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Hampshire
County Council

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 20th November, 2020 at 10.00 am
Place	Wellington Room, EII South Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting is being held remotely and will be recorded and broadcast live via the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 8)

To confirm the Minutes of the meeting held on 25 September 2020.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

6. PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE - MINUTES OF THE MEETING ON 20 OCTOBER 2020 (Pages 9 - 12)

To consider the minutes of the Pension Fund Responsible Investment Sub-Committee held on 20 October 2020.

7. GOVERNANCE - EXIT PAYMENT REFORMS (Pages 13 - 18)

To consider a report from the Director of Corporate Services-Corporate Resources updating the Pension Fund Panel and Board on the impact of the new Restriction of Public Sector Exit Payments Regulations 2020 on administrative processes for Pension Services and Scheme Employers.

8. EXCLUSION OF THE PRESS AND PUBLIC

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

9. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (Pages 19 - 22)

To confirm the exempt minutes of the meeting held on 25 September 2020.

10. PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE - EXEMPT MINUTES - 20 OCTOBER 2020 (Pages 23 - 24)

To consider the exempt minutes of the Pension Fund Responsible Investment Sub-Committee held on 20 October 2020.

11. INVESTMENT: BAILLIE GIFFORD GLOBAL ALPHA PORTFOLIO (Pages 25 - 50)

To consider an exempt report from the Director of Corporate Services - Corporate Resources proposing a change to the Pension Fund's investment in Baillie Gifford's Global Alpha global equities portfolio, following the recommendation of the Pension Fund's Responsible Investment Sub-committee.

12. INVESTMENT - INVESTMENT UPDATE (Pages 51 - 186)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Panel and Board on the Pension Fund's investments since the last meeting of the Pension Fund Panel and Board on 25 September 2020.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to observe the public sessions of the meeting via the webcast.

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Agenda Item 3

AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Virtual Teams Meeting - Microsoft Teams on Friday, 25th September, 2020

PRESENT

Chairman:
Councillor Mark Kemp-Gee

Vice-Chairman:
* Councillor Tom Thacker

Councillor Christopher Carter	* Councillor Andrew Joy
* Councillor Alan Dowden	* Councillor Peter Latham
* Councillor Andrew Gibson	* Councillor Bruce Tennent
* Councillor Jonathan Glen	

*Present

Co-opted members

- * Councillor Stephen Barnes-Andrews, Employer Representative - Southampton City Council
- * Cllr Cal Corkery, Employer Representative - Portsmouth City Council
- Cllr Paul Taylor, Employer Representative - HLOWLGA
- * Liz Bartle, Employer Representative - Other Employer
- * Dr Clifford Allen, Scheme Member Representative - Pensioner Member
- * Sarah Manchester, Scheme Member Representative Substitute
- * Neil Wood, Scheme Member Representative - Active Member
- * Lindsay Gowland, Scheme Member Representative - Deferred Member

261. APOLOGIES FOR ABSENCE

Cllrs Kemp-Gee, Carter and Taylor sent their apologies

262. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

No declarations were made at this point in the meeting.

263. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the previous meeting on 24 July 2020 were confirmed as an accurate record.

264. DEPUTATIONS

There were no deputations.

265. CHAIRMAN'S ANNOUNCEMENTS

The Chairman reminded members that there was the opportunity to participate in hearing presentations from investment managers that were bidding for the Pension Fund's contract for UK property investment manager contract as part of the evaluation of bids.

The Chairman provided an update for members on the progress of investment pooling with ACCESS. ACCESS' Inter-Authority Agreement (IAA) has had some minor amendments agreed which will need to be approved by each of the 11 partner authorities. This approval can be given by the Director of Corporate Resources and Deputy Chief Executive under the original delegation from County Council to finalise the IAA.

266. ACCESS MINUTES - 17 JULY 2020

The Panel and Board received and noted the minutes of the ACCESS Joint Committee held on 17 July 2020 (item 6 in the Minute Book).

267. GOVERNANCE: PENSION FUND PANEL AND BOARD TRAINING IN 2020/21

The Panel and Board considered a report of the Deputy Chief Executive and Director of Corporate Resources (item 7 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2020/21. In particular members noted the importance of training for Panel and Board members in their role in the governance of the Pension Fund and their regulatory responsibilities as Pension Committee and Board members. The Director presented a draft training plan which had been produced following the analysis of the committee members' completed Training Needs Analyses.

The Director highlighted to members that the Pension Fund Panel and Board's internal training would comply with whatever the County Council's virtual meeting protocols are at the time. This includes the Pension Fund's Annual Employers' Meeting on 9 November, which is being planned as a virtual meeting. Due to the lack of in-person training events so far in 2020/21 there is currently capacity in the Fund's training budget.

