

## **Minutes of the Pensions Panel Meeting held on 7 March 2023**

Present: Mike Sutherland (Chair)

<b>Attendance</b>	
Mike Davies	Colin Greateorex

**Also in attendance:**

**Apologies:** Philip Atkins, OBE and Stephen Sweeney

### **PART ONE**

#### **82. Declarations of Interest**

There were no declarations of interest made on this occasion.

#### **83. Minutes of meeting held on 6 December 2022**

**Resolved** – That the minutes of the Meeting of the Pensions Panel held on 6 December 2022 be confirmed and signed by the Chairman.

#### **84. Dates of Future Meetings**

- Tuesday 6 June 2023
- Tuesday 5 September 2023
- Tuesday 5 December 2023

All meetings scheduled to start at 9.30am at County Buildings, Stafford unless indicated otherwise.

#### **85. Annual Investment Strategy for Pension Fund Cash 2023/24**

The Panel received a report of the Director of Finance seeking approval to the Staffordshire Pension Fund's ('the Fund'), Annual Investment Strategy (AIS) for the investment of internally managed cash.

Panel members were reminded that the Fund held a small strategic asset allocation to cash of 1.0%. This recognised that cash balances were needed for the day-to-day management of the Fund. The cash was managed by Officers in the County Council's Treasury and Pension Fund Team, to provide liquidity and pay bills as they arose. The management of this cash remained with the Fund and would not be transferred to LGPS Central Limited, under the LGPS pooling agenda.

It was noted that most of the cash was invested in Money Market Funds (MMF), which were classed as standard investments. The Fund followed the same principles as the County Council's Treasury Strategy, and it was highlighted that the Fund could invest with the UK Government, primarily through other local authorities if needed and with the Fund's banking provider, which was currently Lloyds bank. The maximum investment

limit for each category of Standard Investment was detailed in Appendix 2 to the report, but was summarised as follows:

- Short-term MMFs – by default, these were already invested across a large number of counterparties. The limit set reflected this and was set at £40 million per MMF.
- UK Government – investment limit was unlimited in totality, but a maximum lending limit of £10 million per individual local authority had been introduced.
- The Fund's banking provider – a limit of £10 million has been set.

The Fund's approved Lending List was noted and provided at Appendix 2 to the report.

To allow for the practical management of operational treasury transactions each day, the choice over investments made was delegated to the Director of Finance as Chair of the Treasury Management Panel and Treasury & Pension Fund Officers.

In response to a query relating to the length of the relationship with Lloyds Bank and whether this was ever reviewed, it was confirmed that the contract with Lloyds Bank started in 2014 and had recently been reviewed and renewed in 2022 for a further seven years, with the option to extend for a further three years. It was confirmed that the Fund was satisfied with the service that was being provided.

**Resolved:** That the Staffordshire Pension Fund's Annual Investment Strategy for the investment of internally managed cash in 2022/23, be approved.

## **86. Pension Fund Performance and Portfolio of Investments as at 31 December 2022**

The Director of Finance submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund's investments, as at 31 December 2022.

The Panel were informed that the 2022/23 Quarter 3 performance had been pleasing. The Fund had a market value of £6.4 billion, an increase of £0.1 billion. Performance of the Fund was at 2.0%, outperforming the benchmark by 1.7%. UK Equity Markets performed well in the quarter off the back of a volatile year. However, property and fixed income had suffered because of the increase in interest rates. The portfolio of investments was included at Appendix 1 to the report.

It was noted, that taking into account the market volatility in 2022, and the impact of the conflict in Ukraine, the hard work undertaken by the Officers and Committee over the years to maintain the balance and performance of the portfolio was to be commended.

**Resolved:** That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 December 2022 be noted.

## **87. Responsible Investment & Engagement (RI&E) Quarterly Report**

The Director of Finance submitted the Responsible Investment and Engagement Report to the Panel, which included the Climate Stewardship Plan for 2022/23 and the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report.

The Panel heard that Fund officers had been working towards finalising the UK Stewardship Code Compliance Statement. This was to be presented for approval at the Pensions Committee meeting due to be held on the 31 March 2023, with a view to submitting the final document to the Financial Reporting Council (FRC) once approval had been received.

The Panel was informed that the quarterly report normally received from LGPS Central would be included as part of their own submission of the UK Stewardship Code Compliance Statement to the FRC and this would be brought to the Pensions Panel meeting due to take place in June 2023.

