PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 18 January 2023 at County Hall, Matlock.

PRESENT

Councillor D Wilson (in the Chair)

Councillors P Smith, R Ashton, N Atkin, L Care (Derby City Council), M Carr (Derby City Council), M Foster, G Musson and M Yates.

Officers in attendance: M Fairman, D Kinley, A Nelson, N Smith and S Webster.

Also in attendance was A Fletcher (The Fund's independent investment advisor)

Apologies for absence were submitted for Councillor B Bingham and M Wilson (Derbyshire Unison).

1/23 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)

There were no declarations of interest.

2/23 CHAIRMAN'S ANNOUNCEMENTS

The Chairman reported that this would have been Mick Wilson's last meeting of the Committee as he was soon to be taking early retirement. Mr Wilson had been a member of the Committee since 2015 representing Derbyshire Unison. The Chairman wished to place on record his thanks for Mr Wilson's ability to engage, his rational discussions and overall contribution to the Committee.

On behalf of the Committee, the Chairman wished Mr Wilson a long and happy retirement.

3/23 PUBLIC QUESTIONS

The following questions had been received from members of the public:

<u>Question 1</u>
Sue Owen, on behalf of Derbyshire Pensioners Action Group:

Your 2020 and 2021 Climate Related Disclosures reports have the following analysis of resilience of the Pension Fund's investment strategy:

- A 2°C scenario would have a positive impact on the Fund’s returns considering both a timeline to 2030 and to 2050. This positive impact is boosted under the Strategic Asset Allocation reflecting the 3% allocation to Global Sustainable Equities.
- A 3°C scenario (which is in line with the current greenhouse gas trajectory) has a relatively muted impact on the Fund’s annual returns.
- A 4°C scenario would reduce the Fund’s annual returns, with most asset classes expected to experience negative returns

I am sure you are aware that currently the world is at 1.2 degrees of warming, which has resulted in unprecedented temperatures, e.g. 40 degrees in UK in 2022, unstoppable fires and devastating floods. This has resulted in trillions of pounds of damage globally. The world will have large areas that are uninhabitable by humans if we reach 3 degrees. There will be a shortage of fresh water and food, rising sea levels and hundreds of millions of climate refugees. Everything will change. The analysis that 3C warming will have a muted impact on the fund's returns seems to lack recognition of the reality of what will happen and seems incredibly complacent. Can you explain where this analysis has come from and whether you think it represents a realistic analysis of the future?

The Chairman responded as follows:

The climate scenario analysis conducted by Mercer LLC (Mercer) was included in LGPS Central Limited’s 2020 Climate Risk Report, which was the first such report commissioned by the Fund. Mercer is widely regarded as a leading consultancy firm in terms of developing, and reporting on, climate change scenario analysis.

For the climate scenario analysis included in the 2022 LGPS Central Limited Climate Risk Report, which is being presented to Committee today, Mercer has partnered with Ortec Finance and Cambridge Econometrics to develop climate scenarios that are grounded in the latest climate and economic research.

As noted in the 2022 Climate Risk Report, there remains a great deal of uncertainty for investors around the market reaction to climate risks and to changing climate policies. Climate scenario analysis forecasts different possible eventualities across a range of scenarios. As a developing field, which by necessity uses assumptions about inherently unpredictable matters over long time horizons, it is prudent to view the outputs from the analysis as directional information on the sensitivity of the Fund’s portfolio to different climate scenarios to be considered in tandem with all the other factors which have the potential to impact on investment returns.

Question 2
Wendy Bullar:

Does your advisor Mr A Fletcher have expertise relevant to the climate and ecological crisis and if so, is the level of his knowledge sufficient to the task of providing guidance on pensions investment to assure the security of many hundreds of people for years to come?

The Chairman responded as follows:

The Fund's external investment advisor has a broad range of experience across investments, economics and markets, in addition to possessing ESG (environment, social and governance) related knowledge and skills, to ensure that ESG advice, including advice on climate change, is provided in the context of the broader range of risk and reward considerations.

The Fund also has access to a wide range of climate related knowledge and research via its membership of the Local Authority Pension Fund Forum and via ongoing dialogue with the Fund's investment managers and with the Responsible Investment and Engagement Team at LGPS Central Limited which prepares the annual Climate Risk Report for the Pension Fund.

Additionally, the Fund has recently become a member of the Institutional Investors Group on Climate Change (IIGCC), the leading European membership body for investor collaboration on climate change. The IIGCC has around 375 members, representing around €60 trillion of assets under management. Membership will enable the Fund to work with other like-minded investors on the journey to a net zero future.

