

KENT COUNTY COUNCIL

PENSION FUND COMMITTEE

MINUTES of a meeting of the Pension Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Tuesday, 12 December 2023.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mrs C Bell, Cllr J Burden, Mr P C Cooper, Ms M Dawkins, Mr P M Hill, OBE, Mr J P McInroy, Mr C Passmore, Mr P Stepto, Mr J Wright and Cllr R Yates.

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr N Buckland (Head of Pensions and Treasury), Mr J Graham (Pension Fund Treasury and Investments Manager), Mrs C Chambers (Pensions Administration Manager), Ms S Surana (Investments, Accounting and Pooling Manager), Mrs E Green (Senior Pensions Programme Manager), Mr S Tagg (Senior Accountant – Employer Governance and Compliance) and Mr M Dentten (Democratic Services Officer).

IN ATTENDANCE VIRTUALLY: Mr P Doust.

UNRESTRICTED ITEMS

170. Apologies and Substitutes

(Item 1)

Apologies for absence were received from Mr Doust, Cllr Beer who was substituted by Cllr Blair, Cllr Prenter who was substituted by Cllr Jones and Mr Rayner who was substituted by Mrs Bell.

171. Declarations of Interest

(Item 2)

The following declarations were made:

1. Mr Bartlett declared that he was employed by the Bank of New York Mellon and would not participate in discussion related to Insight Investment who were an affiliate.
2. Mr Passmore declared in relation to Item 12 (Responsible Investment) that he ran a company involved in environmental, social, and corporate governance.

172. Minutes of the meeting held on 26 September 2023

(Item 3)

RESOLVED that the minutes of the meeting held on 26 September 2023 are correctly recorded and that they be signed by the Chairman.

173. Work Programme and Action Log

(Item 4)

1. Mr Buckland introduced the report which detailed the Committee's work programme to September 2024 and action log for 2023/24, following the decisions taken by the

Committee at its previous meetings. Members were reminded of the 22 February 2024 informal investment training day.

RESOLVED to note the work programme and updated action log.

174. Employer Governance

(Item 5)

1. Mr Tagg introduced the report which updated the Committee on Fund employers for the 3 months ending 30 September 2023, deemed employer status, the actuary procurement project and proposed 3 admissions. He highlighted the Fund's strong contribution collection performance, over the previous 3 months. Regarding deemed employers, in respect of contractors applying to join the Fund, he noted that it would simplify the employer admissions process by reducing costs and delays by removing the need for a separate legal admission agreement and associated security.
2. In relation to the admission of Suez Recycling and Recovery UK following Ashford, Maidstone and Swale Borough Councils' award of an 8-year contract for waste collection and street cleansing, Mr Bartlett and Mrs Bell declared that they were members of Ashford Borough Council and Mr Cooper declared that he was a member and Deputy Leader of Maidstone Borough Council.

RESOLVED to note the report and agree:

- a) to the admission to the Kent Pension Fund of Suez Recycling and Recovery UK Ltd;
- b) to the admission to the Kent Pension Fund of Caterlink Ltd (re Briary School/EKC Schools Trust);
- c) to the admission to the Kent Pension Fund of Independent Catering Management Ltd (re Gravesend Grammar School/Decus Trust);
- d) the Compass Contract Services UK Ltd net cessation surplus is allocated to Kent Catholic Schools Partnership share of the Kent Pension Fund being the funding pool for Kent and Medway academies; and
- e) that once legal agreements have been prepared for matter a) to c) the Kent County Council seal can be affixed to the legal documents.

175. Pensions Administration

(Item 6)

1. Mrs Chambers introduced the report which updated the Committee on the administration of the Kent Pension Fund from 1 August to 31 October 2023, including: performance; recruitment; breaches of law; complaints, compliments and comments; project updates; overpayment recovery and write off limits; communications and support; technical developments; training; and development. She noted that work to update KPIs was ongoing and incorporated CIPFA guidance, regulations and best practice from across the sector. She confirmed that the Fund had created a LinkedIn page to raise awareness of its work. She advised the Committee that despite good progress, SCAPE factor changes continued to

impact the workload of the Pensions Administration team. Concerning the new self-service system, she advised that tests were underway with a launch planned for January 2024.

