

## KENT COUNTY COUNCIL

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### SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Friday, 7 February 2020.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P V Barrington-King, Mr P Bartlett, Cllr P Clokie, OBE, Mr P C Cooper, Mr D Coupland, Mr D S Daley, Cllr N Eden-Green, Mr P J Homewood, Mr J P McInroy, Mr J Parsons, Cllr S Tranter, Mrs M Wiggins and Mr J Wright.

ALSO PRESENT: Mrs M E Crabtree, Mr P W A Lake, Mr P J Oakford and Ms C Arbuckle

IN ATTENDANCE: Mr B Watts (General Counsel), Ms Z Cooke (Corporate Director of Finance), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund) and Miss T A Grayell (Democratic Services Officer).

### UNRESTRICTED ITEMS

#### **171. Apologies and Substitutes**

*(Item 1)*

Apologies for absence had been received from Cllr J Burden.

There were no substitutes.

#### **172. Declarations of interest by Members in items on the agenda for this meeting.**

*(Item 2)*

Mrs M Crabtree declared a disclosable pecuniary interest as part of her pension fund was invested with Woodford and said she would leave the meeting room during the Woodford update item.

Mr P J Oakford declared that he had pension funds with two oil companies and that he would take no part in any decision about the Environmental Social and Governance (ESG) items later in the agenda.

#### **173. Future meeting dates - 2020/21**

*(Item 3)*

The committee NOTED that the following dates had been reserved for its meetings in 2020/21:

13 March 2020  
19 June 2020  
4 September 2020  
13 November 2020  
5 February 2021  
12 March 2021 and  
18 June 2021

with all meetings commencing at 10.00 am at County Hall, Maidstone.

**174. Minutes of the meeting held on 15 November 2019**

*(Item 4)*

It was RESOLVED that the minutes of the meeting held on 15 November 2019 are correctly recorded and they be signed by the Chairman. There were no matters arising.

**175. Verbal Update on Audit Review Action Plan**

*(Item 5)*

1. Ms Z Cooke, Corporate Director of Finance, gave a brief verbal update on the preparation of an action plan arising from the recent audit review of the Pension Fund's governance. A fuller update on the action plan and an annual work programme would be submitted to the committee at its March meeting with a substantive item following in June. The action plan included 16 points, some of which had already been implemented.

2. The Chairman commented that the briefing session for Members held on 10 January had been most helpful and asked that the committee be advised at every meeting of progress on the action plan.

**176. Motion to exclude the press and public for exempt items**

It was RESOLVED that, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

**EXEMPT ITEMS**

(Summary of minute 177, where access to that minute remains restricted. Open access to minutes 178 and 179)

**177. Woodford investment update**

*(Item 6)*

*Mrs M Crabtree, Deputy Cabinet Member for Finance, Corporate and Traded Services, left the meeting room during this item as she had previously declared a disclosable pecuniary interest.*

*Since the publication of the main agenda, an exempt supplementary paper had been published, giving more detail than had been available at the time of writing the report.*

1. Mrs A Mings, Treasury and Investments Manager, advised the committee that the expected sum (£138.9m) had been refunded to the County Council at the end of January and had been used to invest in a multi-asset credit fund, as planned. In response to the additional information supplied by Link and circulated to Members in the supplementary report, the County Council as the administering authority had requested further information from them and was awaiting a reply. The Woodford Equity Income Fund (WEIF) was now being managed by BlackRock and PJT Partners.

2. The committee made the following comments:-

- a) the overall performance of the pension fund's investments over the years had been good, and the decisions taken by the committee generally successful. The committee was in agreement that this positive overall performance should be emphasised in any communications;
- b) the Council's Press Office had been most helpful with circulating the positive message that the committee had wanted to relay to scheme members to reassure them that their pension payments would not be affected by the winding up of the WEIF; and
- e) the committee was mindful that many smaller investors would not be in the same position as the Pension Fund and able to offset the poor performance of the WEIF against other well-performing investments.

3. Mr Watts advised the committee of the rules and duties relating to the publication of information relating to the Pension Fund's investment in the WEIF and assured them that he and the S151 officer would manage this issue. He then responded to questions and comments from the committee, including the following:-

- a) the possibility was highlighted that a Treasury Select Committee might also wish to look into the events surrounding the suspension of trading in the WEIF, with the County Council, as the administering authority, giving evidence; and
- b) it was important for the Council as the administering authority to consider its next move carefully, and fully consider all advice. Mr Watts was asked to provide a written report to the committee's 13 March meeting setting out in full the options for future action.

4. It was RESOLVED that the information set out in the update report and supplementary report and given in response to comments and questions be noted, with thanks, and that a report setting out fully the options for future action be made to the committee's March meeting.

### **178. Equity Protection update**

The Chairman advised the committee that the first meeting of the Equity Protection working group had included a good discussion and had agreed a draft Strategy. A more detailed report would be made to the committee's March meeting which would seek support for the proposed Strategy and approval for a formal delegation to the working group to select a programme provider. Committee members would subsequently be advised of the provider selected and would have the opportunity to comment.

