

Minutes of the Pensions Panel Meeting held on 1 March 2022

Attendance

Philip Atkins, OBE (Chairman)	Mike Sutherland
Mike Davies	Stephen Sweeney
Colin Greatorex	

Also in attendance: Rob Birch (Observer), Nigel Caine (Observer), Iain Campbell (Hymans Robertson), Carolan Dobson (Independent Advisor), John Mayhew (Observer) and Philip Pearson (Hymans Robertson).

PART ONE

38. Declarations of Interest

There were no declarations of interest on this occasion.

39. Minutes of meeting held on 30 November 2021

RESOLVED – That the minutes of the Meeting of the Pensions Panel held on 30 November 2021 be confirmed and signed by the Chairman.

40. Dates of Future Meetings

RESOLVED – That the dates of future meetings of the Panel, as set out below, be noted:

- Wednesday 8 June 2022 (2pm)
- Tuesday 6 September 2022
- Tuesday 6 December 2022
- Tuesday 7 March 2023

(Note: All meetings are scheduled to start at 9.30am unless indicated otherwise).

41. Annual Investment Strategy for Pension Fund Cash 2022/23

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

They were informed that, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, Administering

Authorities were required to include policies for how they would manage Pension Fund cash as part of their Investment Strategy Statement (ISS). However, the Fund considered it good practice to prepare a separate Annual Investment Strategy (AIS) for cash balances, with reference made to it within the ISS.

The Panel noted that the Pension Fund had a small strategic asset allocation to cash of 1%, recognising that cash balances were needed for the day-to-day management of the Pension Fund. This 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 would continue to remain with the Fund and would not be transferred to LGPS Central Ltd under the LGPS pooling agenda.

The cash held increased from time to time, pending investment in other major asset classes e.g., property and private debt. The proposed AIS therefore needed to allow for such situations occurring and the Panel would need to review the strategic asset allocation benchmark to cash on a quarterly basis, together with any associated ranges.

The proposed main objectives for the AIS were to invest cash prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The objective when investing cash was to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults but also taking into account the risk of receiving unsuitably low investment income.

To allow for the practical management of the treasury transactions each day, it was proposed that the change in investment limits and the choice over the investments made be delegated to the County Treasurer (S151 Officer), who chairs the County Council's Treasury Management Panel. Outside of this, the Pensions Panel would need to assess any specific requirements and consider any changes that may be required to the AIS.

The Panel noted that DLUHC Guidance on Local Government Investments specified the types of financial instruments that local authorities could invest in. The Fund's AIS had followed the county Council's AIS in dividing investments between Standard and Non-Standard Investment categories. Standard Investment categories included investments that were made with approved counterparties and did not require further approval from the County Treasurer (S151), as Chair of the Treasury Management Panel or the Pensions Panel. These investments tended to be for a period of less than a year and were the most frequently used. In the case of the Pension Fund, Standard Investments were made with the UK Government (central government or local authority, parish council or community council); short-term money market funds (MMFs); and the Fund's banking provider (currently Lloyds Bank). The Non-Standard Investments included: Covered

Bonds, issued by banks and building societies against mortgage assets and guaranteed by a separate group of companies; Repos (Repurchase Agreements), comprising the purchase of securities with the agreement to sell them back at a higher price in the future; UK Government Gilts; and Collective Investment Schemes.

With regard to risk, the Panel were informed that cash was only a small component of the overall investments of the Fund and the wider aspects of risk were considered in the ISS, where cash was shown to form a small part of the Fund's Strategic Asset Allocation. Looking at cash in isolation, treasury management usually recognised that the two prime risk areas were security and liquidity. It was considered that focussing primarily on these two risks was appropriate for the Fund's relatively low 1% allocation to cash, for day-to-day cash management purposes. However, the AIS provided the flexibility to consider higher yields using Non-Standard Investments. Should the Pensions Panel decide to make a higher strategic allocation to cash at some point in the future, where seeking a higher return would become more important, the balance of risk and reward would need to be revisited and the AIS reviewed.

The Panel noted that the main circumstances where a revised strategy would be prepared included a significant change in:

- the Fund's Strategic Asset Allocation;
- the economic environment;
- the financial risk environment; and
- the regulatory environment.

In response to a question from Carolan Dobson as to why it was proposed that any change in investment limits or the investment counterparties set out in the AIS, be delegated to the County Treasurer (S151), rather than to the Panel or the County Treasurer in consultation with the Chairman of the Panel, the Assistant Director for Treasury and Pensions explained that this was for operational reasons. On a day to day basis, due to fluctuating cash balances, it was impractical to have to seek the approval of the Panel or consult with the Chair in advance of investing cash, if changes to limits or investments with new counterparties were warranted. All temporary cash investments would only be made within the framework of the AIS, which has been approved by the Panel.

The Assistant Director agreed to raise this matter with the Director for Corporate Services and the County Treasurer and report back should any change to the previously agreed process be considered necessary.

In response to a question from Cllr Greatorex regarding the rate of interest on cash balances held with Lloyds Bank, the Director indicated that the rate currently stood at 0.4% pa.

