

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held remotely via Microsoft Teams on **Thursday 3 December 2020 at 9.30 am**

Present:

Councillor M Davinson in the Chair

Durham County Councillors

O Temple (Vice-Chair) J Atkinson, J Lethbridge, S Hugill, B Kellett, and J Shuttleworth

Darlington Borough Council Member

Councillors C Johnson

Scheme Member Representatives

John Taylor

Further Education Colleges Representative

Andrew Broadbent

Council Advisers

Paul Cooper – Pensions Manager
Bryan Smith – Litigation Manager
Beverley White – Finance Manager

Independent Advisers

Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

Observers

Councillor A Hopgood - Local Pension Board
N Hancock – UNISON and Local Pension Board
Les Timbey – GMB Branch Officer

Daniel Reay – Mazars
Andrew Stone – BCPP

1. Apologies for Absence

Apologies for absence were received from Councillors C Carr, J Carr and M Wilson (Durham County Council) and A Delandre (Scheme Member Representative).

2. Declarations of interest

There were no declarations of interest.

3. Minutes

The minutes of the meeting held on 10 September 2020 were confirmed as a correct record and would be signed by the Chair.

4. Pension Fund Committee Training

The Committee considered a report of the Corporate Director of Resources which provided an overview of the issues considered by the Committee at training held since the last meeting (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

5. Overall Value of Pension Fund Investments to 30 September 2020

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund's investments at 30 September 2020, movement in the cash balance during the last four quarters and the projected cash flow position up to 31 December 2021 (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

6. Performance Measurement of Pension Fund Investments to 30 September 2020

The Committee considered a report of the Corporate Director of Resources which provided an overview of the performance of the Pension Fund's assets, which were being held outside of Border to Coast Pensions Partnership to 30 September 2020 (for copy see file of minutes).

Resolved:

That the information contained in the report produced by the Fund's custodian, Northern Trust be noted.

7. Internal Audit Progress Report to 30 September 2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had

been carried out by Internal Audit during the period 1 April 2020 to 30 September 2020 as part of the 2020/2021 Internal Audit Plan (for copy see file of minutes).

Resolved:

That the work undertaken by Internal Audit during the period ending 30 September 2020 be noted.

8. Audit Completion Report - Independent Auditor

The Committee considered a report of the Council's External Auditors (Mazars) as a result of their audit of the Pension Fund's accounts for the year ended 31 March 2020 (for copy see file of minutes).

Daniel Reay of Mazars presented the Audit Completion Report and provided an update of the report that was presented to the Pension Fund Committee in September.

Councillor Shuttleworth referred to Appendix B of the audit report which stated there was a risk that current valuations may be under or overstated in the accounts due to the effects of COVID-19. He commented that the risk of valuation of property investments had been underestimated as opposed to overestimated and should be reflected in the report. Daniel Reay explained that the report recognised the uncertainty in the market in general due to COVID-19, not necessarily one way or the other.

Responding to a query from Councillor Davinson regarding the internal controls recommendation regarding members declaration of interests, Daniel Reay advised that work carried out in that area looked at declaration forms signed by Pension Fund Committee Members and Audit Committee Members. It was reported there was a total of five instances of incomplete forms for 2019/20. It was recognised that processes would be improved to ensure all declaration of interests were received.

Resolved:

That

- a) the External Auditor's report following the audit of the Statement of Accounts for the year ended 31 March 2020, including the summary of misstatements detailed in section 4 of the report, be noted;
- b) the content of the Management Representation letter (Appendix A), Auditors report on the Council's Statement of Accounts (Appendix B) and the Consistency report to be included in the Pension Fund Annual report (Appendix C), be noted.

9. Pension Fund Accounts for the Year Ended 31 March 2020

The Committee considered a report of the Corporate Director of Resources which presented the audited Pension Fund Accounts for the year ended 31 March 2020 which had been approved in accordance with the statutory deadlines and the Council's Constitution (for copy see file of minutes).

The Finance Manager presented the report and highlighted the key financial information. She explained that due to COVID-19, statutory deadlines for approval and publication of the accounts were extended to the 31 August 2020 for the draft accounts and the 30 November 2020 for the final set of accounts.

The external auditors made a small number of minor amendments as set out in the Audit Completion report presented at item 8 on the agenda.

The Finance Manager was pleased to report that the accounts received a clean bill of health from the external auditors, Mazars who provided an unqualified opinion on the Pension Fund accounts for 2019/20 and that all the deadlines relating to this year's accounts and the Pension Fund Annual Report have been met.

Resolved:

That the contents of the Pension Fund's financial statements for the financial year ended 31 March 2020 at Appendix 1 of the report be noted.

10. Border to Coast Pensions Partnership Responsible Investment Policy

The Committee considered a report of the Corporate Director of Resources that provided an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP) (for copy see file of minutes).