Question 3
Laura Stevens:

Does the Committee know whether the Derbyshire Pension Fund's equities/shares portfolio has an average, above average or below average exposure to green companies, relative to the market as a whole? And for bonds, what part of the Derbyshire bonds portfolio are green bonds? If the Committee does not know the answer please could they ask their investment advisers to check?

The Chairman responded as follows:

The Fund uses a range of carbon measures to manage climate-related risks and opportunities, and these are set out in the Fund's annual TCFD report, a copy of which can be found on the Fund's website. One of these measures covers the weight of the Fund’s listed equity portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water). The measure indicates that 33.2% of the Fund’s listed equity portfolio at 31 March 2022 was invested in companies whose products and services include clean technology. Whilst this was slightly lower than the benchmark weight of 34.4% at the same date, it was 9.4% higher than the Fund’s clean technology exposure at 31 July 2019.

UK sovereign green bonds are very much in their infancy, with the UK Government issuing its first green conventional bond in 2021, followed by the issue of a second green bond in 2022. These two issues currently account for around 1.5% of the total UK conventional gilt market. The Fund made its first investment into one of the two issues in 2022, and the investment currently accounts for just over 5% of the Fund’s UK conventional gilt portfolio.

Question 4
Lisa Hopkinson, on behalf of Transition Chesterfield:

In the response from Cllr Barry Lewis to a question from Bridget Edwards at the last council meeting, he stated that: "The Fund’s in-house investment management team, together with the Fund’s underlying investment managers, integrate ESG considerations, including climate related risks and opportunities, into the investment decision making process. Climate related risks and opportunities are considered alongside a wide range of factors that are likely to impact potential investment returns, including economic and market risks, volatility, liquidity, currency exposure and concentration risk." This statement suggests that the Fund has a “reactive” approach to managing risk, rather than a “proactive” one that mandates the investment managers to go out and search for climate related opportunities. As the energy system changes from high carbon to low carbon and we need to reduce emissions by 50% in a decade, this will create huge opportunities in the green economy which the Fund should be actively seeking out by regular reviews/calls for proposals”. Has the Fund considered a more proactive policy, for example, for the equities part of the portfolio, running a simple test using something like the Green Revenue Data Model? And does the Fund know how many of the companies that it owns that meet the Green Energy Mark?

The Chairman responded as follows:

The Fund proactively manages climate-related risks and opportunities, being one of the first LGPS pension funds to publish a Climate Strategy, which included support for the aims of the Paris Agreement, and the

Fund's first decarbonisation targets. Significant investments have subsequently been made into Global Sustainable Equities and renewable energy assets over the last three years, with these two asset classes now accounting for around 30% of the Fund's total investments.

There are a number of different climate-related models available to investors, including those developed by the index providers. The carbon risk metrics analysis in the Fund's Climate Risk Report is based on a dataset provided by MSCI ESG Research LLC and includes a measure of exposure to clean technology by revenue.

Only companies listed, or planning to list, on the London Stock Exchange are able to apply for the Green Economy Mark. The climate related analysis considered by the Fund covers a meaningful proportion of the Fund's investment universe and is considered in tandem with all the other factors which have the potential to impact on investment returns.

4/23 **<u>TO CONFIRM THE NON-EXEMPT MINUTES OF THE MEETING HELD ON 7 DECEMBER 2022</u>**

The minutes of the meeting held on 7 December 2022 were confirmed as a correct record.

5/23 **<u>CLIMATE RISK REPORT</u>**

LGPS Central Limited (LGPSC) had prepared a Climate Risk Report for the Fund structured around the Taskforce for Climate-related Financial Disclosures' (TCFD) four thematic areas of: governance; strategy; risk management; and metrics and targets. It included the assessment of financially material climate-related risks within the Pension Fund's investment portfolio, highlighted climate-related opportunities and provided information to set an annual Climate Stewardship Plan for the Pension Fund.

Recognising that there was considerable uncertainty in the crystallisation pathway for climate risk, LGPSC believed that a suite of carbon risk metrics and climate scenario analysis provided the most appropriate method of analysing climate risk to support the management of climate risk within investment portfolios.

LGPSC's contractual arrangements with the third-party provider of the carbon risk metrics data had prevented the publication of the full Climate

Risk Report because the report contained some proprietary information in respect of individual investment manager and stock holding carbon metrics, which was subject to a non-disclosure clause. The full Report would be presented in the restricted part of the meeting. However, a public version of the report, which provided largely the same degree of overall portfolio and asset class information but had omitted the proprietary information was attached at Appendix 2 to the report. The Investment Manager provided further details of the four thematic areas along with the progress that the Fund had made within each area.

