

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in **Committee Room 2, County Hall, Durham** on **Thursday 7 December 2023** at **10.00 am**

Present:

Councillor D Sutton-Lloyd (Chair)

Members of the Committee:

Councillors M Stead (Vice-Chair), J Atkinson, K Earley, D Freeman, B Kellett, J Quinn, J Shuttleworth and C Varty

Scheme Member Representatives

A Broadbent, A Delandre and J Taylor

Council Advisers

Paul Cooper – Head of Pensions (LGPS)

Paul Darby – Corporate Director of Resources

Shareen Din – Lawyer (Employment)

Jo McMahon – Finance Manager

Investment Advisers

Rachel Elwell – BCPP

Milo Kerr – BCPP

Independent Advisers

Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

Also in attendance:

Thomas Backhouse – Mazars

Les Timbey – GMB Representative

1 Apologies for Absence

Apologies for absence were received from Councillors C Fletcher and M Porter.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

The minutes of the meeting held 14 September 2023 were agreed as a correct record and signed by the Chair.

4 Pension Fund Committee Training - Verbal Update

The Head of Pensions (LGPS), Paul Cooper provided feedback on the Committee training undertaken following the Annual Meeting in November, with issues including climate change and UK Opportunities. He reminded the Committee that a summary of training undertaken was reported alongside the Fund's Governance Compliance Statement. He added that all the elements of the Fun's approach to training would be codified into a formal training policy, to be brought back to the Committee in March 2024, to include mandatory elements for members of the Committee.

The Chair noted the importance of training for Members and noted that he felt that Durham Pension Fund Members already demonstrated their commitment to learning and development, and that it was important to stay up to date with the changing requirements placed on Committee members.

Resolved:

That the verbal update be noted.

5 Overall Value of Pension Fund Investments to 30 September 2023

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund investments to 30 September 2023, the movement in cash balances during the last quarter (for copy see file of Minutes).

The Finance Manager, Jo McMahon noted that the Finance Team were developing enhanced cashflow information which would be presented to the Committee in due course, with periodic reporting thereafter.

Resolved:

That the information contained in the report be noted.

6 Performance Measurement of Pension Fund Investments to 30 September 2023

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 30 September 2023 (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 Feedback from Local Pension Board

The Head of Pensions (LGPS) noted the last meeting of the Local Pension Board was held after the Pension Fund Committee meeting on 14 September 2023 and Board Members had attended the Annual Pension Fund meeting on 9 November 2023. He explained the Board received detailed information on KPIs and updates in respect of regulatory changes that would impact scheme members.

The Chair noted vacancies in respect of the Local Pension Board membership and that Board Members were invited to attend the Committee meetings.

Councillor B Kellett asked as regards Moody's downgrading China and any impact this would have on the Fund. The Head of Pensions (LGPS) noted China did form part of the Fund's strategy in terms of investing in the global economy. S Dickson agreed that the Chinese economy was very different to the US or UK economies and noted the Fund's direct investment in China was relatively small and noted the diverse portfolio of the fund, with the risk as being a relatively small proportion of overall risk.

Councillor J Atkinson asked as regards Local Pension Board Members attending Committee meetings. The Head of Pensions (LGPS) noted that Board members had the opportunity to attend Committee and had done so in the past where there were issues the Board had wished to raise with the Committee.

Councillor K Earley noted the phrase 'America sneezes and the world economy catches cold' and asked if it was a similar position with China. A Fletcher noted that problems in China were mainly domestic, with the US having more of a global economy. He noted the importance of China in

terms of manufacturing, however, highlighted that the recent issues with their property market were domestic.

He noted the issues with property in China was very different when comparing to other housing problem, such as in Spain previously. He noted the issues were not systemic as they were in the US in 2008 or the EU in the 2010s.

Resolved:

That the verbal update be noted.

8 Pension Fund Annual Report and Accounts

The Committee considered the Pension Fund Annual Report and Accounts for the year ended 31 March 2023 (for copy see file of minutes). Thomas Backhouse from Mazars provided an update on the report.

