North Yorkshire Council

Pension Fund Committee

Minutes of the meeting held on 15th September 2023 held at County Hall, Northallerton commencing at 10 am.

Present:-

Councillors John Weighell OBE (Chair), Alyson Baker (as substitute for Councillor Mark Crane) John Cattanach, George Jabbour, Carl Les (as substitute for Councillor Cliff Lunn), David Noland, Neil Swannick, Angus Thompson and Matt Walker.

David Portlock - Chair of the Pension Board.

Brian Hazeldine – UNISON retired members.

In attendance; Councillor Steve Watson

Apologies for absence – Councillors Mark Crane and Cliff Lunn, Councillor Jonny Crawshaw - City of York Council

One member of the public was also present

Copies of all documents considered are in the Minute Book

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18. Minutes

Resolved -

That the Minutes of the meeting held on 30th June 2023 were confirmed and were signed by the Chairman as a correct record.

19. Declarations of Interest

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

I have been campaigning on issues involving the way public-sector organisations, pension funds and other institutions manage their finances.

As it was unclear as to whether the new interests regime included declarations for Members who were in receipt of a pension from the NYPF, the following Members declared a non-registerable interest in respect of this, subject to clarification for future meetings:-

Councillors John Cattanach, Carl Les and John Weighell.

20. Public Questions or Statements

Richard Tassell of Fossil Free North Yorkshire outlined the following:-

We are responding to the statement approved by the North Yorkshire pension committee following our submissions to your May meeting.
We are pleased that you have reduced your exposure to fossil fuel investments (currently between 1.38 and 1.8%). We also appreciate that time was given to discuss the climate crisis when undertaking your investment review strategy.
Your assertion that 'we think our approach of investing in and engaging with these companies (oil and gas) to encourage a swifter transition is the right approach' is misguided.
There is no evidence that engagement with oil and gas companies hastens the transition away from polluting fossil fuels. Indeed, there is much evidence to the contrary; witness the increased investment by BP, Shell, Aramco and others in exploiting new oil and gas fields. These companies are not listening to investors' concerns about the climate emergency.
The Church of England Pension Fund (amongst others) has reached the same conclusion and is withdrawing investments from all oil and gas producers.
"Pension funds are risking the retirement savings of millions of people by relying on economic research that ignores critical scientific evidence about the financial risks embedded within a warming climate." So says a recent report, written by Prof. Steve Keen and published by Carbon Tracker. It shows us that pension funds are basing fiduciary climate-related decisions on deeply flawed evidence. Whilst peer-reviewed economic publications suggest minimal economic effects from very extreme global heating, (for example, 6°C of global warming reducing future global GDP by less than 10%), climate science proves that such levels of global heating would be "beyond catastrophic, including existential threats". By ignoring the science, economic literature, upon which investment consultants who advise you, rely, results in flawed and dangerous decisions. We strongly recommend this report to you. For any who still think that greatly reducing our dependence on coal oil and gas is not an absolute priority, it will make for sobering reading.
(Loading the DICE against pension funds. Flawed economic thinking on climate has put your pension at risk)
Do the issues in this report apply to NY pension fund? Do you need to scrutinise the advice that you are accessing for its' congruence with climate science in order to avoid the negative impacts, both in a fiduciary and in a material sense, of flawed decisions now?
One of our number has a son who is a London based fire fighter with close to 20 years' service experience. He was involved in combatting fires in the extreme heat (plus 40 c) experienced in the UK last summer. He reported that he had never experienced conditions like it, with 'spontaneous 'combustion taking place around his crew as they struggled to save lives and livelihoods.
His experience is mirrored by the huge fires across the world this summer including Hawaii, the Greek Islands (the largest ever recorded wildfire in the EU) and British Columbia.
Only an immediate cessation of oil and gas exploration and extraction (Antonio Guterres, UN Secretary General, April 2022) will give a chance of halting the inexorable rise in temperatures together with the continued destruction of the living world
We believe pension funds have a moral duty to take a lead in divesting from fossil fuel companies and speaking publicly about the certain dangers contingent on continued oil and gas extraction.
You are rightfully the stewards of the considerable funds you manage but you must take a view on how those funds are managed for the welfare and betterment of present and future generations.
Will you take a lead now and give this issue the seriousness that it demands and divest your remaining oil and gas investments?

