Pension Committee Investment Sub-Committee

Date: 17 November 2022

Time: 10:00am-1.10pm

Place: New Shire Hall, Alconbury Weald

Present: County Councillors A Whelan (Chair), C Rae (Vice Chair) A Costello and A Sharp; J Walker and L Phanco

Officers: B Barlow, D Cave, S Heywood (virtual), R McRobbie and M Whitby

Advisers/Consultant: P Gent and C West (Mercer); S Gervaise-Jones

External presenters: Patrick Newberry, Donald Kerr and Andrea Hodgson (Cambridge and Counties Bank); Blair Reid and Lloyd Butcher (Bluebay, virtual) *(relevant items only)*

43. Apologies and Declarations of Interest

Apologies were presented on behalf of Councillor Boden.

John Walker declared a personal interest (i) as a retired member of the Local Government Pension Scheme (LGPS), (ii) his son and daughter-in-law were deferred members of the LGPS.

44. Public minutes of the Pension Fund Investment Sub-Committee held 22nd September 2022

The public minutes of the Committee meeting held 22nd September 2022 were agreed as a correct record.

45. Action Log

The Action Log was noted.

46. Petitions and Public Questions

A public question from Cambridge Mothers Climate Action Network was considered by the Sub-Committee.

On behalf of the Sub-Committee, the Chair thanked the Cambridge Mothers Climate Action Network for submitting their question, and advised that a written response would be sent to them within ten working days, which would be copied to the Sub-Committee Members and available with the meeting papers on the County Council's website. *(question and response attached as Appendix 1 to these minutes).*

47. Cambridgeshire County Council Pension Fund Quarterly Performance Report for the period ending 30th September 2022

The Sub-Committee received a report summarising the performance of the Pension Fund for the quarter to 30th September 2022. The following points were highlighted:

- The mini budget on 03/09/22 had a huge impact on the size of gilt yields, impacting on the liabilities linked to those gilt yields, meaning that technically the value of liabilities fell. It was stressed that concerns raised in the news recently relating to gilts and pension funds were not a concern for the LGPS Pension Funds, although equity market volatility had a short term impact. The asset portfolio value reduced slightly over the period but this was exceeded by the fall in liabilities, with the result that the Fund was currently 135% funded. This pleasing level of funding did not change fundamentally the activities of the Pension Fund and how it was invested, but did mean that the Fund was currently in a very healthy position which was reassuring given the challenges that the economy was currently facing;

- There had been some moderate underperformance by global equities but this was judged to be short term, and was not a concern. The fall in the value of Sterling that had accompanied the contraction in global equities had had a favourable impact for those equities valued in local currencies. Private Equity performance was less influenced by markets;

- The content of the Chancellor of Exchequer's Autumn Statement and its consequences were not yet known;

- Asset allocation was broadly in line with the parameters agreed, and the position for each mandate was outlined. Longview was under enhanced monitoring, but there were no strong concerns. The Bluebay (MAC) mandate had a long term fixed rate benchmark, which was why there were deviations, not something of material concern. The -12.3% performance of Allianz Infrastructure Debt was not a cause for concern, as it was a reflection of the fund being towards the end of its life cycle, which advisors were comfortable with;

The Chair concluded by saying that the Fund had weathered the storm well given recent events.

The Sub-Committee resolved to note the report.

48. Stewardship and Engagement Update

The Committee considered an update on stewardship and engagement matters relating to the Fund's investments. The importance of promoting good governance and management in the companies in which the Fund invests was recognised, and investment managers were expected to exercise voting rights and engage with companies with the aim of good stewardship of the Fund's assets.

The report outlined activity during the six months to 30 June 2022 for assets held within the ACCESS pool, covering approximately 60% of the Fund's assets. It also provided a summary of investment managers' engagement activity on behalf of ACCESS authorities in which the Fund invests within the ACCESS Pool covering the period between April to June 2022, and a summary of the Local Authority Pension Fund Forum (LAPFF) engagement and voting activity for the period between April to September 2022. There were no instances where the fund manager has overridden the ACCESS voting policy in the last six months for assets held under pooled governance.

It was noted that officers had quarterly updates with most managers, and would discuss engagement activities in some depth. In addition there was a rolling programme of managers providing Investment Seminars to ACCESS every six months, and the collective engagement that takes place on the Fund's behalf through LAPFF. Officers stressed that there was a narrative behind every single engagement.

Members agreed that the volume of information provided in the report was appropriate.

The Sub-Committee resolved to note the report.

49. Exclusion of Press and Public

The Sub-Committee resolved that the press and public be excluded from the meeting for the following items on the grounds that they contained exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)) and that it would not be in the public interest for this information to be disclosed as they contained commercially sensitive information.

50. Confidential minutes of the Pension Fund Investment Sub-Committee held 22nd September 2022

The confidential minutes of the Committee meeting held 22nd September 2022 were agreed as a correct record.

