

INVESTMENT AND PENSION FUND COMMITTEE

26 November 2021

Present:-

Councillors P Bullivant (Chair), Y Atkinson, H Gent, and G Gribble,

Unitary and District Councils

Councillors J O'Dwyer and J Pearce (remote attendance)

Other Employer Representative

Councillor R Bloxham

Union and Retired Members

R Franceschini and J Cook (remote attendance)

Member attending in accordance with Standing Orders 8 and 25

Councillor J Hodgson (remote attendance)

Apologies:-

Councillor J Morrish, Councillor M Hartnell, Councillor J Mahony and S Teague

* **30** **Minutes**

RESOLVED that the Minutes of the Meeting held on 17 September 2021 be signed as a correct record

* **31** **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

* **32** **Devon Pension Board**

The Committee noted the Minutes of the Meeting of the Board held on 11 October 2021.

* **33** **Brunel Oversight Board**

The Committee noted the Minutes of the Meeting of the Board held on 23 September 2021.

* **34 Independent Investment Advisor**

The Committee noted the Report of the Director of Finance (Designate) (DF/21/16) on the evaluation process for the contract for provision of independent investment advice to the Committee and the appointment of MJ Hudson. The Committee endorsed the appointment.

35 Notice of Motion

(Councillor J Hodgson attended in accordance with Standing Order 8 and spoke to this item in support of her Notice of Motion as detailed below)

Notice of Motion:

Divestment (Fossil Fuels and Local Government Pension Scheme)

Devon County Council notes:

- Devon County Council has around £157 Million invested in fossil fuels via the Local Government Pension Scheme. This is about 3.9% of its total fund and currently the 5th highest of all the Local Government Pension schemes in the UK[1]
- The United Nations Paris 2015 Agreement commits our governments to keep the global temperature increase to under 2 degrees and aim for 1.5 degrees. Carbon budgets produced by the Intergovernmental Panel on Climate Change, United Nations and the International Energy Agency show that preventing two degrees of warming relies on not burning 60-80% of all proven fossil fuels.
- With COP26 taking place in Glasgow in November 2021, there is increased emphasis by the UK government on showing global climate leadership, especially in relation to finance. Divesting our pension is a clear and meaningful action that can be taken at a local government level.
- Fossil fuel investments are financially risky as a result of both the Covid19 pandemic and the global transition to a more sustainable economic and environmental model. They are now being consistently out-performed by renewables.[2]
- Former Bank of England Governor Mark Carney warned in December 2019 that fossil fuel investments risk becoming “stranded assets” (i.e., worthless) as investors exit the sector. “A question for every company, every financial institution, every asset manager, pension fund or insurer – what’s your plan?”
- As continued investments in fossil fuels pose material financial risks to portfolios, funds have fiduciary duties to consider the benefits of decarbonising as part of their investment strategies. Fiduciary duty is defined by the Law Commission as ‘ensuring that pensions can be paid, ensuring that this is undertaken at the best possible value’.

- Pension funds have a legal duty to treat members “fairly as between them”. That means taking seriously the longer-term interests of younger members who may well be affected more by the climate transition.
- Continued engagement with fossil fuel companies does not stop them polluting and recent court action with Shell (DCC Treasurer’s Investment Management Report to Pension Fund Committee 17.09.21) indicates that company’s resistance to reduce its reliance on fossil fuels in line with the Paris Agreement.

This Council commits to:

1. Reviewing its Investment Strategy and developing and implementing a Responsible Investment Policy which rules out new investments in fossil fuel companies and divests as a matter of urgency from those fossil fuel companies it is currently invested in.

2. Calls on Devon County Council’s Pension Fund to divest from fossil fuels by requesting its representative(s) on the Pension Fund Committee to call for the development and adoption of responsible investment policies which:

a. Immediately freeze any new investment in the top 200 publicly traded fossil fuel companies.[3]

b. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds to achieve net zero by 2030, in line with the aspirations of our Devon Carbon Plan. This requires a faster rate of change than the current 7% transition per annum.

c. Set out an approach to quantify and address climate change risks affecting all other investments.

d. Actively seek to invest in companies that will reduce greenhouse gas emissions and minimise climate risk.

e. Seek investment in the Paris Aligned Benchmark via Brunel as part of the transition.

3. Recognising that fossil fuel investments should be considered as part of the council’s ‘carbon footprint’ and divesting our pension fund is one of the most impactful steps we can take to reduce our impact on our community and the world. A detailed report on the carbon footprint of the Devon Pension Fund investments will be provided to this Council

4. Requests the Devon Pension Fund to poll its individual investors for their views of divestment from fossil fuel companies and increased investment in companies that support sustainable initiatives such as renewable energy.

Footnotes

[1] 2021 figures taken from the report Divesting to protect our pensions and

the planet – An analysis of local government investments in coal, oil and gas. Available at: <https://www.divest.org.uk/councils>

[2] Energy Investing: Exploring Risk and Return in the Capital Markets, Joint Report by the International Energy Agency and the Centre for Climate Finance & Investment, Paris. Available at: <https://www.iea.org/reports/energy-investing-exploring-risk-and-return1in-the-capital-markets>

[3] As determined by the most recent Carbon Underground 200 list.

