

MINUTES OF PENSION FUND COMMITTEE HELD ON 12 MARCH 2021

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

Apologies

Member Representative: Paul Matthews, GMB

In Attendance

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

PART A:

1. PROCEDURAL MATTERS

- 1.1 Declarations of Interest – Councillor Gould declared an interest as a Governor of the Cheshire and Wirral Partnership who also have Grant Thornton as their external auditor.
- 1.2 Apologies were received from Paul Matthews.

2. MINUTES OF MEETINGS

- 2.1 The minutes of the Pension Fund Committee held on 4 December 2020 were reviewed, having previously been distributed and agreed by email. The Minutes of the Pensions Consultative Forum meetings held on 16 October 2020 and 5 February 2021, and the Local Pension Board held on 16 February 2021 were also reviewed.

3. STANDING ITEMS

- 3.1 The Committee received a report detailing employers who had joined or exited the Fund over the period 1 December 2020 to 28 February 2021 (inclusive).

The Committee noted the changes to employers during the reporting period

- 3.2 The Committee received the Compliance Update including a summary of the breaches log 1 April to 31 December 2020. Eighty-six occurred in the period, all of which required no further action following investigation.



- 3.3 Committee were presented with an update on progress issuing the remaining 2020 Annual Benefit Statements to members who had not received them by the statutory deadline, for which a breach report was submitted to the Pension Regulator. The Committee noted the positive progress.

The Committee noted the cumulative Breaches Log for 1 April to 31 December 2020 and actions taken.

- 3.4 The Committee reviewed the Action Plan performance dashboard summarising progress on actions due in quarter four (to March 2021). Thirty-three actions were due for completion, of these six were rated amber and seven green. Twenty actions were proposed to be moved into 2021-22, as external dependencies (such as pending MHCLG guidance or regulation) mean they cannot be achieved this year.
- 3.5 Committee also received the updated forecast outturn for 2020-21 which showed a forecast underspend primarily due to contingency funding not being utilised, linked to a number of actions moving into 2021-22, such as McCloud implementation.

The Committee noted progress in delivering the 2020-21 Action Plan and the forecast outturn position.

- 3.6 Officers verbally recapped that the Restriction of Exit Payment Regulations 2020 having been initially disapplied, have now been formally revoked. Committee noted the policy intent of the Government remains to review and reform exit payments in the public sector, and further reports will be presented in due course.

4. EXTERNAL AUDIT PROGRESS REPORT

- 4.1 The Committee received a progress update report from the Fund's external auditor Grant Thornton.
- 4.2 During 2020, the timetable for finalising the 2019/20 Statement of Accounts and Annual Report was severely impacted by the Covid pandemic. In April 2020, the Ministry of Housing, Communities and Local Government (MHCLG) announced the relaxation of the statutory deadlines, moving the deadline for producing the 2019-20 draft accounts to the end of August (from end of May) and the date for final publication of the Audited Statement of Accounts and Annual Report to the end of November 2020 (from end of July).
- 4.3 To date, MHCLG have not announced the key deadlines for the production and publication of the 2020/21 accounts. For local planning purposes, the Committee will continue to receive the draft accounts in early June as usual, with the final Accounts and Annual Report targeted for review by the Committee in September 2021.
- 4.4 Grant Thornton explained that work is still ongoing nationally to complete the 2019-20 audit for some other organisations. This, together with increased regulatory requirements, has put pressure on external audit resources and meant that it was not possible to produce the audit plan for 2020-21, as usual, for review at this meeting.



The audit plan would be shared with the Committee when available, and in time for the June Committee at the latest.

The Committee: Noted the local timetable for producing the 2020/21 Annual Report and Statement of Accounts and the Progress Report from Grant Thornton.

5. BUSINESS PLAN 2021-25

- 5.1 The Committee received the draft Business Plan for 2021/25 and forecast budget for 2021/22.
- 5.2 The structure of the Business Plan had been reviewed to focus on the Fund's primary aims and key activity to support those aims. The Business Plan sets out the Fund's long term aims; local governance arrangements, resources (budget and staffing) to deliver the plan and key objectives for the coming year.
- 5.3 Committee noted there remains uncertainty on the scope and timing of national developments, particularly further exit reform, regulations to implement McCloud, SAB Good Governance review and expected MHCLG consultation which will impact during the year. The plan will be reviewed in the light of national and local developments with further reports to Committee as more information emerges.
- 5.4 A more detailed performance and action tracker for 2021/22, along with an updated risk register, will be presented to Committee at the June meeting with progress in delivering the plan being reported quarterly through the year.