Tom Morrison, on behalf of the NYPF, responded to the issues raised, as follows:-

We have previously set out the North Yorkshire Pension Fund's position in response to similar public questions, but I would like to say a few words.
We agree with the sentiment in the statement, of the seriousness of climate change, but it conflates two issues. North Yorkshire's role as a responsible investor and owner of shares in oil and gas companies is not the same issue as short-term changes in oil and gas production in the midst of a global energy crisis.
The energy crisis has shown us how important energy security is. Oil and gas production has changed in response, as energy requirements cannot be met by renewables alone. The world is gradually moving away from reliance on oil and gas, but this will not happen overnight. The lack of any bidders for offshore wind farm licenses is the most recent illustration of the difficulties faced. Calling for an immediate halt in the production and use of oil and gas when there is no alternative is simply a denial of reality.
On our investments, taking BP as an example, in 2019 they invested 3% of their capital expenditure in renewables and other low carbon projects. In 2022 it was 30%, and by 2050 it is forecast to be 50%. We see BP as a company transitioning to become a renewable energy company, and we engage with them to encourage as swift a transition as possible. Selling the shares we own would have no impact on the real world. It would not reduce production and would not reduce carbon emissions. In reality, it would be likely to make the situation worse, as the shares would be passed to investors interested in sweating oil and gas assets, with no interest in influencing the transition.
On the report by Carbon Tracker, it's an interesting report which calls into question economists' projections. The scenario analysis advice we have received from Aon considers these projections. However, this is just one source of information, recognising the limitations of its usefulness, which is used alongside other sources. On the more extreme scenario, Aon's forecast is for a higher, not lower, impact than the Carbon Tracker report. Our conclusion is we are happy with the advice we have received, we recognise projections will evolve over time, and we will revisit scenario analysis in due course.

A Member stated that there was no consensus amongst Members of the Committee on these issues, therefore the response did not necessarily reflect all views. It was also noted that there were a number of conflicting sources of information in relation to these issues.

21. BCPP Update

Joe McDonnell – the new CIO at BCPP; and Dave Knight – Customer Relations Manager at BCPP, provided an update to the Committee in respect of the following:-

- An introduction to Joe McDonnell including his investment experience
- Global Equity Alpha
- Timeline for the next 12 months
- Consultation response
- CIO priorities
    - Investment Programme Development
    - New products
    - Investment teams

Following the initial presentation a discussion was held with Members and the following issues were highlighted:-

- It was noted that BCPP do not currently provide an investment similar to that provided by Baillie Gifford's LTTG, which saw the NYPF continue to invest in that product, and it was asked whether that position was to be addressed. In response it was stated that another equities fund was being developed by BCPP, however, it was unlikely to correspond to the Baillie Gifford LTTG Fund as BCPP did not consider launching a fund for only one investor to be viable in the long term and sought alternative investments for equity based products expected to be more widely utilised. It was asked whether there were alternative views within BCPP to what was being outlined. It was emphasised that, currently, this was not the case, but various investment opportunities would be available, which were outlined.

- It was asked whether BCPP considered that they had sufficient exposure to investments mitigating climate change, including through reducing carbon, and investments that would be measured against ESG benchmarks. In response it was stated that BCPP had a strong and evolving approach to ESG but not investments with specific ESG targets, and if the partner funds required an enhanced focus on these issues then further consideration on enhancing this provision.

  The CIO set out the Investment Strategy Schedule for BCPP for 2023/24/25.

  A Member emphasised the need for continued communication between BCPP and the Committee, to understand the variety of views demonstrated in terms of investments and ESG/sustainability, and the continuing discussions in relation to those.

