

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 27 May 2022 held at County Hall, Northallerton commencing at 10 am.

Present:-

County Councillors John Weighell OBE (Chairman), Margaret Atkinson, George Jabbour, Cliff Lunn (as substitute for Sam Gibbs), Neil Swannick, Angus Thompson, Matt Walker and Andrew Williams.

Councillor Christian Vassie - City of York Council.

Councillor Patrick Mulligan – North Yorkshire District Councils

David Portlock - Chair of the Pension Board.

County Councillor Sam Gibbs and Brian Hazledine – UNISON retired members, submitted their apologies.

One Member of the public was also present.

Copies of all documents considered are in the Minute Book

1. Exclusion of the Public and Press

Resolved –

That on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006, the public was excluded from the meeting during consideration of Min.no.3(b) – Confidential minutes of 4th March 2022

2. Welcome and Introduction

The Chairman welcomed everyone to the meeting including the eight new Members of the Committee. He also paid tribute to the Members of the previous Committee and the hard work they had undertaken on behalf of the Committee.

3(a). Minutes

Resolved -

That the Minutes of the meeting held on 4th March 2022 were confirmed and would be signed by the Chairman as a correct record at the first available opportunity.

3(b). Confidential Minutes

That the Confidential Minutes of the meeting held on 4th March 2022 were confirmed and would be signed by the Chairman as a correct record at the first available opportunity.

(There was no discussion of the Confidential Minutes, therefore, the Meeting did not go into private session).

4. Appointment of Vice-Chairman

Resolved –

That Councillor Patrick Mulligan be appointed Vice-Chairman of the Pension Fund Committee.

5. Declarations of Interest

County Councillor George Jabbour declared the following non-registerable interest:-

I am director and owner of Ethos Capital Advisors Ltd, a financial business that is authorised and regulated by the Financial Conduct Authority. I have also been campaigning on issues involving the way public-sector organisations, pension funds and other institutions manage their finances.

6. Public Questions or Statements

Richard Tassell, on behalf of Fossil Free North Yorkshire, addressed the Committee outlining the following statement/questions.

The context for this submission is Antonio Guterres, UN Secretary General's response to the third IPCC report published in February this year. He said that the world had 30 months to begin the radical changes necessary to enable all countries to attain their targets to keep global warming below or at 1.5 degrees increase.

As a member of Fossil Free North Yorkshire and as a retired member of staff I would like to address the committee. Our group took some encouragement from some parts of Councillor's Weighell's comments in articles in the media in the region, during the recent council elections. We had asked that urgent steps be taken to address the climate emergency that is irrefutably upon us.

Councillor Weighell in reply, evidenced the infrastructure fund in North Yorkshire which has recently increased its commitment to fund green investment projects. Whilst wishing to commend this development we think this is an entirely inadequate response to the scale of the crisis we are facing.

We are asking that the council actively and urgently consider divesting from fossil fuel investments currently held by our pension fund and seek reinvestments in renewable projects.

The Ukrainian invasion by Russia has highlighted the precarious nature of western countries' energy supplies and when set against the developments in renewables over the past five years to a point where this technology is cheaper than coal, gas and oil (International Energy Agency report, World Energy Outlook 2020) we must move away from those fuels at pace.

The media has reported in the last two weeks (The Guardian 9/05/22) on up to 200 new fossil fuel projects termed 'carbon bombs' because of the catastrophic consequences for the climate. Commenting on the report the Executive Director of the International Energy Agency, Fatih Birol said 'I understand 'some countries may look at new fossil fuels but they should remember it takes many years to start production'; 'such projects are not the solution to our urgent energy security needs'.

Short term high prices in gas and oil entities, as the result of the Ukrainian crisis are not sustainable long term, and we believe the committee's fiduciary duties should be properly discharged and long-term valuable returns for the pension fund ensured, through divestment from fossil-based companies and reinvestment in renewable technology.

We believe that Cllr Weighill recognises that the fund should move away from fossil fuels. We, therefore, as a matter of urgency, request that the committee set time-specific targets for this to be accomplished, to give long term sustainable returns for the fund.

We also ask that the committee urgently consult with NYCC pensioners and seek their views on divestment and reinvestment.