The Committee endorsed the Business Plan and the 2021/22 Budget

6. INVESTMENT STRATEGY STATEMENT UPDATE

- 6.1 The Committee received a report on the annual review of the Fund's Investment Strategy Statement (ISS) and Responsible Investment (RI) policy along with the proposed documents.
- 6.2 The review of the existing ISS has been undertaken by officers in consultation with the Fund's investment advisor (Mercer). This review concluded that the ISS remains fit for purpose with no changes required at present. An ongoing programme of work to be undertaken in 2021/22 on the Fund's Investment Strategy and key areas of the portfolio was reviewed and agreed.
- 6.3 Since the publication of the Fund's RI policy in April 2020, the Fund had, in December 2020, produced a comprehensive Climate Change Strategy. The Committee agreed that the RI policy be amended to fully reflect the climate strategy document.
- 6.4 The ISS and RI policy will be published on the Fund's website on 1 April 2021.



The Committee: endorsed the updated Investment Strategy Statement and Responsible Investment policy and agreed they both be published on the Fund's website.

7. FUNDING STRATEGY STATEMENT UPDATE

- 7.1 The Committee received an update on progress in preparing the Administering Authority's policy regarding new flexibilities introduced in the Local Government Pension Scheme (Amendment) (No. 2) Regulations in September 2020. These enable administering authorities:
- review employer contributions outside of the normal triennial valuation cycle in specified circumstances
 - spread exit payments for exiting employers
 - set up Deferred Debt Agreements (DDA) for exiting employers
- 7.2 Government indicated it would issue statutory guidance to administering authorities wishing to use the new powers. It had been hoped this guidance would be produced in time to enable presentation of the draft policy to Committee at this meeting. The guidance was only issued on 2 March 2021 and is still being reviewed.
- 7.3 The report set out the next steps officers will take to further develop the Fund's policy in the light of the recent statutory guidance.

The Committee noted the next steps in preparing the Administering Authority's policy regarding the review of employer contributions, employer exit payments and deferred debt agreements.

8. TRAINING PLAN FOR THE COMMITTEE AND BOARD

- 8.1 The Committee received the Training Policy for Committee and Board. The policy is unchanged from the version approved by the Committee in March 2020. It will be reviewed and updated during 2020/21 in line with emerging national developments.
- 8.2 Committee members have received the outcome of their individual knowledge and skills self-assessment and individual training plan. Officers have also provided details of upcoming national conferences and seminars which they may wish to attend along with details of the Pensions Regulator's Trustee Toolkit, which provides some useful learning that can be undertaken online.

The Committee: Noted the current Training Policy and that it will be reviewed during 2021 in line with national developments, and endorsed the 2021/22 Training Plan

9. ANY OTHER BUSINESS

- 9.1 No matters were raised
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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.

10. PROCEDURAL MATTERS

10.1 The Committee noted the draft Minutes from the Investment Sub-Committee meeting on 12 February 2021 which had been circulated via email.

11. INVESTMENT PORTFOLIO – MULTI ASSET CREDIT

11.1 The Committee received a report setting out the business case to invest in the new LGPS Central (LGPSC) Limited Multi Asset Credit (MAC) fund.

11.2 The Fund's strategic asset allocation includes a 20% allocation to Diversified Fixed Income, made up of 15% of total fund assets in MAC and 5% in Emerging Market Debt (EMD). The Fund's current Diversified Fixed Income exposure is 17.2%, hence the Fund needs to increase its commitment to this broad asset class to reach the desired weighting. The Fund is also currently above its target weighting to cash, meaning that an investment in the new MAC could, if desired, be funded from this source.

11.3 The Committee were informed of the procurement process undertaken by LGPSC, which resulted in the appointment of BMO and Western Asset as the two managers for the MAC sub fund. The views of the Fund's investment advisors on the proposed mandate and the capabilities of the two managers were presented by Mercer.

11.4 The Committee debated the business case to invest and, on balance, endorsed the decision to invest, reflecting views raised and advice received. The Committee requested that the key issues raised in the discussion be fed back to LGPS Central limited.

The Committee considered and endorsed the proposal to invest £150m in the new LGPS Central Multi Asset Credit Fund, funded from cash balances.

12. INVESTMENT PORTFOLIO – CLIMATE FACTOR FUND

12.1 The Committee received a report seeking endorsement of a change to the Climate Factor fund to ensure that, in future, the delivery of minimum carbon reductions and other green targets will be delivered.



- 12.2 Since the Fund initially invested in the LGPS Central Climate Factor fund in October 2019, there has been volatility in the carbon metrics achieved, particularly in respect of carbon emissions compared to the general market index. Officers had therefore been working with partner funds, LGPSC and FTSE to examine possible revisions to the calculation of the index to deliver a minimum level of carbon metrics.
- 12.3 This work had now concluded, and a variety of options had been explored, including consideration of the impact on investment performance of any change.
- 12.4 The recommended optimal solution is to apply a corrective tilt which delivers carbon emission reductions of 60% versus the general market (plus a 70% reduction in exposure to fossil fuel reserves and a 70% increase in exposure to green revenues). Additional analysis showing the impact of the proposed change on geographical, sector and factor exposure was considered.

The Committee endorsed the recommendation that the operation of LGPSC Climate Factor Fund, in which the Fund is invested, is amended to ensure the delivery of minimum carbon reduction targets.

13. AOB

- 13.1 No matters were raised

