

SUPERANNUATION FUND COMMITTEE

Thursday, 3rd February, 2022

10.00 am

**Council Chamber, Sessions House, County Hall,
Maidstone**





AGENDA

SUPERANNUATION FUND COMMITTEE

Thursday, 3 February, 2022 at 10.00 am
Council Chamber, Sessions House,
County Hall, Maidstone

Ask for: **Theresa Grayell**
Telephone: **03000 416172**

Membership

Conservative (8):	Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mrs P T Cole, Mr P Cole, Mr P C Cooper, Mr J P McInroy and Mr J Wright
Labour (1):	Ms M Dawkins
Liberal Democrat (1):	Mr D S Daley
Green and Independent (1):	Mr P Stepto
District Council (3)	Cllr J Burden, Cllr P Clokie and Cllr N Eden-Green
Medway Council (1)	Cllr R Thorne
Kent Active Retirement Fellowship (2)	Two vacancies
UNISON (1)	Mr J Parsons
Staff Representative (1)	Vacancy

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

- 1 Apologies and Substitutes
- 2 Declarations of interest by Members in items on the agenda for this meeting.
- 3 Minutes of the meeting held on 23 November 2021 (Pages 1 - 6)
- 4 Responsible Investment working group update (Pages 7 - 26)
- 5 Date of next meeting

The next meeting of the committee will be held on Wednesday 30 March 2022, commencing at 10.00 am at Sessions House, Maidstone.

Motion to exclude the press and public for exempt business

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.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

- 6 Equity protection programme - verbal update
- 7 Report of the RI working group - ACCESS ESG Guidelines and follow up to the beliefs survey (Pages 27 - 78)

Benjamin Watts
General Counsel
03000 416814

Wednesday, 26 January 2022

In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for their items.

KENT COUNTY COUNCIL**SUPERANNUATION FUND COMMITTEE**

MINUTES of a meeting of the Superannuation Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Tuesday, 23 November 2021.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Cllr J Burden, Mrs P T Cole, Mr P Cole, Mr D S Daley, Ms M Dawkins, Cllr N Eden-Green, Mr J P McInroy, Mr J Parsons, Mr P Stepto, Cllr R Thorne and Mr J Wright.

ALSO PRESENT: Mr T English

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Ms S Surana (Investments, Accounting and Pooling Manager) and Miss T A Grayell (Democratic Services Officer).

UNRESTRICTED ITEMS**43. Membership**

(Item 1)

1. It was noted that David Coupland had left the committee and that, since publishing the agenda, Cllr Richard Thorne had joined the committee to replace Cllr Gary Hackwell as the representative of Medway Council.
2. The Chairman thanked Mr Coupland for his years of service to the committee and welcomed Cllr Thorne to his first meeting.

44. Apologies and Substitutes

(Item 2)

1. Apologies for absence had been received from Paul Bartlett, Cllr Paul Clokie and Paul Cooper. There were no substitutes.
2. The Cabinet Member, Peter Oakford, was also unable to join the meeting.

45. Declarations of interest by Members in items on the agenda for this meeting.

(Item 3)

1. Cllr Thorne declared that his wife and daughter worked for the County Council's Children, Young People and Education Directorate.

46. Superannuation Fund Report and Accounts and External Audit

(Item 4)

1. Ms Surana introduced the report and the positive audit assessment and responded to comments and questions from the committee, including the following:-
 - a) the report was generally welcomed. Members commented that there could helpfully be more narrative about equity protection, and the use of bullet points would make the report easier to read and more user-friendly for the public. Mrs

Mings advised that the content and format of the report were prescribed, so there was limited scope to change it, but she and Ms Surana undertook to look into making next year's report more user-friendly;

- b) Members thanked the Chairman for his excellent leadership of the committee and the great amount of work he regularly undertook on the committee's behalf between meetings;
- c) the Chairman thanked Ms Surana and her team for their work in preparing the report and for the clarity of the information they always presented to the committee, to help Members' understanding;
- d) in response to a question about the costs of ACCESS pooling, Mrs Mings advised that the cost of management fees and administrative support were far outweighed by the savings achieved by pooling, in terms of economies of scale and being able to negotiate lower fees. Costs were shared by all eleven authorities in the pool and together were less than £100,000 per annum for each authority, a very small percentage of the total Pension Fund's costs; and
- e) it was suggested that induction training for Superannuation Fund Committee Members should include ACCESS as this was a complex and specific area of work. This view was supported by the Chairman.

