

Investment, Governance and Engagement Committee

MEETING OF THE 15TH MAY 2023

Item 3 Paper A

Hybrid meeting – 6th February 2023

Actions and Agreements

PRESENT

Cllr Yvonne Johnson
Cllr Robert Chapman
Sandra Stewart

Peter Wallach
Rodney Barton
Nick Buckland
Jeffery Dong
David Walker
Mary Lambe
Kieran Harkin
Fiona Miller
Andrew Dobbie
Christophor Ward
Richard Lane
Jonathan Hunt
Joanne Donnelly
Jeremy Hughes
Bob Holloway
Ona Ehimuan

Chair – L.B. Ealing
LAPFF
Greater Manchester Pension Fund
(Chair of Responsible Investment
Advisory Group)
Practitioner – Merseyside
Practitioner – WYPF
Practitioner – Kent
Treasurer – Swansea
Investment Consultant (Hymans)
Investment Consultant (Aon)
Investment Consultant (Mercer)
Asset Pool - Border to Coast
UNISON
Government Actuary's Department
Academies Representative
Adviser, LGA
Head of Pensions, LGA
Senior Pensions Secretary, LGA
Pensions Secretary, LGA
Pensions Secretary, LGA

APOLOGIES

Apologies had been received from George Georgiou (GMB), Pete Smith (Barnett Waddingham), Teresa Clay (DLUHC), Ollie Watson (DLUHC) and Gareth Brown (LGA). Lisa Colquhoun (UNITE) and Gary Delderfield (Eversheds Sutherland) were absent without apology.

Welcome, introductions and declarations

1. The Chair welcomed all in attendance. There were no declarations of interest.

Scheme Advisory Board Secretariat

Local Government Association, 18 Smith Square, Westminster, London SW1P 3HZ
E SABSecretariat@local.gov.uk W www.local.gov.uk

Investment, Governance and Engagement Committee

2. The Chair advised members of the virtual meeting's protocol.

Item 3 – Actions and agreements from the meeting of 28th November 2022

3. The actions and agreements from the previous meeting were agreed as a fair and true record of the meeting.

Item 4 – Code of Transparency Compliance Update

4. Ona Ehimuan (OE) introduced the report to the committee. Since the November meeting, compliance with the Code of Transparency online tool across funds for 2019/20 had remained the same at 96%, for 2020/21 it had risen slightly to 96% (from 95%, mainly due to roundings) and for 2021/22 had risen to 92% (from 89%) as of 30th January 2023. The last quarter had seen Code signatories making good use of the system.

Item 5 – Code of Transparency AUM Update

5. Jeremy Hughes (JH) gave an update on the proportion of assets under management by Code signatories. It was explained that the data had been collated from the 2020/21 fund annual reports and analysed by SAB Consultant, Jonathan Hunt (JHu).
6. 102 out of c230 asset managers identified in the annual reports as being used by funds were signed up to the Code. That is around 44% of the total number of managers, however the assets they held account for 80-90% of LGPS assets by value. It was explained that the variation in percentage of assets by value depended on the methodology used to calculate it. The 10 largest (by AUM) asset managers not yet signed up to the Code accounted for around £10bn of assets and it was agreed that the Secretariat would contact the funds who worked with these managers, encouraging them to ask those managers to sign up to the Code.

Action – Secretariat to contact fund using the ten largest asset management firms not yet signed up to the Code of Transparency

Item 6 – Code of Transparency Next Steps

7. OE introduced the report to the committee. The previously approved improvements (email reminders and quarterly reporting) were being worked on by Byhiras with implementation projected to be in April 2023. The working group that supported these changes also revealed a need for greater awareness of the online reporting system before recommending any additional changes. At the last IGE meeting it was

Investment, Governance and Engagement Committee

agreed that the Secretariat would develop an awareness and communication strategy with the view to submit the plan to the Board for addition to the 2023-24 work programme.

8. The awareness and communications project plan included providing users with a revised manual for the system and delivering in person training to funds and fund managers; full details could be found at Annex A. Annex B contained an excerpt from an email exchange with Byhiras, detailing their proposals to make cosmetic updates to the online reporting system's website.
9. Andrew Dobbie (AD) asked who the training would be directed to and what the content would be, saying that there could be separate training provided to those who capture the data and those who analyse the data, but it would be good if the same subset of information was given to the different groups. He also added that UNISON was discussing providing training to their members but suggested they could be added to the invitees for the Secretariat's training program.
10. OE informed the committee that there were plans to hold further discussion on the content of the training program. JH added that the training day could be formatted to include an opening session with all groups (i.e officers, fund managers, committee and board members) that would be pitched at a higher level (outlining the importance of this data) with a second session pitched at officers, which would look at the on-line system in more detail.
11. On the topic of in-person training, Richard Lane (RL) said that it was important to ensure those funds with low engagement are prioritised. It was agreed that the Secretariat should cross match invitation lists with engagement data from Byhiras with a view to make enhanced contact with funds that show low engagement.