T Backhouse reminded the Committee of the national picture with only 5 of 470 Local Government accounts having been completed within timescales and noted that Durham had now completed their accounts and Mazars had offered an unqualified opinion with some internal control recommendations. The Finance Manager noted that a working group had been set up with other BCPP Pension Funds as regards the issues highlighted.

The Corporate Director of Resources, P Darby noted the accounts had been considered by the Council's Audit Committee last week and were signed off. He noted it had been disappointing they had not been signed off by the end of September, however, the issues had been outside of the Council's control. He added that completion by November had been a good achievement and thanked the Finance Manager and her Team for their hard work.

A Broadbent added his thanks to the Finance Manager and the Team. He asked as regards assurance, materiality levels and internal control recommendations. T Backhouse noted that it was felt the accounts represented a full and fair representation and actions were being taken by the Finance Manager in response to the internal control recommendations.

Councillor J Atkinson thanked the Finance Manager and the Team and asked as regards actions to be taken in response to the recommendations. The Head of Pensions (LGPS) noted work that would be undertaken and reiterated a working group had been established, through BCPP. The Corporate Director of Resources noted that it was a case of having consistent use of data to inform opinions, with work ongoing to address those issues. The Chair asked if there was a national standard approach.

The Corporate Director of Resources noted that there was, however, with two organisations offering their professional opinions there would always be some difference, with the ongoing work looking at better aligning those opinions.

Resolved:

That the contents of the Pension Fund's financial statements for the financial year ended 31 March 2023 be noted.

9 Border to Coast Pensions Partnership Responsible Investment Policy

The Committee considered a report of the Corporate Director of Resources and presentation by Milo Kerr, Head of Customer Relationship Management, BCPP on the BCPP Responsible Investment Policy (for copy see file of Minutes).

M Kerr explained as regards the background to the development of the Responsible Investment (RI) Policy and noted that RI was central to the BCPP approach to investment. Members were informed as regards the RI Team members at BCPP. M Kerr noted the RI Policy, Corporate Governance and Voting Guidelines and Climate Change Policy and gave examples of how the RI Policy was used in action, in terms of voting at company AGMs. The Committee noted updates to the exclusions in respect of investments in thermal coal and oil sands, thermal coal generation and controversial weapons.

Councillor J Atkinson noted 23 votes against management at company AGMs and asked how those votes were decided upon. M Kerr noted that there were around 1,000 votes annually and therefore work was carried out with BCPP's Voting Partner, Robeco, to interpret the voting guidance against motions being tabled at AGMs. He added that there would be internal debate at BCPP in addition on high profile issues prior to a vote being submitted.

Councillor C Varty commended M Kerr and BCPP on their work, the 23 votes and work on exclusions, especially on controversial weapons.

Councillor D Freeman noted the vote against Glencore at their AGM and asked would there be a point where we would look to divest. M Kerr noted the vote was against their 2022 Climate Report, explaining it was felt their strategy and progress did not align with the Paris Climate Agreement.

He added that BCPP supported a shareholder resolution as regards disclosure of use of thermal coal. He added that divesting was always a last option, once other options had been exhausted.

Councillor K Earley asked if it would be more impactful if whole LGPS took more action in terms of investment, with this perhaps being more impactful in terms of making companies make positive changes. M Kerr noted there would be the opportunity to again invest in Climate Opportunities from April 2024, noting it was felt there would be great opportunities in the near future in terms of low carbon. The Chair noted that this was an issue that remains high on the agenda at the BCPP Joint Committee.

Councillor J Shuttleworth left the meeting at 11.05am

The Head of Pensions (LGPS) reminded Members of the fiduciary duty, with a primary responsibility of ensuring returns on investment in order to pay pensions and to keep employer contributions as stable as possible. He noted that issues such as climate change were considered primarily through the lens of investment risk and opportunity. He noted the good work of BCPP in managing the Pension Fund Committee's position and highlighted that simply divesting from companies could negatively impact the fund and that with BCPP ramping up their engagement in terms of issues such as Climate Change, this provided an opportunity for positive real world change. M Kerr noted that BCPP was recognised as an industry leader with a recent 2023 Pensions for Purpose Paris Alignment Award - Best Climate Change Policy Statement.