RESOLVED:

That the Committee notes the LGPSC Climate Risk Report attached as Appendix 2 to the report.

6/23 CLIMATE RELATED DISCLOSURES

This report covered the Fund’s third Disclosures Report and was aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) including updated guidance that had been issued in October 2021. It described the way in which climate-related risks were currently managed by the Fund and included information on the Fund’s governance of climate risk and on the climate-related stewardship activities of the Pension Fund which were an important part of the Fund’s approach to managing climate risk. It also included the results of climate scenario analysis and carbon risk metrics analysis that had been undertaken on the Fund’s assets as part of LGPSC’s preparation of an annual Climate Risk Report.

The climate scenario analysis forecasts were highlighted and supported the Fund’s ongoing transition to the new final strategic asset allocation benchmark from 1 January 2022.

The carbon risk metrics analysis reported the current exposure to the specified metrics and demonstrated the progress that had been made since the Fund’s first Disclosures Report. Progress in respect of the two targets used by the Fund to manage climate-related risks and the Fund’s performance against the targets were presented.

The Investments Manager reported that the Fund’s application to become a member of the Institutional Investors Group on Climate Change (IIGCC) had been accepted and the Fund was now a member. The Committee was pleased to note the membership.

RESOLVED:

That the Committee notes the Climate-Related Disclosures Report attached as Appendix 2 to the report.

7/23 GOVERNANCE POLICY AND COMPLIANCE STATEMENT

The Governance Policy and Compliance Statement set out the governance arrangements for Derbyshire Pension Fund and records the extent to which the Fund complied with the statutory guidance issues in respect of these matters.

A minor update had been included in the draft Statement to reflect the reappointment of the two members representing Derby City Council following the City Council's Annual General Meeting on 25 May 2022. As there were no material changes to the Statement, consultation with stakeholders was not proposed. Following the early retirement of the Committee's Trade Union representative as reported earlier, the unions would be contacted and requested to nominate a new representative to sit on the Committee.

It was noted that an area for future consideration was the extension of member and employer representation on the Committee. The review of scheme member and employer representation in the Fund's governance structure would be finalised following publication of the statutory guidance from the Department of Levelling Up, Housing and Communities with respect to the implementation of the recommendations set out in the Good Governance Review. In respect of current representation within the governance structure of the Fund, Derbyshire Pension Board (which included scheme member and employer representatives) assisted the Committee in the administration of the Fund.

RESOLVED:

That the Committee approves the draft Derbyshire Pension Fund Governance Policy and Compliance Statement attached at Appendix 2 to the report.

8/23 DERBYSHIRE PENSION FUND RISK REGISTER

The Risk Register had the following five high risks:

1) Systems failure/lack of disaster recovery plan/Cybercrime attack (Risk No.13)
2) Fund assets insufficient to meet liabilities (Risk No.20)
3) LGPS Central Limited related underperformance of investment

returns (Risk No.31)

4) Insufficient cyber-liability insurance relating to the pensions administration system (Risk No.42)
5) Impact of McCloud judgement on administration (Risk No.46)

All of the high-level risks were discussed in detail. In relation to Risk No.20, the Head of Pension Fund made reference to the current ongoing actuarial valuation. As part of the valuation exercise, the Pension Fund's Funding Strategy Statement was reviewed to ensure that an appropriate strategy was in place. A consultation on the Fund's draft updated FSS had been launched in December 2022 and would close on 31 January 2023. A report on the outcomes of the consultation would be brought to the Committee in March.

A consultation on draft updated regulations to implement the McCloud remedy in the LGPS was expected to be launched in quarter 1 2023, with regulations expected to come into force on 1 October 2023. Members expressed their frustration at the length of time this process had already taken and were concerned by the enormous challenge that would be faced by the pension administration team.

No risks had been added to or removed from the Risk Register since it had last been presented to Committee in October 2022 and there had been no changes to existing risk scores. The narrative for a number of risks had been updated and these were highlighted.

RESOLVED:

That the Committee notes the risk items identified in the Risk Register.

9/23 EXCLUSION OF THE PUBLIC

That under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph(s) 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

10/23 DECLARATIONS OF INTEREST

There were no declarations of interest.

11/23 CLIMATE RISK REPORT - NOT FOR PUBLICATION

RESOLVED:

That the Committee notes the full not for publication LGPSC Climate Risk Report attached as Appendix 2 to the report.

The meeting finished at 11.59 am