The following issues were highlighted in response:-

- Opportunities in renewable energy are limited, and there are a lot of investors seeking these.
- This is illustrated by the Committee's desired commitment to Border to Coast's Climate opportunities fund, which was scaled back because of investor demand exceeding the available opportunities.
- The Fund has a low carbon footprint; investments in oil and gas companies have reduced significantly over recent years and is now less than 1% of the Fund.
- The Fund favours engagement over divestment to influence the transition of companies to a low carbon economy.
- If shares were sold they would likely be bought by investors with no intention of positively influencing the transition.

The questioner was given an opportunity to provide a supplementary question/statement and acknowledged the limited opportunities available in renewable energy, but noted that these opportunities were increasing and considered that the Fund should be in a position to take advantage of these. He questioned the 'engagement over divestment' approach and considered this not to be beneficial in these circumstances.

Mr Tassell was thanked for his question/statement and for the issues raised.

7. Pension Administration Report

Considered -

The report of the Treasurer providing Members with information relating to the administration of the Fund in the quarter and updates on key issues and initiatives which impact the administration team, including the following:-

Admission Agreements and New Academies

Administration

Membership Statistics

Throughput Statistics

Performance Statistics

Commendations and Complaints

Annual Benefit Statements 2022

Breaches Policy & Log

Issues and Initiatives

Administration System Project

McCloud

Broadacres

Member Training

Meeting Timetable

As this was the initial Meeting of the newly appointed Committee, the report was presented in enhanced detail to provide new Members with an overview of the work undertaken by the Administration Service.

The following issues from the report were highlighted:-

- There was a significant amount of work requiring action. A Member asked whether the recruitment of additional staff, as outlined, would assist in addressing this. In response, the recent change to the team structure, the recruitment of new staff and an improved training plan for the team were expected to reduce the backlog of cases significantly.
- A Member asked how Fund members were encouraged to move to self-service, online access of their details. In response, it was stated that a mail shot had been sent out to all Members initially, with email reminders issued to encourage members to move to the online access. It was emphasised that the option of paper communications would remain in place to ensure that scheme members who did not want to, or could not, move to the online facility, continued to receive details of their pension. It was stated that the Fund's website provided videos and guides explaining how members can access and navigate around their online records. Further developments were planned to provide an improved online experience for members.
- There had been one breach of the regulations since the previous meeting, with the details outlined in the breaches log, relating to multiple letters for different pension members being sent in one envelope to one member. This had resulted from a staff member not following the correct procedure. The issue had been addressed with the member of staff and a new automated process was being introduced that would eliminate the human error factor in terms of posting out information. A Member noted that there had been 7 breaches since 2021 and noted that updated systems were being introduced, and he wondered whether this may cause further breaches to rise as staff would be unfamiliar with these.
In response, it was stated that the opposite was expected, with new, updated systems and processes reducing the likelihood of a breach of the Regulations.

The Treasurer stated that all breaches were reported to NYCC as Administering Authority, via this Committee, to determine any recurring themes and an extra layer of safeguarding and support was provided through discussion of any breaches with the County Council's Internal Audit provider, Veritau. The Chair of the Pension Board noted that the breach had been discussed at a recent meeting of the Pension Board and, given an explanation of the facts; Members had agreed to recommend to the Committee that the issue should not be referred to the Pensions Regulator.

- NYCC had successfully been onboarded onto i-Connect, a portal used by employers to upload monthly data rather than submit a year end file each year. The City of York Council had submitted a test file and it was hoped that they would be on-boarded in the near future. This would mean that the Fund's two largest employers would be submitting monthly data electronically, saving a great deal of time in terms of processing data, going forward.
- An explanation was provided in respect of the McCloud judgement. There had been a good response from employers providing the data needed for the McCloud remedy and this was being analysed by the third party contractor appointed by the Fund. It was noted that the Actuary was required to reflect the potential cost of this to the Fund within the triennial valuation currently taking place.
- Details were outlined in relation to the Broadacres proposed transfer into the Fund, the background and the issues that had arisen that had resulted in the request, and the progress being made in enabling that to happen. During the discussion, it was noted that the application from Broadacres pre-dated Local Government Reorganisation (1 April 2023). However, there would be no financial impact on the Fund from the proposal, as Hambleton District Council was acting as guarantor. The proposal was still being negotiated at this stage and further details on how this was progressing would be submitted to subsequent meetings of the Committee.
- Details of training events, courses and conferences were included in the report and Members were encouraged to participate in these. In addition, it was noted that the Border to Coast Pensions Partnership's (BCPP) Annual Conference would be taking place on the 29th and 30th September 2022 at their HQ in Leeds, and Members were welcome to attend.
- A Member thanked the officer for her comprehensive report and noted that over the previous 5 years there had been only 22 breaches within a membership of 98k, which he considered to be an excellent performance. He praised the Administration Team for the work they carried out on behalf of the Fund. The Treasurer welcomed the Member's comments but emphasised that, despite the low number of breaches, there was no room for complacency and stated that the team would remain vigilant in terms of preventing these.

