

Minutes of the Pensions Panel Meeting held on 6 June 2023

Present: Mike Sutherland (Chair)

Attendance

Philip Atkins, OBE
Mike Davies

Colin Greatorex

Also in attendance:

Apologies: Stephen Sweeney

PART ONE

97. Declarations of Interest

There were no declarations of interest made on this occasion.

98. Minutes of meeting held on 7 March 2023

Resolved: That the minutes of the Meeting of the Pensions Panel held on 7 March 2023 be confirmed and signed by the Chairman.

99. Dates of Future Meetings

- 5 September 2023
- 5 December 2023
- 5 March 2024

Resolved: That the dates of the future Pensions Panel meetings be noted.

100. Pension Fund Performance and Portfolio of Investments as at 31 March 2023

The Director of Finance submitted a summary of the performance of the Staffordshire Pension Fund (the Fund), together with a portfolio of the Fund's investments, as at 31 March 2023.

The Panel were informed that over the quarter the Fund had underperformed its Strategic Asset Allocation benchmark return by 0.6%. The best performing asset class relative to benchmark was listed equities, in particular global sustainable equities. The Fund had a market value of £6.6 billion as of 31 March 2023, an increase of £0.2 billion since 31 December 2022. Private Equity was the largest detractor to Fund performance over the quarter. A copy of the Staffordshire Pension Fund's portfolio of investments at 31 March 2023 was attached at Appendix 1 to the report.

Resolved: That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 March 2023 be noted.

101. Responsible Investment & Engagement (RI&E) Report Quarter 1 2023/24

The Director of Finance submitted the Responsible Investment and Engagement Report to the Panel, which included the Climate Stewardship Plan for 2022/23, the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report and the Local Government Pension Scheme Central (LGPS Central) Quarterly Stewardship Update. It was noted that the LGPS Central Annual Stewardship Report 2022 had not been received. It was agreed that this document would be circulated to the Panel and included in the agenda pack when it had been received.

The Panel heard that the Fund had recently received 'Substantial Assurance' in a 2022/23 Responsible Investment, Climate Change and Engagement Audit from Staffordshire County Council's Internal Audit service. This recognised the hard work of Officers, Advisers and colleagues at LGPS Central for putting the Fund in a good position to deliver its Strategic Asset Allocation within the framework of its Responsible Investment beliefs and Climate Change Strategy. The Panel also heard that the Fund had submitted the Annual Stewardship Report to the Financial Reporting Council and were awaiting approval. It was suggested that, if approved, this would put the Fund in the top 10% of Pension Funds within the UK for responsible investment reporting.

An updated Climate Stewardship Plan (CSP) for 2023/24 had been developed following the production of the Fund's latest Climate Risk Report by LGPS Central in March 2023. The CSP was a working document which was updated for engagement activity carried out throughout the year, with progress reported to the Panel quarterly. The CSP, attached at Appendix 1 to the report, provided information on manager engagement and voting during Q4 2022/23. In Q4 2022/23, notable managers' engagement topics included:

- Engagement with a financial services company about workplace behaviour.
- Discussions with a multinational insurance company to discuss governance and stakeholder engagement on artificial intelligence and cyber security, along with conversations around gender diversity at executive levels.
- Assessing how companies identified, assessed, mitigated, and acted on the risks or instances of modern slavery in their operations and supply chains.

LAPFF's Quarterly Engagement Report for Q4 2022/23 was attached at Appendix 2 to the report. The report highlighted the good work LAPFF did in engaging with organisations on behalf of its members. Examples of engagement from the last quarter included:

- Meeting with McDonald's to discuss management of environmental risks across its agricultural supply chain and requested publication of its water risk assessment to identify high risk areas.
- Meeting with Volvo to discuss the transition of Heavy Good Vehicles to electric.
- Attending a round table with Nestle discussing their approach to reducing Scope 3 emissions, and their focus on regenerative farming, plastics and nutrition.