As part of the annual Climate Stewardship Plan work, officers were tasked with engaging with nine companies that were identified as being responsible for the majority of the Fund's climate related risk. To date eight of the nine companies had been engaged with and details of the engagement that had been carried out was presented in Appendix 1 to the report. Efforts continued to be made to engage with the outstanding company and more details would be brought back to a future Pensions Panel meeting. Similar work had been undertaken with the Portfolio Managers, but it was explained why it was more difficult to engage with certain managers although efforts were still being made to do so. Members heard that a meeting had been scheduled to take place between the Fund and several of its equity managers in May 2023, where climate risk would be discussed.

The Director presented the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report. Key areas highlighted included the engagement around Human Rights and the complexities experienced, specifically when attempting to engage with various large organisations, most notably BHP and Vale. Reference was also made to the article relating to Drax Group plc, which ran the UK's largest power plant, specifically around its business model where, instead of coal, the plant burns imported wood pellets, creating concerns about sustainability flow and the removal of a near-term living carbon sink. This example was cited in contrast to the use of pellets made from waste products, used by a company in which one of the Fund's sustainable infrastructure managers had recently invested. Pensions Panel Members were encouraged to read the report as it highlighted the good work LAPFF continues to do in engaging with organisations on behalf of its members.

The Panel noted the value of the co-ordination of organisations such as LGPS Central and LAPFF, as the influence that could be generated by a larger voice was considered very useful. It was noted that LAPFF focussed on the themes of Human Rights and Climate Change, and it was suggested that some influence could be put on LGPS Central to concentrate on themes that are important to the Fund. The Panel was informed that LGPS Central already included Climate Change and Human Rights in its stewardship themes prioritised for engagement. It was explained that LGPS Central

engaged with its Partner Funds when deciding upon future themes and it was confirmed that Panel members could be asked to provide input to this request in the future.

The Chair gave a brief update on the annual Responsible Investment Conference which took place in Bournemouth. This covered a wide range of ESG topics but had a particular focus on Human Rights and Climate Change. It was suggested that this was a worthwhile and engaging conference, which included some interesting panel debates.

**Resolved:** That the content of the Responsible Investment and Engagement report, including the Climate Stewardship Plan for 2022/23 (Appendix 1) and the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2), be noted.

## **88. Investment Strategy Statement**

The Director of Finance provided the draft Investment Strategy Statement (ISS) to the Pensions Panel.

The Panel heard that the ISS had been reviewed and updated under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which required the ISS to be reviewed and updated at least every three years. The ISS was currently in draft format, but it was expected that it would be formally implemented from the 1 April 2023, pending approval from both the Pensions Panel and Pensions Committee. Pensions Panel Members were asked to note that the document may need further revision following the outcome of the Department for Levelling Up, Housing and Communities (DLUHC) formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in early 2023.

The April 2023 version of the ISS, attached at Appendix 2 to the report, contained revisions which reflected the outcomes from the 2022 Strategic Asset Allocation review and 2022 Actuarial Valuation. The April 2023 ISS also included information about the arrangements for the Fund's transfer of assets into LGPS Central and details on the Fund's Climate Change Strategy.

In response to a question relating to the fact the Fund was currently 120% funded, yet some Employers were still paying relatively high contribution rates, and whether there was a case for Employer contribution rates to be lower; it was clarified that feedback received from Employers during the development of the Actuarial Valuation suggested that they appreciated stability. Whilst there may have been an opportunity to reduce contribution rates, it would not have been by much and may have caused an issue for Employers in the future, should there be a need to increase contribution rates at the next valuation.

In response to a query asking at what level the Fund would have to be funded before a change would be made, it was explained that the valuation process takes place every three years to allow for this type of review to be considered and discussed so that changes can be made if deemed appropriate from an actuarial perspective.

**Resolved:** a. That the updated Staffordshire Pension Fund Investment Strategy Statement be approved, and that further approval of such be sought from the Pensions Committee.

b. That the potential requirement for further updates to the Investment Strategy Statement once the outcome of the Department for Levelling Up, Housing and Communities formal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known, be noted.

## **89. Exclusion of the Public**

**RESOLVED** -, That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraph of Part One of Schedule 12A of the Local Government Act 1972 (as amended) indicated below.

The Panel then proceeded to consider reports on the following issues:

**90. Exempt Minutes of the Meeting held on 6 December 2022  
(Exemption paragraph 3)**

**91. Independent Advisors - Verbal update  
(Exemption paragraph 3)**

**92. Pension Fund Performance and Manager Monitoring for the quarter ended 31 December 2022  
(Exemption paragraph 3)**

**93. Economic and market update  
(Exemption paragraph 3)**

**94. Strategic Asset Allocation - Implementation Update  
(Exemption paragraph 3)**

**95. Strategic Asset Allocation – Quarterly update (Exemption paragraph 3)**

**96. Property update (Exemption paragraph 3)**

**a) Property update**

**b) Confirmation of action taken by the Director of finance**

**Chair**