2. It was RESOLVED that:-

- a) the content of the 2020-21 Superannuation Fund Draft Accounts and the Annual Report, the external auditor's Draft Audit Findings Report and the position with regards to Governance and Audit Committee be noted;
- b) the authorisation of the Annual Report, on receipt of the audit certificate, be delegated to the Chairman of the Superannuation Fund Committee and the Corporate Director of Finance, and that, once the report is authorised, the Report and Accounts be published to the Kent Pension Fund website; and
- c) the updated Fund policies be approved.

47. Date of next meeting

(Item 5)

It was noted that the next meeting of the Committee would be held on Wednesday 1 December 2021, commencing at 10.00 am.

48. Motion to exclude the press and public for exempt business

The committee 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.

SUMMARY OF EXEMPT MINUTE
(where access remains restricted)

49. Environmental, Social and Governance (ESG) Beliefs Survey results and next steps

(Item 6)

1. Mr English presented a series of slides which set out the context, purpose and findings of the ESG beliefs survey (to which all Members of the committee had responded) and suggested next steps. Members debated the issues covered by the survey and discussed what the next steps should be.
2. The Chairman thanked Mr English for the fullness and clarity of the information set out in the slide presentation and thanked the committee for a thorough debate.
3. The committee RESOLVED to note the results of the ESG Beliefs Survey set out in the presentation and agreed its next steps.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 3 February 2022
Subject:	RI working group update
Classification:	Unrestricted

Summary:

This report sets out details of a proposal from the RI working group for the Fund to join the LAPFF (Local Authority Pension Fund Forum).

Recommendation:

The Committee is recommended to resolve to agree that the Kent County Council Superannuation Fund joins the LAPFF and to authorise the Corporate Director for Finance to apply for membership of the forum.

FOR DECISION**1. Introduction**

1.1 This report covers the proposal for the Fund to join the LAPFF.

2. Proposed membership of the LAPFF (Local Authority Pension Fund Forum)

2.1 At its meeting on 14 January the RI working group discussed the benefits of membership of the LAPFF taking into account the responses to the ESG beliefs survey in relation to Collective Engagement.

2.2 The LAPFF is an association of 84 local authority pension funds and 7 LGPS Pools with assets of around £300 billion. Members were advised that through the LAPFF the pension funds seek to have effective engagement with and influence on the behaviour of the companies in which they are invested.

2.3 The group agreed that a representative of the LAPFF be invited to deliver a short briefing to the Committee at its meeting on 3 February covering the activities of LAPFF and a copy of their slides are at appendix 1. The group agreed to recommend to the Committee that the Fund join the forum.

2.4 The annual subscription is £10,050 plus VAT (not payable until 1 April 2022 but membership available immediately).

3 Recommendation

- 3.1 The Committee is asked to note the report and to agree the recommendation that the Kent County Council Superannuation Fund joins the LAPFF and to authorise the Corporate Director of Finance to apply for membership of the forum.

Alison Mings, Acting Business Partner – Kent Pension Fund

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26 January 2021



Responsible Investing Protecting Shareholder Value The Role of the LAPFF

Keith Bray

Forum Officer, LAPFF

3 February 2022

The Role and Structure of the LAPFF

- The Forum seeks to **protect and enhance the long term value of our members' shareholdings** by way of **shareholder engagement** with the companies in which they invest, by promoting the highest standards of corporate governance and corporate social responsibility.

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- It is a voluntary association of 85 LGPS funds and 6 LGPS Pools with assets under management of £300bn+
- The Forum has a quarterly members' meeting preceded by a quarterly Executive meeting (both currently held online but hopefully face to face shortly). The Executive is a mix of councillors and officers which is elected by the membership annually. It is currently chaired by an Independent Councillor and includes councillors from both major parties.
- Much more information and copies of our Annual Reports and Quarterly Engagement Reports can be seen on our website at www.lapfforum.org

LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value for its LGPS members, the Forum

- facilitates commissioning of research into and **engagement** with investee companies (where concerns have been identified) more efficiently and effectively than individual members.
- Issues occasional voting alerts for members to discuss with their fund managers
- provides a forum for consultation on responsible investment and responds to consultation papers.
- Sponsors an All Parties Parliamentary Group (APPG) re the LGPS
- holds an Annual Conference in December
- **facilitates collaboration with other institutional investors both nationally and internationally**

Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Climate change – promoting a just transition to a net zero economy, mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors' remuneration
- Accounting standards – reliable accounting
- Appointment of and role of auditors
- Tax transparency

The Context

- The LGPS in England and Wales has assets under management of £276 bn
- It has 6.1m members
- It has 16,300 employers
- It is the 6th largest funded pension scheme in the world

(Source: Scheme Advisory Board – Annual Report 2020)

In short, the LGPS as a whole is a very significant institutional investor both nationally and internationally.