- A discussion took place in respect of investments in private markets and how these were being affected by climate issues. It was emphasised that investments in smaller, private markets would have a key role, going forward.
- Consideration was given to UK Real Estate. It was noted that the NYPF had a 7.5% allocation to UK property, and further discussions were planned with Members of the Committee around the future of this investment. The carbon impact of online retailers, as opposed to physical retail space, was discussed, and it was emphasised that there was a Scope 3 impact from online retailers, which was often disregarded.
- The management of the various portfolios and the matrix calculations involved were outlined.
- A discussion took place in respect of the Government's consultation on the next steps on investment pooling. It was noted that this was an agenda item for this meeting, therefore, the item was brought forward for consideration at this stage.

Resolved –

That Joe McDonell – the new CIO at BCPP be thanked for his presentation and update, the contents of which be noted.

22. LGPS Pooling Consultation

Considered –

The report of the Treasurer presenting the draft response to the consultation titled "Local Government Pension Scheme (England and Wales): next steps on investments" seeking the comments of Members to the draft response. The CIO of BCPP, present at the meeting, was also invited to take part in the discussion.

The following issues were raised:-

- The NYPF had made good progress on pooling investments since it was introduced and had undertaken what was required through the initial pooling development. It was considered that the new consultation was more of an issue for those Funds that had not adhered to the current requirements which include intervention powers for the Secretary of State. The CIO of BCPP agreed that this was the case.

- In terms of the potential for BCPP to grow much larger through the proposals, with a substantially higher level of investments and additional LGPS Funds involved, the CIO emphasised that he was not considering this position currently as he was concentrating arrangements with the eleven partner funds, however, the Partnership was in a good position to expand, should that be required.
- It was asked whether the Funds currently involved with BCPP were complying with the pooling requirements. In response the CIO stated that BCPP was operating at an advanced level in terms of pooling arrangements with the various Funds working together effectively within the pool to assist each other. There were some investments currently held by Funds outside of the pool, and he would be focussing on how this position can be addressed, going forward. It was emphasised that the investments outside of the pool were not seen as a contentious issue, as this mainly related to partner Funds not seeing suitably equivalent investments within the pool, but the CIO would be looking to expand the range of options, allowing further investment within the pool to take place.
- The Treasurer highlighted his concerns regarding the objectives of the consultation and the potential impact that this could have on the existing pooling arrangements that were working well in the case of BCPP. Others shared those concerns.
- A Member raised concerns that the Government may be seeking to use the LGPS to pursue its policies, given the wording in the consulation. He emphasised that the Pension Fund belongs to the pensioners and future pensioners that had contributed to it. Another Member suggested that the Fund was ultimately backed by the taxpayer and, as such, was publicly funded, as opposed to private Funds, which were wholly funded through contributions. This was also contested as it was stated that those in the LGPS paid into the scheme, with many paying additional contributions to enhance their pension, and it was not envisaged that this could be utilised by the Government to pursue their particular policy objectives. In terms of the tax payer supporting the LGPS it was emphasised that they would only be required to provide backing for a Fund should that collapse, which was highly unlikely.
- A Member highlighted his support for investment in Government schemes for “Levelling Up” with the caveat that these created a “return” for the Pension Fund. It was considered that, should the opportunity provide a suitable return for the investment, that more than matched other opportunities, this could provide an opportunity to diversify investments. This would also provide an opportunity for investment in the UK market. Details of the expected returns for this to be worthwhile were discussed.
- Members considered the draft response to the consultation and it was noted that it was a collaborative response formulated through BCPP and the various partner Funds.
- The full draft response was provided as an appendix to the report.

Resolved –

That the comments of members be taken into account before the response to the consultation “Local Government Pension Scheme (England and Wales): next steps on investments” is submitted.

