PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 6 March 2024 in the Council Chamber, County Hall, Matlock,.

PRESENT

Councillor D Wilson (in the Chair)

Councillors P Smith, N Atkin, B Bingham, M Foster, G Musson, A Stevenson, M Yates, L Care, C Ashby and N Read.

Also in attendance was A Fletcher (independent investment advisor) and N Read (trade union representative)

9/24 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)

There were no declarations of interest.

10/24 MINUTES

The minutes of the meeting held on 24 January 2024 were confirmed as a correct record.

11/24 ELECTED MEMBER/PUBLIC QUESTIONS

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

Question 1
Submitted by Councillor Gez Kinsella:

I welcome the consultation on Derbyshire Pension Fund investment strategy.
However, I note that:

- Counter to DCC's own communication policy and LGA guidance the consultation is not accessible to all - online is the only way of responding
- Some of the closed questions and the accompanying FAQ document show bias. For example, the FAQ 'why does the fund still invest in fossil fuels?' This does not present evidence that such investments are a financial risk
- The supporting documents are technical, hard to understand and discouraging engagement
- The timing of the consultation, over Christmas encourages a poor response
- Only pension members who are registered by email were notified of

the consultation. There was no wider publicity

What changes will DCC make as a result of the learning from this exercise? Will consultation occur more frequently that every three years?

The Chairman responded as follows:

Derbyshire Pension Fund has recently consulted on updates to three of its key investment related documents, the Investment Strategy Statement, the Responsible Investment Framework and the Climate Strategy.

The consultation ran for almost seven weeks from 13 December 2023 to 31 January 2024.

A letter was sent to all members of the Pension Fund for whom up to date contact details are held, to inform them about the legislation to implement the McCloud remedy in the LGPS, and to highlight the launch of a new Member Engagement Forum and the launch of the Pension Fund consultation. Letters were uploaded to My Pension Online, for those members registered for the Fund's self-service system, with emails alerting members that a new letter was available for them to view online, and over 60,000 letters were posted to members not registered for the online service. Emails were also sent to the Fund's 340 employers highlighting the launch of the consultation.

The online consultation response form was designed to balance the ability of stakeholders to submit their views on the documents with the ability of the Pension Fund to robustly evaluate and report on the consultation responses. In addition to specific questions requiring Yes/No/Not Sure answers, additional comment boxes were provided in respect of each of the investment documents.

The Frequently Asked Questions attached to the consultation provided a clear summary of each of the documents, highlighting the key changes proposed from when the documents were last approved by Committee, and including an explanation of a number of technical references. The Pension Fund's position on a number of relevant matters was also clearly explained.

A summary of the responses to the consultation is included in a report to be considered at today's meeting of the Pensions and Investments Committee.

All feedback on the recent consultation will be considered when the Pension Fund is preparing for future stakeholder engagements.

Updates to the Pension Fund's key investment related strategies, and associated consultations with stakeholders, are expected to take place at least every three years in line with the Pension Fund's long term investment horizon.

<u>Question 2</u>
Submitted by Jill Turner:
" The Derbyshire Pension Fund (DPF) recently published their Investment Strategy Statement, their Responsible Investment Framework and their Climate Strategy as part of the public consultation, noting that the DPF committee acknowledge, "the material effect of climate change and the response to climate change on the assets and liabilities of the fund"
What climate modelling has been undertaken so far to understand how the risk and reward assumptions of Modern Portfolio theory, may no longer hold with the addition of climate change risk and therefore, how the stability of the fund and its long term aims can be protected from climate change induced asset repricing?

Importantly, what training is being given to members of the DPF committee in their role as trustees, so they have confidence that they understand, can question, challenge and make suggestions in the management of the DPF, made more complex when considering the impact of climate risk?

The Chairman responded as follows:

The members of the Pensions and Investments Committee participate in a rolling programme of training sessions. The impact of climate change is one of the many factors considered when making investment decisions, and the impact of climate change was incorporated into Committee training in 2023-24 as part of the update to the Fund's Investment Strategy Statement, Responsible Investment Framework and Climate Strategy.

In addition, the Fund receives an annual Climate Risk Management Report from LGPS Central Limited, the Fund's investment pooling company, which assesses the Fund's approach to managing climate related risks and opportunities, and includes climate change scenario analysis and the Fund's carbon metrics relative to the benchmark.

Climate scenario analysis remains a developing field using assumptions about unpredictable matters over a long period of time. The Fund considers the outputs from such analysis as directional information on the sensitivity of the Pension 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.

The impact of climate change will not be isolated to any one geographical region or industry type. Maintaining access to a highly diversified investment portfolio by asset type, geography and industry management style remains the prudent approach to managing the Fund's investment assets.

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Question 3
Submitted by Lisa Hopkinson on behalf of Divest Derbyshire:

PFZW, a Dutch Pension Fund has just divested from Shell, BP and other oil companies after a two year engagement, as the companies do not comply with the Paris climate agreement. The Church of England has also sold all its remaining oil and gas investments, saying that "not nearly enough" progress had been made by fossil fuel companies. This is in marked contrast to the Derbyshire Pension Fund's position that "*Engagement..has the potential to drive changes to companies' business models and to shape transitions to a low carbon world*"
Can the Pension Fund indicate exactly what engagement with the oil companies the fund has directly undertaken in the last 2 years, what they have achieved in that time and how much longer they are prepared to wait for the oil companies to comply with the Paris Agreement?

