

MINUTES OF PENSION FUND COMMITTEE HELD ON 11 MARCH 2022

Present

Cheshire West and Chester: Cllrs Hogg (Chair), Lewis, Gould and Tonge
Cheshire East: Cllrs Stott, Bulman, Corcoran and Findlow
Warrington: Cllr Mitchell

Apologies

Halton: Cllr Dennett
Member Representative: Paul Matthews, GMB

In Attendance

Actuary: Hymans Robertson – Peter MacRae
Investment Advisor: Mercer – Chris West
External Auditor: Grant Thornton – John Farrar and Angela Pieri
CW&C Officers: Mark Wynn, Heidi Catherall, Steve Wilcock, Debbie Darlington and Nigel Dorrington

PART A:

1. PROCEDURAL MATTERS

- 1.1 Declarations of Interest
- 1.2 Apologies were received from Councillor Dennett and Paul Matthews.
- 1.3 The Committee endorsed the appointment of Councillor Stott as Vice Chair for the Pension Fund Committee.

2. MINUTES OF MEETINGS

- 2.1 The minutes of the Pension Fund Committee held on 3 December 2021 were reviewed, having previously been distributed and agreed by email.
- 2.2 The minutes of the Pensions Consultative Forum held on 4 February 2022 were also reviewed.

3. STANDING ITEMS

Employer Changes

- 3.1 The Committee received a report detailing employers who had joined or exited the Fund over the period 1 December 2021 to 28 February 2022 (inclusive).

The Committee noted the changes to employers during the reporting period.

Compliance Update

- 3.2 The Committee received the Compliance Update including a summary of the breaches log for the period to 31 December 2021. Sixty breaches occurred in the period, of these fifty-nine required no further action following investigation.
- 3.3 The Fund had reported a breach to the Pensions Regulator relating to Annual Benefit Statements which didn't meet the 100% target set by LGPS Regulations. The Committee received an update confirming the steps being taken to issue statements to all eligible members.

The Committee noted the cumulative Breaches Log for the period to 31 December 2021.

Business Plan 2021-22

- 3.4 The Committee were presented with the performance reporting dashboard which summarised progress in delivering the 2021-22 Action Plan.
- 3.5 The Committee also received the forecast outturn for 2021-22.

The Committee noted: Progress in delivering the Action Plan and the forecast outturn.

Regulatory Update

- 3.6 Committee received a report outlining an overview of regulatory changes and events, along with an update on expected future consultations which will impact the Local Government Pension Scheme. Members asked about the Fund's approach to the Government's likely 'Levelling Up' consultation proposals and asked that preparatory work on options with LGPS Central Ltd be accelerated.

The Committee noted the position as set out in the report.

4. STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT PROGRESS REPORT 2021-22

- 4.1 The Committee received a progress report on plans to produce and audit the 2021/22 Statement of Accounts.
- 4.2 The key dates for Committee input are:

Key Date	Action
10 June	Committee review the draft accounts prior to them being presented to Audit and Governance Committee for approval. Grant Thornton Audit Plan also received.
9 Sept	Draft Audit Findings Report presented to Pension Fund Committee

- 4.3 The proposed timetable was designed to permit the Fund's Annual Report including the Audited Statement of Accounts to be published by 1 December.

- 4.4 Grant Thornton presented their Audit progress report and sector update. This summarised the latest position with regard to finalising the audit of Cheshire West and Chester Council and Members questioned the reasons for the delay. The delays in finalising the 20-21 audit meant that the Audit Plan for 21-22 could not yet be presented and would therefore now be presented to the June Pension Fund Committee meeting.
- 4.5 The Pension Fund accounts for 2020/21 have been finalised and the audit is substantially complete. However, as the audit opinions for both the Council and the Pension Fund have to be issued together this has meant that the opinion for the Pension Fund accounts for 2020/21 is also delayed.

The Committee: noted the timetable for producing the 2021/22 Annual Report and Statement of Accounts and Progress Report from Grant Thornton.

5. BUSINESS PLAN 2022-26

- 5.1 The Committee received the draft Business Plan for 2022/26 and forecast budget for 2022/23.
- 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 exit reform, regulations to implement McCloud, SAB Good Governance review and expected DLUHC consultations 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 2022/23, 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 2022/23 budget.

6. TRAINING PLAN FOR COMMITTEE AND BOARD

- 6.1 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 2022/23 in line with emerging national developments.
- 6.2 Committee members have received the outcome of their individual knowledge and skills self-assessment and individual training plan. Members were reminded of the opportunities for developing knowledge and understanding by attending regular conferences and seminars and through online learning.