23. 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 2023

Breaches Policy & Log

Issues and Initiatives

Ongoing projects – i-Connect Rollout/Website development

New logo

LGR

McCloud

Member Training

Meeting Timetable

The following issues from the report were highlighted:-

- The total number of members in the NYPF had risen above 100k for the first time, however, there had been a reduction in the number of active members during the quarter.
- There were fewer complaints during the quarter which was the likely result of the now embedded improved processing times.
- The 2023 Annual Benefits Statements (ABS) had now been issued, with 100% of deferred statements and 98.71% of active statements sent to the appropriate member by the deadline. There were 114 statements where the data still required checking.
- There had been two new reported breaches of the regulations over the previous quarter and the details of those, and how they had been subsequently addressed, were set out in the report. The breaches had been reported to the July meeting of the Pension Board.
- i-Connect, for monthly data returns, now had 144 employers on board.
- Work on the new website had been delayed, with the launch now expected in December 2023.
- The new logo was currently being rolled out.
- LGR had now taken place and the outstanding queries, following this, had now been resolved. All letters had been issued on time and data was up to date.
- Work continued to process McCloud data returns with a Project Team now in place and good progress is being made.

Members discussed the report and the following issues were raised:-

- The Chair of the Pension Board noted that the breaches outlined had been discussed at the most recent meeting of the Board where it had been concluded that there was no need to report the matters to the Regulator as the issues had been addressed effectively and had been reported to the internal auditor. He noted that, technically, not issuing 100% of the ABS was a breach of the regulations, however, this had been one of the best outcomes for a number of years and clearly the service was making progress in relation to this. It was reiterated that the service would not issue ABS unless the data had been verified, which was why 100% had not been issued by the deadline.
- Members discussed the newly developed logo and whilst it was welcomed it was suggested that further consideration should be given to the colours used as these could cause difficulties for those that are colour blind. It was stated that the colours used helped to provide a differential from the Council logo colours, however, the colour blindness issue would be considered.
- The Chair encouraged Members to attend the conferences and seminars attached to the report as these assisted with the development of knowledge for Members and provided an opportunity to network with leading figures involved in the LGPS and pensions in general. It was noted that Members who had expressed a wish to attend the BCPP Conference could do so.
- Although, currently, Pension Fund Committee (PFC) Members did not have any official training requirements it was noted that the national governance review could see a requirement for PFC Members to have a relevant level of pensions knowledge and experience. It was emphasised, therefore, that Members should be trying to develop their knowledge of the LGPS and the Hymans online platform provided an excellent basis for developing that knowledge. Details were provided within the appendix related to training and conferences.
- The Chair highlighted the importance of the workshop events which usually took place the day before the Committee meeting and the difficulty faced by some Members in being able to attend for two concurrent days. The Treasurer stated that he would consider re-timetabling the workshops but these would need to be held close to the Committee meetings to be meaningful.

Resolved –

(i) That the contents of the report be noted.

(ii) That the contents of the breaches log be noted and no report be made to the Pensions' regulator in relation to these.

24. Budget and Cashflow

Considered –

The report of the Treasurer outlining the following:-

the 2023/24 budget and the cost of running the Fund;

the 4 year cashflow projection for the Fund.

An update on the Fund's final accounts and annual report 2021/22

The main changes to the budget were lower Pooling Operational Costs and a reduction in Investment Base fees. It was expected that, in the long term, the position would revert. No significant variances were forecast this early in the financial year.

The cashflow position was set out in the report showing a move towards being cashflow negative in 2023/24 and moving further into deficit in 2024/25. Income generating investments such as rental income would be utilised, initially, to cover any deficit.

The final accounts had still to be signed off with no clear indication as to when this would be resolved.

Members discussed the report and the following issues were raised:-

- A Member stated that the report indicated that the cashflow position related to an increased life expectancy, but he thought that life expectancy was now decreasing. In response it was stated that life expectancy was still increasing but at a slower rate than previously.
- It was emphasised that plans were in place to address the cashflow negative position, and there was no problem so long as the money was available to meet the pension payments.

Resolved –

That the contents of the report be noted.

25. 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 second quarter of 2023/24. The Fund's Independent Financial Advisor also provided analysis of the details.

