the year one investment of £50m.
- b) The granting of delegated authority to officers to agree the appropriate split of the infrastructure investment across the Core/Core Plus and Value Add/Opportunistic sleeves subject to a maximum investment in year one of £10m in the latter sleeve. noted the initial results of the analysis of the Fund's carbon risk metrics.

AOB

36. The Committee received an update report from officers and Mercer on the potential impact of Brexit, including a possible no-deal scenario, on the Fund's investment portfolio.
37. The Committee received details of the level of UK exposure across all the Fund's appointed investment managers and provided the views of all managers whose portfolios contained UK holdings which constituted more than 10% of the total.
38. The report concluded that the Fund's well diversified portfolio should help to ensure any adverse effects from a no-deal Brexit scenario are minimised and no immediate remedial action was required.
39. Members requested that officers continue to monitor developments with Mercer and agreed that, should anything change, an update report would be presented to the Joint Board/Committee training event on 30th October.

INVESTMENT PORTFOLIO – INVESTMENT CONSULTANCY ARRANGEMENTS

Hymans Robertson, Mercer and Grant Thornton left the meeting.

40. The Committee considered the contractual arrangements for the Fund's Investment Consultancy services. Members queried the costs of the current contract and the scope for future savings – the latter issue will be reviewed by officers and discussed with the contractor.

The Committee endorsed:

- a) An extension to the Fund's Investment Consultancy services contract, as permitted within the provisions of the existing contract, for 12 months from 1 October 2020 to 30 September 2021.
- b) The granting of delegated authority to officers to agree a further extension, as permitted within contract, for a further 12-month period from October 2021 to



September 2022, subject to unchanged service requirements and continued satisfactory delivery.