Resolved –

- (i) That the contents of the report be noted;
- (ii) That in terms of the data breach reported, Members agreed with the recommendation of the Pension Board that no report should be made to the Pensions' Regulator.

8. Performance of the Fund

Considered –

Report of the Investment Consultants, AON, providing comprehensive details of performance and asset allocation information for the Fund along with a background to the investment markets during the final quarter of 2021/22. The Fund's Independent Financial Advisor also provided analysis of the details.

As this was the first meeting of the new Committee a detailed analysis of the current Investment Strategy, the background to the development of that and the historical and recent performance of the Fund were provided in great detail.

The risks to the Fund's Strategy and the performance of the various fund managers were also detailed.

The following issues were highlighted:-

- It was noted that this year would see a triennial valuation of the Fund undertaken by the Actuary and details of how and why this took place, and the implications of this, going forward, were outlined.
- Quarter 4 had seen a drop in the funding level, but this was still above the level at the time of the previous valuation and it was emphasised that the Fund had a long term investment plan, and therefore, was not reactionary when the funding level falls, in the short term.
- The various factors influencing the markets, resulting in the fall in the funding level, were outlined, including the war in Ukraine and the current high levels of inflation, which had resulted in interest rates being raised in many countries. The markets remained very volatile at this time, but it was hoped that this would be relatively short-term. It was explained that market valuations reflected future expectations of interest rates, inflation and global growth, although they could be easily swayed by investor sentiment reacting or overreacting to world events.
- The various effects that high inflation and interest rates had on assets and liabilities were discussed. It was noted that the high exposure to equities of the Fund was the main risk.
- The key statistics for the quarter were outlined and it was noted that the funding level was currently 124%, based on assumptions rolled forward from the 2019 valuation. The above expected level of return on assets, over the valuation period, was detailed, alongside the estimated value of liabilities. A Member queried the valuation of liabilities in relation to this only being carried out during the valuation period, and the possible difference in the interim. Details of how valuations were undertaken and the fluctuations that could take place were clarified. It was acknowledged that there was a risk to this approach, for example a worldwide financial crash, as occurred in 2008, and efforts continued to try and reduce the potential risks through the Investment Strategy.
- It was noted that the valuation process would determine employer rates for the term of the valuation. Concern was raised that the figures within the report may set expectations among employers that contribution rates may be reduced, even though the process had only just begun. In response, it was stated that there were too many variables that could affect contribution rates to promise reductions at this stage, despite the surplus. The Treasurer acknowledged that this was a complex area and, as had previously taken place, the Actuary would be invited to meet with employer representatives and Members of the Committee to explain the process, and he suggested that it would be beneficial to arrange that as quickly as possible. A Member expressed the need for caution when considering contribution levels.