The Chairman responded as follows:

As a user of pooled investment products, the Fund ensures it has confidence in the engagement and stewardship activities of the Fund's external managers as they will largely be responsible for direct engagement with investee companies. This is assessed as part of the original investment decision and monitored on an ongoing basis through manager review meetings and environmental, social and governance reporting.

As a long-term investor, the Fund believes that engagement is an effective tool in influencing positive corporate behaviours and driving positive change as part of a just transition to a low carbon world. In contrast, divestment is a one-off action which does nothing to reduce real world carbon emissions.

Companies' individual transition plans will differ and will need to adapt over time to changing circumstances. Active engagement takes commitment and time and some examples of positive engagement include:

Collective investor engagement with the publicly quoted oil and gas majors such as BP, Shell and Exxon Mobile, has increased the transparency of climate-related reporting and placed increased pressure on these companies to respond to the impact of climate change. The major Western European oil and gas companies and Norway's Equinor have now committed to achieve net zero by 2050 and have set transparent net zero transition plans.

LGIM, which manages just over 30% of the Fund's assets, co-leads engagement with Fortum, a Finnish energy company, as part of Climate Action 100+ (a leading investor engagement initiative on climate change). Last year, Fortum committed to bringing forward its carbon neutrality target to 2030, committed to exiting all coal generation by the end of 2027, and committed to setting a 1.5 degree aligned science-based target.

Question 4
Submitted by Emma Birkett:

Global temperatures have just breached the Paris Agreement preferred threshold of 1.5ºC of warming and there is a real risk of theimminent collapse of the Atlantic current which currently warms Europe. The collapse of this current is one of several tipping points that could create cascading climate impacts. The University of Exeter's Economics of Energy Innovation and System Transition (EEIST) project has produced a report on net-zero planning for pension funds, suggesting a need for paradigm shifts in investment planning because typical policy assumptions are inappropriate for the non-marginal effects of climate change. They recommend that responsible pension funds seeking to intensify their response to climate change carry out scenario analyses which include tipping points, feedback loops and their cascading socio-economic effects. Have the Derbyshire Pension fund managers read the EEIST report and will they carry out such analyses and report the findings at the earliest opportunity?

The Chairman responded as follows:

Climate scenario analysis is an attempt to model a range of plausible scenarios. The timing of tipping points and the interaction of different tipping points are considered to be very difficult to model and as the number of assumptions and estimates included in a model increases, the ability to rely on the outputs generally decreases.

The University of Exeter's Economics of Energy Innovation and Systems Transition (the EEIST) report on Net Zero Transition Planning for Pension Funds and Other Asset Owners notes that Ortec Finance has provided much of the early thought leadership regarding the benefits of more realistic scenario analysis.

Since 2022, Mercer, the provider of the Fund's climate change scenario analysis, has partnered with Ortec Finance, together with one of the EEIST's consortium institutions, Cambridge Econometrics, to develop climate scenarios that are grounded in the latest climate and economic research and give practical insights. This updated approach includes modelling the physical effects of climate change into the Fund's climate change scenario analysis.

Climate scenario analysis remains a developing field and is a directional tool, rather than being specifically predictive. It is considered alongside other forms of climate analysis such as the review of carbon metrics and the analysis of environmental, social and governance factors.

The Fund will continue to monitor the evolution of scenario analysis in collaboration with its pooling company, LGPS Central Limited.

12/24 **INVESTMENT STRATEGY STATEMENT, RESPONSIBLE INVESTMENT FRAMEWORK & CLIMATE STRATEGY CONSULTATION**

The Committee was advised of the outcome of consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement (ISS), Responsible Investment Framework (RI) and Climate Strategy.

Approval was also sought for the ISS, attached at Appendix 2 to the report, the RI Framework attached at Appendix 3 to the report and the Climate Strategy, attached at Appendix 4.

The consultation period had run from 13 December 2023 to 31 January 2024 and the Committee was provided with details of the consultation process along with details of the responses that had been received.

The Fund had received 67 responses to the consultation. The majority of the responses had been from either members of the scheme (active, deferred and pensioners/dependents) or from Derbyshire residents. There was one response from a participating employer, Derbyshire Dales District Council, a response from the Derbyshire Pensioners Action Group and a response from an elected member at Derbyshire Dales District Council. Details of the comments and the responses to the range of specific questions were highlighted.

The majority of responses had focussed on concerns around climate change, a preference for ethical investment, questioning whether engagement worked and supporting fossil fuel divestment. Many responses supported a quicker, or immediate transition to net zero.