RESOLVED – That the Staffordshire Pension Fund’s (‘the Fund’), Annual Investment Strategy (AIS) for the investment of internally managed cash in 2022/23, be approved.

42. Staffordshire Pension Fund performance and portfolio of investments at 31 December 2021

The Director for Corporate Services submitted a summary of the performance of the Staffordshire Pension Fund, together with a portfolio of the Fund’s investments, as at 31 December 2021.

The Panel were informed that, at 31 December 2021, the Fund had a market value of £7.0 billion, its highest reported value to date. Over the quarter the Fund returned 5.1%, which was a marginal underperformance of 0.1% versus the Fund’s Strategic Asset Allocation benchmark return of 5.2%. The best performing asset class relative to its benchmark was Private Equity, returning 9.7% over the quarter against a benchmark return of 3.0%. Property was a detractor from performance along with the overallocation to cash during the quarter.

The Panel also noted that the Fund had outperformed its Strategic Asset Allocation benchmark return over a 3, 5 and 10-year period. Annualised returns over 10 years were 10.7% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

RESOLVED - That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 December 2021 be noted.

43. Responsible Investment & Engagement (RI&E) Report Quarter 4 2021

The Director for Corporate Services submitted a summary of activity during the quarter by the Fund’s investment managers, in fulfilment of their corporate governance and socially responsible investment obligations, including details of their voting activity on corporate resolutions for companies held in their portfolios.

The Panel also received the Fund’s Climate Stewardship Plan (Appendix 1); and the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2).

The Panel were informed that, in February 2022, the Pensions Committee approved the Fund’s first Climate Change Strategy (CCS) which sets out the Fund’s approach to managing the risks and opportunities presented by climate change, with the ultimate aim of achieving a net-zero carbon

investment portfolio by 2050. To guide and monitor the Fund's decarbonisation roadmap, a series of 2030 targets were included in the CCS. A new Climate Stewardship Plan for 2022/23 was approved by the Pensions Committee, alongside the Fund's CCS, in February 2022. Engagement activity would be reported against the new Climate Stewardship Plan, from the June 2022 Pensions Panel.

The Panel were informed that, as the Fund appointed external investment managers, engagement with individual companies was delegated to those managers and the investment managers of pooled funds, in which the Fund also invested (e.g., LGPS Central Funds) and jointly as part of LAPFF. Information on manager engagement and voting was requested routinely as part of the quarterly reporting the Fund received from each of the managers. In Q4 2021 engagement topics included:

- Meeting with a major online retailer to discuss human rights issues, such as warehouse safety and controls around facial recognition.
- A conference call with a scientific technologies company over governance issues and human rights issues. The manager gained reassurances that there were procedural measures in place to ensure their products did not end up in the wrong hands.
- Filing a shareholder proposal at a pharmaceutical companies' AGM requesting public disclosure of how government funding was being considered in the pricing of its Covid 19 vaccine.
- Meeting with a multi-national bank to discuss its climate strategy.

With regard to the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report, the Director highlighted the United Nations 17 Sustainable Development Goals and the engagements which LAPFF had undertaken in respect of achieving progress towards those goals.

With regard to the Quarterly Stewardship Report from LGPS Central Limited, the Panel were informed that there was no report this quarter and that LGPS Central's Stewardship activities for the quarter ending December 2021 would be covered within their Annual Statement of Compliance for the UK Stewardship Code, which was submitted annually in April, and would be reported to the June 2022 Pensions Panel.

The Panel raised the issue of the Russian invasion of Ukraine and enquired as to the level of exposure the Fund had to Russian markets and what instructions should be given to Fund Managers with regard to those funds. In response, the Director indicated that exposure to those markets was less than 0.1% of the Fund's total value, through its global passive investments. In view of the concerns expressed by Members, it was agreed that a letter

would be sent to all the Fund's Investment Managers to make them aware that the Panel were uncomfortable in making further investments in Russian and Belarusian markets.

The Director also indicated that discussions were taking place with LGPS Central on the same issue.

RESOLVED – (a) That the contents of the Responsible Investment and Engagement (RI&E) report, including the Climate Stewardship Plan (Appendix 1), and the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2), be noted.

(b) That the Director for Corporate Services be requested to write to the Fund's Investment Managers to make them aware that the Panel expressed their views that, whilst not an instruction to divest, until such a time as reasonably practicable, they wish to use their inference to strongly discourage any further investment in Russia and Belarus. This should be for the foreseeable future and is in response to the terrible atrocities being committed against Ukraine.

44. 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.

PART TWO

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

45. Exempt Minutes of the Meeting held on 30 November 2021
(Exemption paragraph 3)

46. Staffordshire Pension Fund performance and manager monitoring for the quarter ended 31 December 2021
(Exemption paragraph 3)

47. Strategic Asset Allocation review and monitoring
(Exemption paragraph 3)

- a) Economic and Market Update
- b) Strategic Asset Allocation review outcome
- c) Review of Position as at 31 December 2021

48. Property

(Exemption paragraph 3)

- a) Property Portfolio Investment Strategy for 2022/23
- b) Property investment recommendations

Chairman