The Panel were informed that LGPS Central had been asked to provide more detail on the engagements undertaken with companies highlighted in the Fund's Climate Stewardship Plan, which were derived from the Climate Risk Report that LGPS Central prepare for the Fund. As per Councillor Greatorex's request, LGPS Central had also been asked to provide specific examples, and additional evidence, that demonstrated the positive impact their engagement processes had made.

In response to a question from Councillor Greatorex regarding the voting activity of managers, in particular noting a high proportion of voting against management by Legal and General (LGIM), it was highlighted that LGIM had its own Climate Change Pledge which may result in the manager taking a firmer stance against organisations when it came to voting processes. The approach may also be more mechanistic given the passive nature of the portfolio. It was agreed that Officers would arrange a discussion with LGIM to better understand these figures, with feedback being provided to the Panel at a future meeting.

Resolved: a. That the content of the Responsible Investment and Engagement report, including the Climate Stewardship Plan (Appendix 1), the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report (Appendix 2), and the LGPS Central Quarterly Stewardship Update (Appendix 4), be noted.

b. That the LGPS Central Annual Stewardship Report 2022 (Appendix 3) be circulated to the Panel when it had been received.

102. Competition and Markets Authority - Investment Consultant Objectives

The Panel were reminded that, at its meeting on 3 December 2019, they received a briefing paper from Hymans Robertson LLP (Hymans) advising of the findings of the December 2018 report of the Competition and Markets Authority (CMA), and their subsequent Order, in respect of the need for Pension Scheme Trustees to set annual objectives for their investment consultants. In response to the Order, the Pensions Panel continued to agree a high-level set of objectives with Hymans for each financial year, which incorporated more focussed objectives and detail on how the objectives were to be measured. The 2022/23 objectives were signed off by the Panel at the meeting in June 2022, where it was agreed that the Panel would assess, measure and report on the performance of the Investment Consultant against the objectives set, by way of a collective annual review.

Appendix 1 to the report had been annotated with comments, which reflected the Director of Finance's view as to whether the desired outcome of the 2022/23 objectives had been achieved in the short term. In the opinion of the Director of Finance, the objectives and outcomes had been considered to have been met in all cases. The Panel were asked to consider and concur with this view.

The Panel was also requested to confirm its assessment of the outstanding objective, 'Pensions Committee and Panel are satisfied with the quality, presentation and content of any training requested' at the meeting. The Panel were in agreement that the level of service and training provided was of a satisfactory level.

It was explained to the Panel that, to reflect the long-term nature of the Fund's Investment Strategy, most of the objectives for 2023/24 continued to be set at a high level. Whilst the focus of the objectives would be linked to the workplan for the year ahead, it would be the outcomes and the examples provided to demonstrate how the objectives had been achieved, which would be considered most important. The focussed objectives for the 2023/24 Financial Year were detailed in Appendix 2 to the report.

Very minor changes were proposed to the objectives for 2023/24, which reflected the fact that the workplan for 2023/24 continued to be focussed on the implementation of the recommendations from the Strategic Asset Allocation Review, and the Funds' Climate Change Strategy. The only other minor change was that the objective which related to Regulation/Legislation and incorporated Responsible Investment, had been split into two separate objectives, given one was not always directly linked to the other, and the Fund had now set clear Climate Change targets.

Resolved: a. That the Panel's concurrence with the view of the Director of Finance; that the desired outcomes from the Investment Consultant Objectives for 2022/23 have been met, where these can be considered in the short term, be noted.

b. That the Pensions Panel's assessment of the objective '*Pensions Committee and Panel are satisfied with the quality, presentation and content of any training requested*', be confirmed.

c. That the Investment Consultant Objectives provided in Appendix 2 to the report be approved, and the specific focus for the 2023/24 financial year be noted.

103. 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.

104. Exempt Minutes of the Meeting held on 7 March 2023 (Exemption paragraph 3)

105. Pension Fund Performance and Manager Monitoring for the quarter ended 31 March 2023 (Exemption Paragraph 3)

106. Economic and Market Update (Exemption paragraph 3)

107. Factor Based Investment Review (Exemption paragraph 3)

108. Strategic Asset Allocation - Quarterly update (Exemption paragraph 3)

109. Private Equity (Exemption paragraph 3)

Chairman