

## Minutes of the Pensions Panel Meeting held on 2 March 2021

### Attendance

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

**Also in attendance:** Iain Campbell (Hymans Robertson), Carolan Dobson (Independent Adviser), Philip Pearson (Hymans Robertson) and Paul Potter (Hymans Robertson).

### PART ONE

#### 24. Declarations of Interest

There were no declarations of interest on this occasion.

#### 25. Minutes of meeting held on 1 December 2020

**RESOLVED** – That the minutes of the Meeting of the Pensions Panel held on 1 December 2020 be confirmed and signed by the Chairman.

#### 26. Staffordshire Pension Fund performance and portfolio of investments as at 31 December 2020

The Director of 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 2020.

The Panel were informed that the Fund had a market value of £5.9 billion as at 31 December 2020. Over the quarter the Fund returned 6.8%, which was just higher than the Fund's Strategic Asset Allocation benchmark return of 6.6%. The best performing asset class relative to its benchmark, was Private Equity.

The Fund had modestly outperformed its strategic benchmark over a 3, 5 and 10-year period. Annualised returns over 10 years were 9.0% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

In response to a question from Cllr Sutherland, the Director of Corporate Services indicated that Property had been fairly consistent in terms of valuations during the pandemic. Carolan Dobson confirmed that material uncertainty clauses, accompanying recent valuations had now largely been removed.

**RESOLVED** – That the Pension Fund Investment performance and the portfolio of investments for the quarter ended 31 December 2020 be noted.

#### 27. Responsible Investment (RI) report quarter 4 2020

The Director of Corporate Services submitted a summary of activity during the quarter ended 30 September 2020 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 noted that information on manager engagements and voting was requested routinely as part of the quarterly reporting the Fund received from each of the managers and in Q4 2020 engagement topics included;

- the successful lobbying of an industrial services company, to no longer play any part in the construction of coal-fired power plants;
- engagement with a transport company over scope 3 carbon emissions and its aim to become carbon neutral by 2030;
- discussions with a large oil and gas company over its transition to becoming an integrated energy business, including growth in renewable energy, bioenergy and electric vehicle charging points; and
- a call with a financial services company regarding inclusivity, equal opportunities and investment into diverse suppliers and small businesses.

The Director also submitted the quarterly report of the Local Authority Pension Fund Forum (LAPFF)

The Panel were informed that LGPS Central Ltd were changing the structure of their reporting and for the October to December quarter, the usual RI report would be included in an Annual Report, which would be available for the meeting of the Panel in June. The Annual Report would take longer to publish, as not only would it include the usual quarterly stewardship information, but it would also include information on the progress LGPS Central Ltd had made against their Annual Stewardship Plan. Finally, it would act as the reporting tool for them to achieve, and maintain, their UK Stewardship Code signatory status.

The Director also informed the Panel that the Fund's Climate Risk Report, compiled by LGPS Central Ltd, had recently be received and would be reported to the Pensions Committee at its meeting in March. The Panel also noted that the Fund's UK Stewardship Code would need to be updated this year.

**RESOLVED** – That the content of the Responsible Investment (RI) report, including the Local Authority Pension Fund Forum (LAPFF) Quarterly Engagement Report and the change in process for this quarter in relation to the LGPS Central Ltd Quarterly Stewardship Report, be noted.

## **28. Annual Investment Strategy for Pension Fund Cash**

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). In addition to this, 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 increases from time to time, pending investment in other major asset classes e.g. property and private debt. The proposed AIS therefore needs 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 MHCLG 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 are 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 did not present any additional security risk to the investments within the Standard Investments category and 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.

In response to a question from Cllr Sutherland concerning whether the appointment of the Fund's Bankers was reviewed, the Director of Corporate Services indicated that this

was the case and that the Fund was shortly to go out to tender for the contract for the supply of its banking services.

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.

**RESOLVED** – That the Staffordshire Pension Fund's ('the Fund') Annual Investment Strategy (AIS) for the investment of internally managed cash be approved.

## **29. Investment Strategy Statement**

The Panel were informed that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force in 2017, required that the first Investment Strategy Statement (ISS), which replaced the Statement of Investment Principles, to be published by 1 April 2017, kept under review and revised from time to time and at least every three years.

The Panel noted that the ISS documents how the investment strategy for the Fund was determined and implemented and was required to cover numerous areas, specifically:

- The requirement to invest money across a wide range of investments;
- An assessment of the suitability of particular investments and investment types;
- The maximum percentage authorities deem should be allocated to different asset classes or types of investment;
- The authority's attitude to risk, including the measurement and management of risk;
- The authority's approach to investment pooling;
- The authority's policy on social, environmental and corporate governance considerations; and
- The authority's policy with regard to stewardship of assets, including the exercise of voting rights.

The Fund's ISS was first published in April 2017 and had been reviewed annually since, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Ltd. Having been updated quite substantially, to incorporate the outcome of the 2019 Strategic Asset Allocation review and the 2019 Actuarial Valuation, the current version of the ISS included some relatively minor amendments to better reflect activity during 2020, thus keeping it up to date.

The Panel also noted that under Regulation 7(5), the authority must consult such persons as it considered appropriate as to the proposed contents of its investment strategy. In the formulation of the updated ISS, the Fund had consulted with its investment advisors – Hymans Robertson.

It was also noted that the ISS may need further substantial revision following the outcome of the MHCLG's formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in 2021. At this stage, wider consultation on the ISS might also be considered appropriate.

The Panel were also informed that Paul Potter from Hymans Robertson was to retire shortly. Members extended their thanks to Mr Potter for the contribution he had made to the work of the Fund and wished him a happy retirement.

**RESOLVED** – (a) That the updated Staffordshire Pension Fund Investment Strategy Statement (ISS) be approved.

(b) That the potential requirement for further updates to the Investment Strategy Statement (ISS) once the outcome of the Ministry of Housing, Communities and Local Government's (MHCLG) formal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known, be noted.

### **30. Dates of Future Meetings**

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

- Tuesday 8 June 2021 (2pm start)
- Friday 3 September 2021
- Tuesday 30 November 2021
- Tuesday 1 March 2022

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

### **31. 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:

**32. Exempt Minutes of the Meeting held on 1 December 2020**

(Exemption paragraph 3)

**33. Staffordshire Pension Fund performance and manager monitoring for the quarter ended 31 December 2020**

(Exemption paragraph 3)

**34. Strategic asset allocation review and monitoring**

(Exemption paragraph 3)

- a) Economic and Market Update
- b) Review of Position as at 31 January 2021

**35. Property**

(Exemption paragraph 3)

- a) Annual Property Review and Strategy Report for 2021/22
- b) Gresham House Residential Secured Income LP
- c) Confirmation of action taken by the Director of Corporate Services

**36. Manager presentation - Colliers (Property)**

(Exemption paragraph 3)

**Chairman**