RESOLVED to note the report.

176. Pension Board update

(Item 7)

1. The Chairman gave thanks to the Chairman of the Pension Board, Mr Thomas, for his report.

RESOLVED to note the update from the Board.

177. Business Plan, Budget and Governance

(Item 8)

1. Mr Buckland introduced the report which updated the Board on the Fund's 2023/24 and 2024/25 business plan, budget, governance and policy matters. He highlighted the items successfully completed in the business plan since the last meeting and noted that delays to regulation and government guidance were the main factors which had impacted completion of the outstanding actions. Budget variances were addressed, with it noted that the greater than expected IT spending was in connection to the costs of implementing and maintaining software for the GMP reconciliation project.

RESOLVED to note and comment on the report.

178. Member Training

(Item 9)

1. Mrs Green introduced the report which updated the Committee on the responses to the November 2023 training survey, as well as the training programme for 2023/24 and 2024/25. She noted that the results confirmed that members had continued to undertake a wide range of training and that the majority had now taken part in training.
2. The Chairman emphasised importance of training and noted benefit of recent sessions held for members.

RESOLVED to note the report.

179. Investment Performance and Asset Allocation

(Item 10)

1. Mr English (Mercer) provided a verbal market update. He noted that bond yields had been volatile for the last 18 months, had come off recent highs and were still elevated after the pricing in of interest rate cuts. He highlighted index linked gilts as a strong asset class and recognised that equity markets were trading in range.
2. Mrs Surana introduced the report which provided the Committee with an update on the Fund's investment activity and performance since the Committee's last meeting. She confirmed that as of 30 September 2023, the Fund's value was £7.83bn, an

increase of £91m over the quarter, a return of 1.56% against a benchmark of 1.08%, despite a fall in global equities. The impact of a decline in the value of the pound was highlighted. She noted that fixed income markets continued to struggle, though the Fund's two multi asset credit managers exceeded the 1.37% benchmark with returns of 2.76% and 2.56%.

3. Mr Graham addressed the proposed Investment Strategy Statement, noting its requirement as a key Fund governance document under LGPS regulations, and the changes made to reflect the Fund's new investment strategy.
4. The Vice Chairman gave his thanks to Mrs Surana and Mr Graham for their work developing the performance report and updated Investment Strategy Statement.

RESOLVED to:

- a) note the report;
- b) agree that no rebalancing is undertaken; and
- c) agree to adopt the updated Investment Strategy Statement, including the revised rebalancing policy set out within the statement.

Motion to Exclude the Press and Public

RESOLVED that 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

(Open access to minutes)

180. Investment Strategy Implementation

(Item 11)

1. Mr Graham introduced the report which addressed implementation of the Fund's newly approved investment strategy and actions needed to bring into effect the new strategic asset allocation.
2. Members asked questions on impact investing and fees which were answered by officers.

RESOLVED to note the report and:

- a) agree to implement the emerging market equities allocation via the ACCESS pool and that officers develop a proposal for the optimum allocation structure using products available on the pool for consideration by the Committee at its meeting in March 2024;
- b) agree to terminate the current UK equities total return swap contracts as they expire;
- c) agree to redeem sufficient assets from the WS ACCESS UK Equity Fund (managed by Schroders) to bring the UK equities allocation towards the 10% target weight (indicatively £370m) and to delegate a decision on the final amount and

management of associated transition arrangements to the Head of Pensions and Treasury, in consultation with the Chairman;