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

The following issues were highlighted:-

The Fund's Equity Allocation

- This remained at a high level despite action having being taken to reduce this exposure.
- Current equity investment allocations were with BCPP – UK, BCPP – Global and Baillie Gifford - LTGG.
- Consideration continues to be given as to what is the most appropriate mix for the NYPF and further details, together with a proposal, will be submitted to the November meeting.
- The Baillie Gifford investment is very different to those held with BCPP, which had led to this investment being retained by the Fund outside of the Pool.
- The issues to be considered on how to move forward on the equity allocations were outlined and discussed. A further report on the issues fully setting out the pros and cons of the various options for equities would be provided to the November meeting of the PFC, allowing a fully informed decision to be made as to how to move forward. It was stated that there was a great deal of detail for the Committee to consider in respect of this matter and it may be that additional meetings, or a Sub-Committee, may be required to implement these changes. A Member noted that the Committee had some different views on this matter, particularly around Baillie Gifford LTGG and further, extensive discussions would be required before a consensus could be achieved.

Quarter 2 Investments Report

- Due to the nature of the reporting of Quarter 2 much of the information provided was now out of date, however, a summary of the quarter highlighted the following:-

- The Fund remain in a surplus funded position
- Equity returns has increased
- US Tech Companies had provided large returns
- The rest of the markets had been mainly flat
- It was unclear how long this position would last
- High interest rates were still causing a great deal of instability
- The risk of recession still remained for next year.

Moving on from Quarter 2

- Yields on Index linked bonds are much higher
- Equities remain the key driver for the NYPF but retain the risks – Bonds would provide a possible alternative
- This would be a change from the current Investment Strategy so would not be undertaken unless a change to the Strategy was agreed.
- The markets have remained broadly similar since the end of Quarter 2.
- It was not currently expected that the funding position would drop below 100% in the short term, but a recession could affect that position.

Members and advisors undertook a general discussion on the Fund's performance and the following issues and points were highlighted:-

- The performance of both BCPP Global Equities and Baillie Gifford LTGG had both been very good over a period of time, with both outperforming their respective benchmarks. Baillie Gifford had been through a strange period of late, due to market conditions, which had seen their performance fluctuate each quarter. Members noted that their most recent performance had been encouraging.
- It was noted that the property portfolio continued to underperform.
- A Member asked what was the legal position should a Local Government Pension Fund be in a position where it was unable to pay its pensioners, noting that in relation to Private Pension Schemes the PPF would cover the liability. It was stated that there was no equivalent to the PPF for LGPS funds, with the Government being required to step in and assist should this position arise. It was also noted that, currently, as the Fund was over 100% funded, there was sufficient funding to pay all liabilities. It was noted however that there was no specific legal requirement for the Government to step in and back up a failing LGPS Fund.

Resolved –

(i) That the contents of the report, and the issue raised, be noted;

(ii) That further consideration be given to the investment strategy at forthcoming PFC meetings and workshops.

26. Pension Board – report back by the Chair on the meetings held on 6th July 2023

Considered -

A verbal update by the Chair of the Pension Board based on the Minutes of the meeting held on 6th July, which had been provided.

A draft of the Board's Annual report was presented to the Meeting. A final, amended version would be provided for final agreement at the October meeting of the Board, and this would be provided to the PFC, Executive and Full Council.

As outlined earlier in the meeting details of the Breaches Log were discussed, and it was agreed that the issues raised should not be referred to the Regulator.

The suite of Governance Documents presented to the June meeting of the PFC were considered by the Board.

Internal Audit reports continue to be presented to the Board and it was expected that a number of final reports would be presented to the October meeting of the Board.

Ian Morton, an Assistant Director at Veritau, who had presented reports to the Board since its inception in 2015 was to retire, with Stuart Cutts taking over his role. The Board wished to place on record their thanks to Ian for his excellent support and advice offered.

The annual review of dispute cases and exercises of discretion, presented to the meeting, highlighted nine cases received via the Internal Dispute Resolution Procedure, with no cases referred to the Pensions Ombudsman.

The Chair asked that the Board's plaudits be passed on to the Administration Team for their continued high level of support provided to the operation of the NYPF.

Resolved -

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

The meeting concluded at 12.25.

SML