51. Cambridge and Counties Bank Introduction

The Sub-Committee considered a presentation from Cambridge and Counties Bank representatives.

The Sub-Committee resolved to note the report and presentation from Cambridge and Counties Banks.

(Cambridge & Counties Bank representatives left the meeting)

52. BlueBay Multi Asset Credit – Environmental, Social & Governance (ESG)

The Sub-Committee considered a report on an ESG variant to the Fund's current BlueBay Multi Asset Credit product.

It was resolved unanimously to:

Express a preference to transition to the MAC ESG fixed income product as part of its expected onboarding as an ACCESS sub fund in place of the standard MAC fixed income product currently invested in outside the pool.

53. Property Portfolio Review

The Sub-Committee considered a presentation on the types of property assets that could be included in the Property Portfolio.

The Sub-Committee resolved to:

a) Note the report;

b) Approve Mercer to carry out a market review and provide a selection of Long Lease property managers to the Investment Sub Committee.

54. Climate Aware Passive Equity Investing

The Sub-Committee considered a report on a proposed climate aware passive equity portfolio structure.

It was resolved unanimously to:

a) note the report and presentation from Mercer;

b) approve the proposed climate aware passive equity portfolio structure (subject to final advisor research ratings);

c) subject to favourable research, express a preference for the fossil free option offered by the preferred manager;

d) request the Head of Pensions to finalise allocation and target currency hedging (subject to final advisor research ratings and strategy review);

e) should there be an unfavourable research rating for managers in the proposed portfolio, request further climate aware passive options are brought for consideration.

APPENDIX

PUBLIC QUESTION from Cambridge Mothers' Climate Action Network

Thank you very much for your considered response *(to our previous question)*. We are pleased to hear that the committee is developing a plan to transition to a sustainable portfolio and welcome the fact that you have provided a clear climate action plan that the public can access. However we think the scale of ambition is inexcusably unambitious given the scale of the issue and opportunity the pension investment fund provides. Firstly we would like to see a target for divestment from companies principally involved in the extraction of fossil fuels as part of the climate action plan in addition to the decarbonisation pathway, and as there is a strategic review point planned for 2024 we think you should be working towards committing to immediate divestment following that. Why has no divestment date been committed to so far?

Secondly if possible we would like to see a faster decarbonisation pathway and would like to know why decarbonisation by an earlier date of 2035 or 2040 has not been considered and whether a date earlier than 2045 could be considered as part of the 2024 review. Have scheme members been given the option of decarbonising quicker? Your response regarding stewardship seems to focus on receipt of reporting rather than engagement. Please can you explain how the Sub-Committee influences the engagement priorities and what steps have actively been taken to influence the level of engagement and priorities. In our view it is essential this approach can demonstrate having a meaningful impact to justify the 'engagement over blanket divestment' approach. Again we ask what metrics they intend to use to judge the success of this engagement?

Response:

Thank you for your further questions in connection with climate action plan and stewardship activities.

The Fund's investment strategy has been developed recognising the main objective of the Fund is to pay benefits to its members and beneficiaries as they fall due. Committee members have a primary fiduciary responsibility to ensure this objective is fulfilled.

Climate risk, however, is considered a systemic risk for the Fund, and our responsible investment policy has been developed to help manage that risk, as well as to align with our support for the Paris Agreement and a "just transition".

The approach chosen in terms of stewardship is one of engagement as opposed to divestment from a given sector. This was set out in our responsible investment policy and consulted on with tens of thousands of scheme members and scheme employers, with a high-level analysis of consultation responses on our website. This does not mean that the Fund will not hold mandates that are either fossil free or avoid companies that generate material revenues from the fossil fuel industry. Two of the Fund's three active managers would fall in the latter category, and the passive review as part of our climate action plan is exploring available options in terms of lower carbon passive funds.

The decarbonisation pathway chosen is the most ambitious and aggressive that could be targeted at this time whilst ensuring the primary fiduciary responsibility outlined above was met and was developed following extensive professional advice. Progress against the pathway will be regularly reviewed and targets re-examined at each major review point.

Stewardship reporting will enable the Sub-Committee to understand the nature of the engagements taking place both by investment managers and collectively on our behalf by LAPFF, and over time help Members influence engagement activity. The Fund would also *expect its asset pool's Voting Guidelines, which direct the voting activity of underlying investment managers, to be aligned with the recently developed ACCESS RI Guidelines, thus improving voting impact.*

In terms of metrics, the Fund expects the roll out of climate related reporting to the LGPS sector to have a critical role, for example by understanding the proportion of individual companies within a mandate that have Paris aligned commitments, enabling engagement or even divestment of those companies that do not have credible plans. This is developing area with a Department for Levelling Up, Housing and Communities (DLUHC) consultation recently concluded over the implementation of such climate related reporting.