- d) agree to delegate the decision on whether to increase the synthetic global equity to bring the Equity allocation to target pending a full review of the equity portfolio construction to the Head of Pensions and Treasury, in consultation with the Chairman and the Risk Management Group;
- e) agree to amend the guidelines of the Insight Mandate to incorporate the use of index-linked gilts as collateral, and to delegate all necessary powers to update the guidelines in accordance with this decision to the Head of Pensions and Treasury, in consultation with the Chairman;
- f) agree to delegate all required decisions on the design and construction of the index-linked gilts portfolio and other collateral portfolio to the Head of Pensions and Treasury, in consultation with the Chairman and the Risk Management Group;
- g) agree to delegate authority to the Head of Pensions and Treasury, in consultation with the Chairman, to create the index linked gilts portfolio in accordance with recommendation f) to bring the allocation towards the 7% target weight (indicatively £540m with final amount subject to change) from the sale of other collateral assets, as well as all associated transition management;
- h) agree to redeem in full the investment with Pyrford; to invest a sufficient amount of the proceeds in the WS ACCESS Absolute Return Fund (managed by Ruffer) to bring the Absolute Return allocation to target weight (indicatively £210m with final amount subject to change); to invest the residual proceeds in cash within the Risk Management Framework in the short term and to delegate the management of all associated transition arrangements to the Head of Pensions and Treasury, in consultation with the Chairman; and
- i) agree the changes to DTZ's mandate outlined in section 6 above and delegate the signing of documentation giving effect to the above arrangements to the Head of Pensions and Treasury, subject to the satisfactory outcome of a legal review.

181. Responsible Investment

(Item 12)

1. Mr Graham introduced the report which updated the Committee on the work of the Responsible Investment Working Group, voting activity of the Fund's investment managers, their engagement with the companies in which they are invested on the Fund's behalf, securities lending activity and the proposal to set a formal net zero ambition for the Kent Pension Fund.
2. Mr English presented the climate transition analysis produced by Mercer for the Fund as its Investment Consultant.
3. The Committee discussed the merits of a Fund Net Zero target.
4. Cllr Yates moved and Ms Dawkins second an amendment "that the Committee agree to:
 - a) adopt a Net Zero target of 2045;

- b) adopt equity portfolio decarbonisation targets of a 50% reduction by 2030 and a 75% reduction by 2040 ahead of the 2022 IPCC Curve;
 - c) engage with fixed income managers to understand feasibility of climate targets, working towards target setting for this allocation; and
 - d) adopt a 15% target in sustainable assets by 2030 (including climate solutions).”
5. The Committee debated the amendment.
6. The Committee voted on the amendment. The amendment failed.
7. The Committee voted on the motion. The motion passed unanimously.

RESOLVED to note the report and agree to:

- a) adopt a Net Zero target of 2050;
- b) adopt the IPCC decarbonisation curve;
 - a. Adopt equity portfolio decarbonisation targets of a 43% reduction by 2030 and a 69% reduction by 2040 in line with the 2022 IPCC Curve
 - b. Engage with fixed income managers to understand feasibility of climate targets, working towards target setting for this allocation; and
- c) adopt a 15% target in sustainable assets by 2030 (including climate solutions).

182. Cyber Security

(Item 13)

1. Mrs Green introduced the report which provided the Committee with an update on the cyber security work being undertaken by the Fund.

RESOLVED to note the report.

183. McCloud

(Item 14)

1. Mrs Green introduced the report which updated the Committee on the measure in place and progress made by the Kent Pension Fund in obtaining data from scheme employers, following the McCloud Remedy Regulations which came into effect on 1 October 2023. It was noted that guidance from the DLUHC was outstanding.

RESOLVED to note the report, in particular the resource implications and progress to-date.

184. ACCESS

(Item 15)

1. Mr Graham introduced the report and highlighted the decisions taken at the December meeting of the ACCESS Joint Committee.
2. The Chairman noted that the Chairman and Vice Chairman of Pension Board had attended the Joint Committee as observers.

RESOLVED to note the report.

185. LGPS: Next steps on investments consultation - Presentation
(Item 16)

1. Mr Buckland gave a presentation on the government response, issued on 22 November, to the LGPS: Next steps on investments consultation.

RESOLVED that the content of the presentation be noted.