### **179. Sarasin - presentation**

*(Item 7)*

*Jeremy Thomas and Henry Boucher, Managers, Sarasin and Partners LLP, were in attendance for this item at the invitation of the committee.*

1. The Chairman welcomed Mr Thomas and Mr Boucher to the meeting and thanked them for attending.

2. Mr Boucher and Mr Thomas updated the committee on the performance of the global equity portfolio since last reporting to the committee in November 2018. This good performance was largely due to good stock selection. They set out the three-stage investment process - identification of themes, stock selection and building a portfolio, including detailed analysis and voting on potential companies – a process which took between three and six months, typically. They explained how Environmental, Social and Governance (ESG) issues had been fully integrated into their portfolio.
3. Mr Boucher and Mr Thomas then answered questions of detail from the committee, covering the fees they charged, the nature of Sarasin as a company run by its partners with a principle of discussion and voting on decisions, the difficulty of transitioning from fossil fuels to renewable forms of energy, and the need to take a long-term view while keeping abreast of fast-changing trends in the renewable energy industry.
4. Members noted the good overall performance of the portfolio and the good record of the company in investments which supported ESG considerations. Members asked that the total expense ratio (TER) be included in the metrics for future reports.
5. It was RESOLVED that the information set out in the presentation and given in response to comments and questions be noted, with thanks and that the total expense ratio be included in the metrics for future reports.

### **UNRESTRICTED ITEMS**

*(meeting re-opens to the press and public)*

#### **180. Responsible Investment (RI) / Environmental Social and Governance (ESG) policy** *(Item 8)*

1. Catrina Arbuckle (Director, Mercer Ltd) introduced the set of slides which had been published as part of the agenda. She advised the committee that it was being asked to review the Fund's Responsible Investment policy and if they wished to change it.
2. Ms Arbuckle highlighted the importance of stewardship and the need to be proactive in checking that fund managers were taking full account of ESG issues in their investment decisions. The Scheme Advisory Board was also currently consulting on its responsible investment guidance, which would be more prescriptive in future.
3. Ms Arbuckle advised that Kent was ahead of the curve as it had a Statement of Responsible Ownership (SRO) and was a signatory to the UN principles for responsible investment (UNPRI). It would be able to evidence its approach, for example if asked to as part of a Freedom of Information request. She also advised that Mercer were able to prepare carbon footprints for each of the Fund's investment managers if required.
4. Members made the following comments:-
  - a) the Kent Fund already followed good practice with its approach to ESG and RI but would need to be able to demonstrate publicly what it did and how, for example, it measured its individual investment managers' performance in terms of ESG and RI. It would help if there were accreditations which could be applied to individual investment managers to reassure the public of their ESG credentials. Ms Arbuckle advised that there was no universal system although Mercer had its own rating scale, from ESG1 to ESG4;

- b) although most attention was usually given to the Environmental part of ESG, all elements were equally important in showing the whole picture. Good governance was particularly important;
- c) to avoid any accusation of 'tokenism', the committee would need to develop a good understanding of ESG issues so it would be well placed to question investment managers and make sound judgements on their investment decisions;
- d) the government was moving to introduce a requirement in the Mandatory Disclosure Regulations 2020 (due to take effect on 1 July 2020) that fund managers disclose the total expense ratio (TER). The Brydon independent review of the quality and effectiveness of auditors would also add to the governance requirements;
- e) pension funds needed to achieve a balance between embracing ethical investment and maximising the return on investment to benefit pensioners;
- f) investment managers should be given a checklist of ESG requirements and could be sent a standard set of questions about their ESG credentials before attending to present to the committee; and
- g) Ms Arbuckle suggested that the Fund's RI policy could take account of Mercer's ratings and Members may want for example, to resolve not to invest in any company scoring lower than ESG3.

5. Ms Arbuckle proposed that the Fund write to all its investment managers asking how they planned to respond to the updated stewardship code. The committee could then make it known that it would favour those companies who showed the best awareness of the code and had a plan of how to respond to it.

6. The Chairman summed up the actions agreed as follows:-

- a) the SRO be updated to express more clearly the Fund's policy on Responsible Investing and the importance of RI; and
- b) a press release be prepared by the Council's press office to show how the Pension Fund was engaging with ESG issues, and the text of this would be shared with the committee for comments.

7. It was RESOLVED that:-

- a) the Statement of Responsible Ownership be updated to express more clearly the Fund's policy on Responsible Investing. A draft policy will be prepared and presented at the next committee;
- b) the policy make clear the importance of Environmental, Social and Governance issues and Responsible Investment;
- c) a press release be prepared with the County Council's press office to show the public how the Kent Pension Fund was engaging with Environmental,

Social and Governance issues, and the text of this be shared with the committee for comments; and

- d) officers follow up with Mercer to find out more information about the carbon footprint reporting they could provide and report back to Committee.

**181. Date of next meeting**

*(Item 9)*

It was noted that the next meeting of the committee would be held on Friday 13 March 2020, commencing at 10.00 am.