The Institutional Investors Group on Climate Change's (IIGCC) Net Zero Investment Framework Implementation Guide, noted that a board or investment committee should commit to the goal of achieving net zero portfolio emissions by 2050, or sooner. The Fund's updated Climate Strategy was in line with this Framework. The Fund had made significant progress in respect of decarbonising the investment portfolio since the Fund had developed its first Climate Strategy in 2020.

The updated Climate Strategy included a significant increase in the Fund's listed asset decarbonisation targets by 2030, together with introducing targets in respect of reducing absolute financed emissions and assessing/estimating the carbon metrics of the Fund's other investment assets.

RESOLVED:

That the Committee:

a) Notes the outcome of the consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement, Responsible Investment Framework and Climate Strategy;
b) Confirms that no changes to the revised Investment Strategy Statement are required based on the outcome of the consultation and approves the draft Investment Strategy Statement attached at Appendix 2 to the report;
c) Confirms that no changes to the Responsible Investment Framework are required based on the outcome of the consultation and approves the draft Responsible Investment Framework attached at Appendix 3 to the report; and
d) Confirms that no changes to the Climate Strategy are required based on the outcome of the consultation and approves the draft Climate Strategy attached at Appendix 4 to the report.

13/24 INVESTMENT REPORT

The Pension Fund's independent investment advisor, Anthony Fletcher, took the Committee through a presentation on the market background, the Fund's performance, the economic and market outlook, and on his asset allocation recommendations.

The Investment Report was then presented by the Fund's Investment Manager who explained the rationale for the recommendations for each asset class set out in the report.

RESOLVED:

That the Committee:

a) Notes the report of the independent external advisor, Mr Fletcher;
b) Notes the asset allocations, total assets and long-term performance analysis set out in the report of the Director of Finance & ICT; and
c) Approves the IIMT recommendations outlined in the report.

14/24 STEWARDSHIP REPORT

The Committee was provided with an overview of the stewardship activity that had been carried out by Legal & General Investment Management (LGIM), one of the Pension Fund's external investment managers, in the quarter ended 31 December 2023.

The report ensured that the Committee was aware of LGIM's stewardship activity and provided details of their current key stewardship themes and voting and engagement activity over Quarter 4.

In line with a prior year change to the LGPS Central Limited (LGPSC) stewardship reporting cycle, a Q3 2023-24 LGPSC Stewardship Report had not been prepared and the stewardship activity for the quarter will be covered in LGPSC's Annual Stewardship Report for the year to 31 March 2024. This was scheduled for release in May or June 2024 and would be reported to Committee in due course.

RESOLVED:

That the Committee notes the stewardship activities of LGIM.

15/24 **DERBYSHIRE PENSION FUND 2024-2025 SERVICE PLAN**

Committee approval was sought for Derbyshire Pension Fund's Service Plan for 2024-25, including the annual budget for the year of £36.233m.

For 2024-25, a budget of £36.233m was sought to deliver the services of the Pension Fund, made up of operational costs of £6.996m and total IME (investment management expenses) costs of £29.237m. This represented a 6.5% increase on the 2023-24 forecast outturn, and an increase of 2.9% compared to the 2023-24 adjusted budget. Further details on 2023-24 budget outturns by category of expenditure and on the requested budgets by category for 2024-25, were set out in the Service Plan, which was attached at Appendix 2 to the report.

RESOLVED:

That the Committee approves the 2024-25 Service Plan for Derbyshire Pension Fund, attached as Appendix 2 to the report, including the annual budget of £36.233m.

16/24 **TREASURY MANAGEMENT STRATEGY 2024-25**

Committee approval was sought for Derbyshire Pension Fund's draft Treasury Management Strategy for Derbyshire Pension Fund for 2024-25, attached as Appendix 2 to the report.

The Fund's current benchmark allocation to cash was 2% (about £120m at current asset values) as a major buying opportunity in the market could require immediate access to significant sums of cash for investment. The proposed Treasury Management Strategy for 2024-25 included the following requirements and comments:

- The Fund's objective when investing money was to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- The Fund prioritised liquidity for cash investments over investment return.
- The maximum amount and duration of cash investments by counterparty should be according to the limits set out in the Strategy.
- The counterparty limit for Local Authorities & Other Government Bodies had been reduced from £15m to £10m to reduce concentration risk.

RESOLVED:

That the Committee approves the Treasury Management Strategy for Derbyshire Pension Fund for 2024-25 attached as Appendix 2 to the report.

17/24 **TRAINING POLICY**

Committee approval was sought for Derbyshire Pension Fund's draft Training Policy which was attached at Appendix 2 to the report.

The draft Policy included the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on LGPS Knowledge and Skills (the CIPFA Code) and the CIPFA Knowledge and Skills Framework for LGPS Committee Members and LGPS officers, both of which will apply to all Committee and Pension Board members and to Senior officers involved in the management and administration of the Fund. The draft Policy was also expected to reflect the requirements of The Pensions Regulator's new code of practice when it comes into effect.

RESOLVED:

That the Committee:

a) Approves the Training Policy attached at Appendix 2 to the report; and
b) Approves that the Training Policy can be published on the Fund's website in a suitable format in consideration of its accessibility to all of the Fund's stakeholders.