The Committee considered the Officer's factual briefing note (CSO/21/16) which referred to this Notice of Motion.

The Committee also considered a recommendation now before them.

Member and Officer discussion points included:

- the positive progress the Committee was making with its current strategy which was continually assessed and reviewed within a global context;
- the positive advantages in engagement whereas simple divestment was unlikely to achieve climate change objectives;
- the work of the Local Authority Pension Fund Forum in terms of climate change policy and other ethical and governance issues and the national recognition of the leading work of Brunel in terms of climate change and decarbonisation strategies on behalf of the Devon Fund and other local authority partners;
- the minority view that whilst the current strategy was effective, further and more radical and more speedy actions would be preferable; and
- the importance of clear information and effective communications with Fund members and the process for members (current and deferred members) leaving the fund, subject to accredited and independent financial advice.

It was **MOVED** by R Franceschini, and **SECONDED** by Councillor G Gribble and

RESOLVED

(a) that the Devon County Council notes:

- The Devon County Council Pension Fund has committed to achieving net zero investment portfolios by 2050, or sooner.
- Significant progress has already been achieved with a reduction in the Weighted Average Carbon Intensity of the Fund's equity investments of 37% since March 2019, and a significant reduction in fossil fuel reserves exposure.
- The United Nations Paris 2015 Agreement commits our governments to keep the global temperature increase to under 2 degrees and aim for 1.5 degrees. Carbon budgets produced by the Intergovernmental Panel on

Climate Change, United Nations and the International Energy Agency show that preventing two degrees of warming relies on not burning 60-80% of all proven fossil fuels.

- The Devon Fund invests via the Brunel Pension Partnership, who are seen as leaders in the investment world in their approach to climate change. Brunel have played an active role in COP26 that took place in Glasgow during November 2021 including meetings with key policy makers, pressing for changes in the investment industry to support the transition to net zero. Faith Ward from Brunel sat on a panel on: *"Deploying capital in the age of planetary boundaries"* with Mark Carney, former Governor of the Bank of England.
- The Devon Pension Fund has taken action to move its UK and factor based passive equity allocations to new benchmarks that will be climate transition aligned and support companies who are effectively transitioning their businesses as well as significantly reducing fossil fuel reserves exposure.
- That the revenue obtained by fossil fuel companies from their customers dwarfs any funding they receive from equity investors, and that working with all investee companies to transition their reliance away from the consumption of fossil fuels in the course of their business is therefore the most effective means of preventing the burning of fossil fuels and generating real progress in tackling climate change.
- As climate change poses material financial risks to portfolios, pension funds have fiduciary duties to consider the benefits of decarbonising as part of their investment strategies. Fiduciary duty is defined by the Law Commission as 'ensuring that pensions can be paid, ensuring that this is undertaken at the best possible value'. The Devon Pension Fund fully endorses the need to address climate change risks through its investment strategy.
- Pension funds have a legal duty to treat members "fairly as between them". That means taking seriously the longer-term interests of younger members who may well be affected more by the climate transition.
- Divesting shares in fossil fuel companies does not stop them polluting and continued engagement has a significant role to play in achieving progress on combatting climate change.

(b) that the Council, in its capacity as the Administering Authority of the Pension Fund, commits to:

1. Continually reviewing its Investment Strategy and Responsible Investment policies to ensure they remain fit for purpose and effectively manage the risks posed by climate change.
2. Maintaining responsible investment policies which:
 - (a) Seek to achieve net zero investment portfolios by 2050 or sooner.

- (b) Seek a reduction of between 50-75% in the Weighted Average Carbon Intensity of the Fund's investments by 2030.
 - (c) Continue to quantify and address climate change risks affecting all investments.
 - (d) Actively seek to invest in companies that will reduce greenhouse gas emissions and minimise climate risk, through for example a target to invest 5% of the Fund in renewable energy infrastructure by 2025, and investment in funds that reward positive progress by companies in transitioning their businesses in line with the Paris Agreement.
 - (e) Invest in funds that track the recently launched Climate Transition and Paris Aligned Benchmarks via Brunel as part of the Fund's asset allocation strategy.
3. Continuing to provide a detailed report on the carbon footprint of the Devon Pension Fund investments on an annual basis in the Pension Fund Annual Report.
 4. Consulting regularly with pension fund members on their views on responsible investment, including the Pension Fund's policies on climate change.

[N.B. In accordance with Standing Order 32(4) Councillor Gent requested his abstention from the vote and decision taken be recorded)

* 36

Audit Report on the Pension Fund Statement of Accounts 2020/21

The Committee considered the Report of the Director of Finance (Designate) (DF/21/17) on the draft Pension Fund Annual Report and Accounts which had been approved at the last meeting subject to the completion of the external audit by Grant Thornton. Their Audit Findings Report was now attached at Appendix 1 to the Report. As a result of the external audit a number of non-material amendments to the statement of accounts had been made and these were set out in the Director's Report.