RESOLVED:

That the 2020/21 training programme was approved, noting that it may be adapted based on changing circumstances, and the remainder of the report was noted.

268. EXCLUSION OF THE PRESS AND PUBLIC

Cllr Corkery questioned the number of papers that were part of the committee's proposed confidential session. The Deputy Head of Legal Services confirmed that the exemptions for publication had all been approved individually by the Monitoring Officer as meeting the criteria not to be published.

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

269. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 24 July 2020 were confirmed.

270. GOVERNANCE: ACTUARY CONTRACT EXTENSION

The Panel and Board considered the exempt report from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 10 in the Minute Book) on the Pension Fund's contract for Actuarial Services.

271. INVESTMENT - INVESTMENT UPDATE

The Panel and Board received an exempt report from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 11 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

272. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE

The Panel and Board received an exempt report from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 12 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

273. INVESTMENTS: ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASSESSMENT

The Panel and Board received an exempt report from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 13 in the Minute Book) assessing how Environmental, Social and Governance (ESG) issues are being managed in the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held virtually on Tuesday 20 October 2020.

Chairman:

* Councillor M. Kemp-Gee

Vice-Chairman:

*Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* B. Tennent

A. Joy

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth Council)

Scheme Member Representatives (Co-opted members):

Mr N. Wood (active scheme member representative)

*present

25. **APOLOGIES FOR ABSENCE**

Cllr Joy and Mr Wood sent their apologies.

26. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

27. **ELECTION OF A CHAIRMAN**

Cllr Kemp-Gee was elected as Chairman.

28. **ELECTION OF A VICE-CHAIRMAN**

Cllr Thacker was elected as Vice-Chairman.

29. **CONFIRMATION OF MINUTES**

The minutes of the RI Sub-Committee held on 6 March 2020 were confirmed.

30. **DEPUTATIONS**

No deputations were received.

31. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reminded the members that the sub-committee needed 3 members to be quorate.

32. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 8 in the Minute Book) updating the sub-committee on communication from scheme members since the last meeting of the sub-committee. The Director highlighted to the sub-committee that its terms of reference include the action to engage directly and indirectly with scheme members and employers to hear representations concerning Environmental, Social or Governance (ESG) issues. Although the Pension Fund continues to receive correspondence expressing strong views, particularly on investments that relate to climate change, including a deputation to the Pension Fund Panel and Board, the correspondence to date has been received from a very small minority of the nearly 179,000 scheme members.

The sub-committee noted the public interest in ESG issues in relation to the Pension Fund's investments and expressed a desire that the Pension Fund is as transparent as possible in its reporting of these issues, whilst respecting the commercial interest of the Pension Fund and its investment managers and consultants.

33. **SHAREHOLDER VOTING HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 9 in the Minute Book) providing a summary of how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in. How votes are cast by the Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held between equities directly held by the Pension Fund, held in the ACCESS pool, or in pooled funds of external investment managers. Dodge & Cox's portfolio, which is invested in via an external pooled funds has more limited reporting than the Pension Fund's other investment managers as any additional information that Dodge & Cox provide would also have to be made available to all investors and their

regulator. This will improve when Dodge & Cox move to a segregated portfolio within the ACCESS pool, as they have agreed.

The analysis showed that the majority of votes cast against companies' management were for the following reasons:

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive
- to improve the empowerment of investors, and
- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

The full details of how votes have been cast for the Pension Fund is published on its RI webpage <https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment>

34. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

35. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the RI Sub-Committee held on 6 March 2020 were confirmed.

36. **ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASSESSMENT**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 12 in the Minute Book) introducing a report from the consultants MJ Hudson Spring who were commissioned to assess how Environmental, Social and Governance (ESG) issues are being managed in the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

37. **BAILLIE GIFFORD GLOBAL ALPHA PORTFOLIO**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 13 in the Minute Book) to propose a change to the Pension Fund's investment in Baillie Gifford's Global Alpha global equities portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Pension Fund Panel and Board
Date:	20 November 2020
Title:	Governance: Exit payment reforms
Report From:	Director of Corporate Resources

Contact name: Andy Lowe

Tel: 01962 876370

Email: andrew.lowe@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to update the Pension Fund Panel and Board on the impact of the new Restriction of Public Sector Exit Payments Regulations 2020 on administrative processes for Pension Services and Scheme Employers.

Recommendation(s)

2. It is recommended that the Pension Fund Panel and Board note the contents of this report.

Executive Summary

3. This report seeks to:
 - set out the background to the new regulations
 - explain the conflicts between the new regulations and the current LGPS regulations
 - describe the current actions being taken to mitigate the conflicts
 - briefly consider the next steps.