Fiduciary Responsibility of LGPS Pension Fund Committees

- When making investment decisions, administering authorities **must** take proper advice and act prudently. In the context of the local government pension scheme (LGPS), a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

However

- The law is generally clear that schemes **should** consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors

(Source: Department of Communities and Local Government)

Some engagement results



- The Forum, as a member of Climate Action 100+, has taken the lead since 2018 in encouraging the company (the largest steel producer in the world) to adopt more ambitious carbon emission reduction targets for 2020 -30, and improve its appreciation of the role of green hydrogen technology.
- In 2019 the company produced its first 'Climate Action Report' with a road map to zero reductions by 2050 and by January 2020 had set more medium term targets to cut carbon emissions 30% by 2030 in Europe, and began reporting separately about the development of green hydrogen technology.
- By the end of 2020 we had 'met' with Aditya Mittal who had taken over from his father Lakshmi Mittal as CEO and at that meeting he committed to include detailed discussions on the carbon zero emission carbon transition at the 2021 AGM and did so.

National Grid

The logo for National Grid, featuring the text "nationalgrid" in a white, lowercase, sans-serif font on a dark blue rectangular background.

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- We have been engaging with National Grid for many years and attending AGMs since 2013 with the aim of encouraging the company to adopt more ambitious targets for the reduction of carbon emissions. More recently we have engaged with National Grid as a Climate Action 100+ leader.
- National Grid is now recognised as a leader in many respects not least due to its ambition to operate a zero carbon electricity system in the UK by 2025 and for the entire company to be net zero by 2050
- Sir Peter Gershon, then Chairman of National Grid was a speaker at the 2019 LAPFF conference
- In March this year following a series of meetings with the Chairman, the Board announced that it will provide an advisory vote for shareholders at this year's AGM to put its climate change targets to the 2022 AGM. Our engagement continues – the LAPFF Vice Chair having met National Grid representatives last October to seek greater definition of intentions re their net zero pathway.



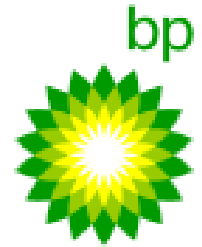
Financial Reporting Council

- Due to our growing concerns about the reliability of accounts from an investor's perspective (*e.g. Carillion, Tesco, Patisserie Valerie*) the LAPFF has been lobbying strenuously for the replacement of the FRC for several years, on grounds of it being “unfit for purpose”
A 2018 review of the FRC led by Sir John Kingman (former Treasury Official and Chairman of Legal and General) called for the “ramshackle house” to be closed.
- In March 2019 the then Business Secretary, Greg Clark announced that the FRC will be replaced by a new regulator – the Audit, Reporting and Governance Authority – ARGA
- Sir Jon Thompson, formerly CEO of HMRC has been appointed as CEO of the FRC and he was a speaker at our Conference in December



Shell & BP

Carbon Management



- The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed ‘strategic resilience to 2035 and beyond’ focusing on carbon management, strategy and disclosure.
- **For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. At the BP and Shell AGMs the resolution received votes of 98% and 99% in support.**



Remuneration at Barclays

- In 2015, despite unimpressive performance, Barclays paid out more in bonuses than in dividends to investors
- The Forum lobbied aggressively about this, and eventually secured the removal of Sir John Sutherland as Chairman of the Barclays Remuneration Board



- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.
- LAPFF member held less than 5% of the M&S share register but the resolution was supported by 37.7% of M&S shareholders.
- Marc Bolland appointed as Chief executive – M&S share price rises 5.5% on the day, on news of appointment..

Where are we now?

- Really beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Always more to do

The future?

- LAPFF to remain a Fund based organisation
- Continuing to **engage with companies** and issue occasional voting alerts. (It is for individual funds to discuss these with their fund managers)
- More collaboration - more effectiveness

Benefits of LAPFF membership

Value for money

- Research costs spread over 85 Forum member funds with assets of more than £300 billion – **strength in numbers**
- Assists members in reacting to pressure groups advocating divestment in particular sectors.
- Facilitates **collaboration on engagement nationally and internationally** with other institutional investors
- Saves officer time and cost in researching issues
- **Annual Subscription £10,050 (Not payable until 1 April 2022 but membership available immediately)**

Acting together - achieving more
Protecting shareholder value!

Kent Pension Fund



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of the Local Government Act 1972.

Agenda Item 7

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