Member discussion points with Officers and Grant Thornton included:

- the robustness and reliability of management data/information and security of the systems and safe custody of equities;
- the independence of the respective audits of the Devon Pension Fund and the Brunel Partnership; and
- approval of the Audit Report at a recent meeting of the County Council's Audit Committee on 23 November 2021.

It was **MOVED** by Councillor P Bullivant, and **SECONDED** by Councillor J O'Dwyer and

RESOLVED that the Audit Findings Report from Grant Thornton, and the amendments made to the previously approved Pension Fund Report and Accounts be noted.

* **37 Investment Management Report**

(Councillor J Hodgson attended in accordance with Standing Order 25 and spoke to this item in regard to the engagement activity as referred to in the Report).

The Committee considered the Report of the Director of Finance (Designate) (DF/f21/18) on the Fund value and asset allocation, performance against the benchmark, funding level, budget forecast 2021/22, cash management, and voting engagement activity.

The value of the Fund as 30 September 2021 stood at £5,371.6 m, an increase of around £57m over the last quarter.

Members' discussed with Officers the current hedging strategy which would form part the future overall strategic review which was being undertaken by Mercer investment consultants for consideration by the Committee at a future meeting.

It was **MOVED** by Councillor P Bullivant, **SECONDED** by Councillor J O'Dwyer and

RESOLVED

(a) that the Investment Management Report be noted;

(b) that the following rebalancing action be agreed:

(i) £50 million be transferred from the Global High Alpha Equities portfolio to Multi-Asset Credit;

(ii) £50 million be transferred from Passive Global Developed Equities to the Diversifying Returns Funds portfolio;

(iii) the current policy of funding private market portfolio drawdowns from the Diversifying Returns Funds be suspended, with drawdowns to be funded from Passive Global Developed Equities until the total equity allocation is back to target;

(c) that compliance with the 2021-22 Treasury Management Strategy be noted.

* **38** **Actuarial Valuation 2022**

The Committee considered the Report of the Director of Finance (Designate) (DF/21/19) on the plan for the 2022 Actuarial Valuation which has been discussed with the scheme actuary, Barnett Waddingham. The valuation (carried out on a three yearly cycle) was due at 31 March 2022.

The results of the valuation would be published by 31 March 2023 and would set employer contribution levels for the financial years 2023/24, 2024/25 and 2025/26 (the contribution levels for 2022/23 had been set at the previous valuation in 2019). The Report also set out a proposed timetable agreed with Barnett Waddingham.

Members discussed with Officers the approximate level of early payment and discounts which had been taken up by Employers.

It was **MOVED** by Councillor J Bullivant and **SECONDED** by Councillor J O'Dwyer and

RESOLVED that the planned approach to the 2022 triennial valuation of the Pension Fund as set out in the Report be approved.

* **39** **Employer Changes**

The Committee noted new approved admitted bodies and academy conversions and changes as follows:

(a) Admitted Bodies

- Specialist Fleet Services took over waste and recycling for North Devon District Council from 1st October 2021.
- Aspen Services LTD have taken over catering services at Barton Hill from 15th February 2021.
- Churchills have taken over the cleaning contract at Oreston Academy from 1st October 2020
- Thinking Schools Trust have outsourced the cleaning contract to Churchills from 1st September 2021
- BIFFA have taken over the recycling services for Plymouth City Council from Viridor (00393) with effect from 31st August 2021. (b) New academy conversions and changes.

(b) Academy Conversions

- St James CofE School joined Dartmoor MAT- 1st October 2020.

- Plymouth High School for Girls joined Thinking Schools Trust from 1st February 2021

* **40** **Dates of Future Meetings**

25 February 2022, 17 June, 19 September, 25 November and 24 February 2023

Confirmation of dates on the Council's website:

[Browse meetings - Investment and Pension Fund Committee - Democracy in Devon](#)

* **41** **Exclusion of the Press and Public**

RESOLVED that the press and public be excluded from the meeting for the following items of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

* **42** **Brunel Pension Partnership - Review of Savings and Budget**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded)

The Committee considered the Report of the Director of Finance (Designate) on a review of fee savings as a result of the Brunel partnership in regard to the portfolios that the Devon Fund had invested in, and how that compared with the original business case. The report also discussed the Brunel budget for 2022/23.

Members' discussion points with the Officers included the general consensus that the level of discretionary and non-discretionary increases in elements of the budget (as detailed in the report) were broadly acceptable, given the commitment towards ESG and related issues, the savings already achieved and expected in the future and also subject to good future returns.

The above views would be reported by Officers to Brunel and the Brunel Oversight Board in regard to discussions about the proposed Brunel Budget for 2022/23.

NOTES:

1. *Minutes should always be read in association with any Reports for a complete record.*

2. *If the meeting has been webcast, it will be available to view on the [webcasting site](#) for up to 12 months from the date of the meeting*

* **DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 10.30 am and finished at 12.00 pm