- The performance of the various Fund Managers, and the investments managed within the BCPP were outlined in detail, together with the anticipated Investment Strategy return and how the Fund was performing in relation to that.
- Details of asset allocations in line with the Strategy were outlined, together with information as to how the Fund was moving towards those allocations to meet the Strategy. The move towards private markets through BCPP would take some time to implement.
- During quarter 4 the only positive performance had been with Dodge and Cox, with Baillie Gifford performing considerably under their benchmark. The performance of the two over a number of years were outlined for the benefit of new Members, showing that previously Dodge and Cox had tended to underperform whereas Baillie Gifford had outperformed on a consistent basis. It was considered that the growth versus value nature of the investments had contributed to this and it was expected that this would balance out, going forward. Members suggested that it would be helpful to provide the background details within the reports for comparison, in relation to the inception of the investment to the current position. Details were outlined and it was noted that many of the investments were now with BCPP and it was too early to undertake comparisons to previous investments, as these were relatively new. It was acknowledged that the initial stages with BCPP had not seen the anticipated performance but it was hoped that a forthcoming review would address that.
- An explanation was provided as to the meaning of a return against the benchmark rather than an actual return.
- Unusually, during quarter 4, there had been a fall in returns from both equities and bonds, demonstrating the current volatile position of the markets.
- It was also noted that UK equities had outperformed global equities, which was again unusual. It was not expected that this position would continue in the long term, but it was noted that the Fund did have some exposure to UK equities. It was emphasised that global equities had consistently outperformed UK equities in previous years, therefore, the strategy of investments in equities being weighted to the global markets would continue. The aim of the new strategy was to prevent over reliance on equities through increased diversification into alternative investments, to try and protect the current funding position, and lower the risk to the investments from volatility in the markets.
- An explanation was provided in relation to the ratings provided by the Investments Consultants in respect of the Fund Managers. It was suggested that the provision of a 'RAG' rating may assist Members' understanding of the system and more information as to why the rating had been applied would give greater clarity.
- A Member noted that, previously, the Committee had been informed that ESG details would be included within reports and he asked when those were to be included. In response it was stated that it was expected that subsequent reports would now include those details.

Baillie Gifford rebalancing

It was explained that none of the fund managers had seen large change in value over the Quarter, other than Baillie Gifford, which had seen a substantial fall in value. It was suggested that discussions were undertaken, at this meeting, to determine whether this could be seen as an opportunity to rebalance to Baillie Gifford. The amount could be equivalent to the £250m taken from the investment in August 2020. It was emphasised that, at this stage the Committee was not being asked for a decision, but an opinion on the way forward. The background to the current position was outlined to provide Members with context. The choice for Members was to maintain the position with Baillie Gifford, or to rebalance through a disinvestment with Dodge and Cox. It was acknowledged that, given recent performance, this was a challenging decision. The historical investment position of each was provided to assist.

The following issues were outlined in relation to this matter:-

- The Treasurer noted that a meeting had been arranged with representatives of Baillie Gifford. It was suggested that it would be useful for Members to attend this to help them reach a decision. Members agreed that this would be beneficial.
- An in depth explanation of the differing investment styles of Baillie Gifford and Dodge and Cox was provided to give further context to the growth versus value approaches outlined earlier in the meeting.
- Members considered that there were a number of factors to take account of before a decision could be made on this matter, recognising that some of them did not yet have the knowledge to make this decision.
- It was noted that the next meeting of the Committee was not due to take place until 1st July, and it would be more beneficial to have a decision as soon as possible, given the prevailing market conditions. It was therefore suggested that delegated authority be given to the Chairman and Vice-Chairman, in consultation with the Treasurer with guidance from the remaining Members of the Committee, following the meeting with the representatives of Baillie Gifford.
- It was requested that details relating to Baillie Gifford, and their investment performance with the Fund, be circulated to Members prior to the meeting with their representatives. The Treasurer stated that he would attend to this.
- It was stated that the amount involved related to less than 5% of the overall Fund, but it was recognised that it was still a substantial sum, therefore it was further suggested that the rebalancing, should it be agreed, could be separated into three tranches of around £80m. Members agreed that this would be an appropriate way forward, allowing time to determine how the reinvestment was performing.

Resolved –

- (i) That the contents of the report, and the issue raised, be noted;
- (ii) That Members of the Committee be invited to a meeting with representatives of Baillie Gifford on Monday 30th May 2022 at 2.30pm;
- (iii) That the decision on whether to reinvest with Baillie Gifford, through a disinvestment from Dodge and Cox, up to a maximum of £80m, or to maintain the position with Baillie Gifford, be delegated to the Chairman and Vice-Chairman, in consultation with the Treasurer with guidance from the remaining Members of the Committee, following the meeting with the representatives of Baillie Gifford.

9. Pension Board – report back by Chair on the meeting held on 14th January 2021

Considered -

A verbal update by the Chair of the Pension Board based on the Minutes which had been provided.

Resolved -

That the details of the meeting outlined be noted and the Board's Chairman be thanked for his updates.

The meeting concluded at 13.05.

DRAFT