The Committee: Noted the current Training Policy and that it will be reviewed during 2022 in line with national developments, and endorsed the 2022/23 Training Plan

7. INVESTMENT STRATEGY UPDATE

7.1 The Committee received a report which presented the Fund's updated Investment Strategy Statement (ISS) and Responsible Investment (RI) policy for endorsement. The changes were proposed as a result of the Fund's lighter touch annual review of its investment strategy. The two documents remain substantially unchanged from the current versions which were endorsed by the Committee on 12 March 2021 with just two changes proposed:

- i) The incorporation of the adjustments to the strategic asset allocation for open employers and academies previously endorsed by the September 2021 Committee.
- ii) The clarification and strengthening of the Fund's net zero ambition so that the Fund now commits to 'decarbonise its investment portfolio to deliver net zero by 2050 at the latest'.

7.2 In addition, the report set out a proposed work programme containing six priority areas for review in 2022/23.

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

8. ANY OTHER BUSINESS

8.1 No matters were raised.

PART B

The Committee resolved that:

The details of the following items remain confidential on the grounds 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. A non-confidential summary of the items discussed is provided for information.

9. PROCEDURAL MATTERS

9.1 The Committee noted the draft Minutes from the Investment Sub-Committee meeting on 11 February 2022 which had been circulated via email.

10. 2022 TRIENNIAL VALUATION ASSUMPTIONS

10.1 The Committee received a report setting out the recommended assumptions from the Fund Actuary for the upcoming formal valuation as at 31 March 2022. The report confirmed that the recommended assumptions did not impact on the existing funding and contribution strategy for the four Cheshire Councils which the Committee had endorsed on 3 December 2021.

10.2 The Actuary was questioned by Members on the recommended assumptions with one member registering their concern that the assumed longevity improvements might be too optimistic.

The Committee: Considered and approved the recommended assumptions as set out in in the report to set the funding target for the Fund's upcoming formal valuation as at 31 March 2022.

11. INVESTMENT PORTFOLIO – SUSTAINABLE EQUITY

11.1 The Committee received a report which considered options to fund the Committee's existing decision to invest 20% (c.£400m) of the Fund's equity portfolio in the new LGPS Central (LGPSC) Global Sustainable Active Equity Fund.

11.2 Two potential options involving redemptions from within the Fund's existing equity portfolio were presented by the Fund's investment advisors Mercer, who analysed the impact of options of the residual equity portfolio in terms of historic financial performance, style bias, sector, country and company exposure as well as the impact on fee levels and Environmental, Social and Governance (ESG) credentials.

11.3 The report set out the reasons underpinning the recommendation which included:

- It permits the Fund to maintain a well-diversified active equity mandate which in turn compliments the Fund's existing passive equity portfolio.
- It maintains the momentum towards pooling of investment assets by increasing pooled assets by approx. £353m.

- It reduces the number of manager mandates maintained by the Fund and delivers annual fee savings for the Fund.

The Committee: Considered and endorsed the proposal to fund the Fund's c. £400m (20% of the Fund's equity portfolio) investment in the LGPSC Global Sustainable Equity Active Fund by wholly redeeming from one legacy active equity mandate with the residual funding from existing equity holdings with LGPSC.

12. AOB

12.1 The Committee received a report from Fund officers which updated members on the Fund's exposure to Russian and Ukrainian holdings. The report explained the steps taken to remove the former from the Fund's portfolio, as far as was possible given legal restrictions and poor market liquidity.

12.2 The Committee noted the statement which had been placed on the Fund's website on 8 March 2022:

The Cheshire Pension Fund has a very low level of investments in Russia; these currently amount to less than 0.1% of total Fund assets. Where possible, all shares in Russian companies owned by the Fund have been sold or are being sold down. We are in dialogue on all other remaining Russian holdings with the relevant investment managers and wish to dispose of these as market and legal restrictions permit. In the meantime, the Fund has expressed a clear view to all investment managers that no additional or new Russian investments are to be made. The Fund and all its investment managers will of course ensure full compliance with the rapidly developing sanctions regime against Russia.

12.3 Members questioned officers as to whether any sales of holdings may facilitate the return of assets into Russian ownership. While this was possible, officers felt this was unlikely as almost all residual assets were now either sanctioned or appeared unlikely to attract any buyer interest for the foreseeable future.

12.4 Members considered the letter to the Chairs of all LGPS funds from Michael Gove, Secretary of State for Levelling Up, Housing and Communities regarding Russian investments. Members agreed that all appropriate action had been taken to deal with these investments in advance of receipt of the Secretary of State's letter.