The Pensions Manager presented the report and highlighted BCPP approach to engage companies to drive change for the better as opposed to a blanket policy of divestment from specific sectors. He also highlighted the forward view of areas that BCPP would be reviewing in 2021 and noted that BCPP could potentially vote against board chairs of companies where not enough progress had been made in relation to climate change.

Councillor Temple welcomed the report and felt that having a dedicated department to manage Responsible Investment would be a move forward. He asked if there was sufficient capacity to influence the decision to move towards disinvestment if it was felt appropriate in future. The Pensions

Manager agreed that a dedicated department responsible for investment was a welcome addition and a real benefit. He advised that there would be an opportunity to influence the direction of travel and setting out a standalone policy on climate change next year. The committee would have an opportunity to revisit Responsible Investment in June 2021 and provide feedback to BCPP. He added that the Responsible Investment policy is a collective one, with BCPP managing assets on behalf of all 11 partner funds in line with the policy. Feedback from the Committee following the training session in June 2021 would be valuable.

The Chair commented that all involved in the pool were discussing the same topics at different levels. Moving in the same direction would be dependent on which investments they already had and how well they were doing. He advised that South Yorkshire were furthest forward towards their goals of the councils who are on the BCPP and were looking to disinvest from fossil fuels by 2030.

Councill J Atkinson commented that Border to Coast have set their own climate change policy and highlighted that other council's may be more draconian than others. He suggested that Border to Coast would have to have a fixed policy to take to the pool and asked how it would be achieved taking into account 11 partners who may have different perspectives.

Andrew Stone from Border to Coast accepted that different partner funds would have their own views on Responsible Investment. He advised that policies are developed with the aim to achieve consensus and develop best practice in the market during the course of a six-month process. Some partner funds would continue to drive further along the spectrum and their own Responsible Investment policy may include things that do not feature in Border to Coast policies. South Yorkshire had set ambitious goals of carbon neutrality by 2030 and were undertaking their own analysis to try and come up with a plan to put into practise. Border to Coast policies on Responsible Investment were not much different to other larger managers and would be receiving the same engagement on certain topics and there would be a clear view coming through on more contentious matters. He further advised that if a partner fund wished to vote on their holding on a particular stock, it was well within their rights to do as long as sufficient notice was given.

Resolved:

That

- a) that the Responsible Investment Policy and Corporate Governance and Voting Guidelines Policy included in Appendices 1 and 2 that BCPP will operate on behalf of the Pension Fund for assets transferred into the pool be approved;

- b) that the Corporate Director of Resources be authorised to amend the Fund's Investment Strategy Statement (ISS) in line with the principles of BCPP's RI Policy.

11. Implementation of Exit Policy

The Committee considered a report of the Corporate Director of Resources which informed Members of the finalisation of the Fund's Exit Policy and sought delegation to make a determination on any exit credit that may become payable under the Policy (for copy see file of minutes).

Resolved:

That

- a) the contents of the report and the Exit Policy set out in Appendix 1 be noted;
- b) the Corporate Director of Resources be authorised to make a determination on the amount of any exit credit payable to an exiting employer, in line with the Fund's Exit Policy.

12. Such other business as, in the opinion of the Chair of the Meeting is of sufficient urgency to warrant consideration

There was no urgent business to consider.

13. Exclusion of the Public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

14. Minutes

The minutes of the meeting held on 10 September 2020 were confirmed as a correct record and would be signed by the Chair.

15. Investment Strategy Review Update

The Committee considered a report of the Corporate Director of Resources which provided an update on progress made towards implementing asset allocation decisions (for copy see file of minutes).

Resolved:

That the recommendations in the report be approved.

16. Report of the Pension Fund Adviser

The Committee considered the report of the Independent Adviser, Sandy Dickson of Mercer (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

17. Report of the Pension Fund Independent Adviser

The Committee considered a report of the Independent Investment Adviser, Anthony Fletcher of MJ Hudson (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

18. Report of Alliance Bernstein

Consideration was given to a report from Alliance Bernstein which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

19. Report of BlackRock

Consideration was given to a report from BlackRock which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

20. Report of CBRE Global Investment Partners

Consideration was given to a report from CBRE which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

21. Report of Mondrian Investment Partners

Consideration was given to a report from Mondrian which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

22. Report of Royal London

Consideration was given to a report from Royal London which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

23. Report of Border to Coast Pensions Partnership

Andrew Stone provided an update to Members on progress with the Border to Coast Pensions Partnership which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

Resolved:

That the information contained in the report be noted.

24. Border to Coast Pensions Partnership Private Monitor Report as at 30 June 2020

The Committee considered a report of Northern Trust which provided an analysis of cash flow, portfolio funding, partnership performance and comparative analysis to 30 June 2020 (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.