Contextual information

4. The current LGPS regulations entitle members who leave on the grounds of redundancy or business efficiency over the age of 55 to immediate payment of their unreduced pension benefits. The employer has to pay an upfront charge to fund this unreduced pension, known as a pension strain charge.

5. The Restriction of Public Sector Exit Payment Regulations 2020 came into force on 4 November 2020. These limit the total amount payable by the employer for the exit of an employee on redundancy or business efficiency grounds to £95,000. The definition of an exit payment in the regulations include any pension strain charge payable by an employer to fund an employee's unreduced pension, as well as any statutory or discretionary compensation.
6. The inclusion of the pension strain charge in the definition of an exit payment brings many LGPS members into the scope of the exit payment regulations, although it is important to note that some Scheme Employers are exempt from these regulations (such as colleges, universities and charities).
7. The LGPS regulations are going to be changed to remove the automatic entitlement to an unreduced pension on redundancy and business efficiency. The amended regulations will instead allow a member to choose to take an actuarially reduced pension or to defer their pension benefits. However the consultation on these regulations does not close until 18 December 2020 meaning that the amended regulations will not be in place until 2021.
8. Until such time as the amended LGPS regulations are in force, there is a potential conflict between the exit payment regulations which limit the total amount an employer can pay for an exit and the LGPS regulations which entitle members to an unreduced pension for which the employer must pay a strain charge.

Approaches to managing the interim period

9. There has been different advice received from the government minister, Luke Hall, and the Scheme Advisory Board (SAB) about how Funds should administer redundancy and efficiency retirements in this interim period. The government recommends that a 'capped' member should only receive a fully actuarially reduced pension or a deferred pension, together with a 'cash alternative' payable by the employer up to the £95k limit. SAB has advised Funds that the course of action presenting the least risk to both LGPS administering authorities and scheme employers is for the LGPS administering authority to offer the member the opportunity to take a deferred benefit or a fully actuarially reduced pension and for the employer to delay the payment of a cash alternative.
10. The reason for SAB to be more cautious about employers paying a cash alternative is that the regulations are likely to be challenged and employers may find that they have to pay a strain charge or other cost in addition to the cash payment. However, administering authorities cannot dictate what approach employers should take.

11. Therefore because the approaches recommended by the Government and SAB differ, and the legal advice obtained by SAB in reaching this conclusion was not directly for the benefit of administering authorities, Hampshire has joined the other administering authorities in the Access Pool to directly commission advice from Squire Patton Boggs (SPG) as to how to proceed in this interim period.
12. In the meantime, employers have been advised that if they are subject to the exit payment regulations, and have a case where the £95k cap would be breached if the employee receives their unreduced pension, this case will be put on hold and not processed until such time as the SPG advice has been received and considered.
13. Estimates for redundancy and business efficiency retirements will continue to be processed as normal, although the letters have been amended to make it clear to employers that the estimates only reflect the existing LGPS regulations and may quickly be out of date. The reason for continuing to provide estimates is to allow employers to work out if the exit payment will be in breach of the £95k cap.
14. Redundancy and business efficiency retirements from employers who are not subject to the exit payment regulations, or where there is no breach of the £95k cap will continue to be processed as normal.
15. Pension Services do not have any cases already in the system which are affected by the exit payment regulations, nor have they been notified of any exits impacted by the regulations prior to January 2021.

Challenge to the regulations

16. The consultation on the proposed amendments to the LGPS regulations closes on 18 December 2020 and the new regulations are expected to be in force in early 2021. However there are already four potential challenges to the Exit Cap Regulations by means of Judicial Review. Pre-action correspondence has been issued by the BMA, UNISON, GMB and Lawyers in Local Government /SOLACE/ALACE. It is likely therefore that there will be a significant period of uncertainty for Funds and members until these issues have been fully resolved.

Next steps

17. On receipt of the legal advice from SPG, the Director of Corporate Resources will implement the least risk approach for the interim period for the Fund. A further update will be provided to the Panel and Board at their meeting in December.

Conclusions

18. The exit payment regulations came into force on 4 November 2020 and are in conflict with the current LGPS regulations which are not likely to be amended until early 2021 at the earliest.
19. Hampshire has joined the other administering authorities in the Access Pool to commission legal advice from Squire Patton Boggs on the best actions to take in the interim period before the LGPS regulations are amended.
20. Until this advice has been received and considered, Pension Services will not process redundancy and business efficiency retirements where to do so would mean an employer was in breach of the exit payment regulations.
21. Once the legal advice has been received, the recommended approach for dealing with this issue in the interim will be implemented for the Fund.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, is being reported to the Panel and Board so they can fulfil their statutory role under the LGPS regulations.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

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

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