Resolved:

- (a) That the Policies and the key changes highlighted in Appendix 1 be noted;
- (b) That the: (i) the Responsible Investment Policy, (ii) the Corporate Governance and Voting Guidelines Policy, and (iii) the Climate Change Policy included in Appendices 2, 3 and 4 which BCPP will operate on behalf of the Pension Fund for assets transferred into the pool be noted and approved;
- (c) That the adoption of the BCPP Voting Guidelines for any asset held outside of the pool be approved, and;
- (d) 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 Responsible Investment Policy.

10 Pension Fund Debt Management

The Committee considered a report of the Corporate Director of Resources presented by the Head of Pensions (LGPS) on the Pension Fund – Debt Management and Write-off Policy (for copy see file of Minutes).

The Head of Pensions (LGPS) gave an overview of the Fund's Debt Management and Write-off Policy and provided a summary of its key features.

He noted that the majority of instances of Pension Fund Debt occurred following the death of a scheme member and explained as regards a sensitive approach in terms of a £250 write-off and requirements in terms of HMRC and tax charges on debt over £250 or for a period after six months following a scheme member's demise.

The Chair noted he felt the approach was sensible and sensitive, the Committee agreed.

Resolved:

- (a) That the report be noted.
- (b) That the Corporate Director of Resources be authorised to finalise, publish and implement the Policy, taking into account comments of the Pension Fund Committee and Local Pensions Board.
- (c) That review of the Debt Management and Write-off Policy be delegated to the Local Pensions Board.

11 Regulatory Update

The Committee considered a report of the Corporate Director of Resources which briefed the Committee on developments in matters that were both LGPS specific, as well as providing an update on non-LGPS specific matters of interest (for copy see file of Minutes).

The Head of Pensions (LGPS) noted significant current issues related to GMP Rectification and the Government's recent LGPS investment Consultation some elements of which would be discussed further in the private part of the meeting. He noted the large amount of work that had been required in terms of getting data and records in line for GMP Rectification, and explained as regards the positive outcome for the Durham Fund, with a single complaint received from the total population of rectified pensioners.

Councillor B Kellett asked for an update in McCloud. The Head of Pensions (LGPS) noted the issue was ongoing, with the Local Pension Board receiving regular updates on the matter. He noted the work ongoing in terms of the Universal Pensions Management system (UPM) and highlighted that unlike GMP Rectification, there was only 'winners' in terms of McCloud, however, he suspected there would be very few pensioners positively impacted.

The Chair noted in respect of government direction on pooling that from the most recent Joint Committee Meeting that Durham in particular, and Border to Coast generally, appeared to be ahead of the game in terms of asset pooling and thanked the Head of Pensions (LGPS) and his team, along with the external support from advisors.

Resolved:

That the information contained in the report be noted.

12 Exclusion of the Public

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.

13 Minutes

The minutes of the meeting held 14 September 2023 were agreed as a correct record and signed by the Chair.

S Dickson left the meeting at 11.35am

14 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).

Councillor J Shuttleworth entered the meeting at 12.20pm

Resolved:

That the recommendations in the report be approved.

*Councillors J Atkinson and C Varty left the meeting at 12.50pm
S Dickson entered the meeting at 12.50pm*

15 Report of the Independent Investment 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.

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 Border to Coast Pensions Partnership Quarterly Performance Report

M Kerr 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;
- d) Information on Global Real Estate Strategy.

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 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.

20 Report of Foresight

Consideration was given to a report from Foresight 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 Border to Coast Pensions Partnership Private Monitor Report

The Committee considered a report of Northern Trust which provided an analysis of cash flow, portfolio funding, partnership performance and comparative analysis to June 2023.

Resolved:

That the information contained in the report be noted