Agreed – that the Secretariat implement the plan at Annex A, and additionally cross-match invites to the CoT training sessions with data on engagement with a view to making enhanced contact with funds that show low engagement

12. Richard Lane (RL) questioned who owned the software code behind the reporting system and whether at some point it should be more directly owned by the funds. JH explained that SAB acts as an agent of the funds to provide them with the reporting system. The software code for the system is held in escrow so that other providers could tender a bid to manage the system at the end of the current contract period. JHu added that the primary purpose of the system from SAB's perspective was to monitor compliance with the Code as opposed to analysing the

Investment, Governance and Engagement Committee

data itself, as the Secretariat does not have access to any of the underlying data.

13. JD invited the committee to approve the Secretariat's recommendation to not implement the cosmetic changes proposed by Byhiras at Annex B. Fiona Miller (FM) said that while the cost of the changes was relatively small, she felt that they shouldn't have to be paid for separately. JH explained that Byhiras were given a highly prescriptive specification at the beginning of the contract and there wasn't an explicit term in the contract that covered this kind of work. It was agreed that Byhiras' proposals for website updates should not be taken up at this stage and that the awareness and communications strategy be submitted to the Board for addition to the 2023-24 work programme.

Agreed – that the Secretariat submit the CoT communications and awareness plan to the Board for addition to the 2023-24 work programme

Item 7 – Climate Risk Reporting Survey Analysis

14. JH introduced the paper to the committee. The paper showed the results from a survey of LGPS funds in England, Wales and Scotland on preparations to implement climate risk reporting in financial year 2023/24. The survey was sent to investment and pension manager contacts in each fund and ran from 5 October to 2 November 2022. There were 51 responses from at least 38 out of 86 administering authorities (there were multiple responses from some authorities).
15. The responses showed that the majority of funds were prepared for the new obligations, but there was a substantial number which didn't seem to be making the necessary preparations.
16. It remains the Secretariat's expectation that the proposed new requirements will go beyond current fund expertise and could require third party involvement. Given that the Department was still maintaining that the regulations should take effect from 1 April 2023, this was a cause for concern. JD revealed that at the most recent LGPS Live webinar, many funds had expressed concern, via a polling question, about implementing the upcoming regulations. JH said that the Secretariat would repeat the survey once the climate risk reporting consultation response had been published, and the Department's expectations were clearer.
17. Mary Lambe (ML) asked whether there were plans to share the results of the survey more widely. It was agreed that the Secretariat would add a summary of responses to the next LGPS monthly bulletin and give

Investment, Governance and Engagement Committee

prior notice that they expected to repeat the survey once the government response was published.

Agreed – the Secretariat add a summary of responses to the climate risk reporting survey and notification of a repeat survey to the monthly bulletin

Item 8 – Sharia Compliance in the LGPS

18. JH introduced Paper E to the committee. Last year, the Board considered the legal advice received on the issue of members opting out of the LGPS on the basis of their (principally Islamic) religious belief, and whether this might constitute unlawful discrimination. That advice suggested that the Board contact an Islamic finance expert to seek their opinion on a number of points including their opinion on the Sharia-compliance of the LGPS, and insofar as it is (or may be) thought not to be compliant an explanation of why that is.
19. The Secretariat have held informal conversations experts in the field to discuss the viability of this plan. They came to the conclusion that it should be possible to procure a suitable and helpful report. According to SAB Terms of Reference and the requirement on LGA to comply with public sector procurement rules, a report would need to be commissioned using a formal procurement process.
20. The Secretariat proposed to use the more streamlined process for procurement of consultants, for contracts of less than £25,000 in value. The Secretariat would also publicise the tender on the SAB website and through the LGA's usual public sector tender channels.
21. The report is likely to focus on the structure of the scheme, its governance and the main asset classes which funds invest in. We have been advised that funds wishing to have a more thorough investigation of their specific investment portfolio would need to procure that further analysis for themselves, and we would not propose to include that in this specification.
22. Councillor Robert Chapman (RC) welcomed the Secretariat plans and asked how the opting out of Muslim members would be addressed. JH explained that it was hoped that the report would provide comfort to Muslim members that membership of the scheme was consistent with their faith. Initial soundings were that this was likely to be the consensus position of Islamic scholars. While there would always be a diversity in opinion, it was hoped that putting a detailed and credible report into the public domain should help address concerns about opting out for Muslim members.

Investment, Governance and Engagement Committee

23. Sandra Stewart (SS) observed that legally the pension fund assets do not belong to the scheme members and that the employee contract simply provides a promise to pay members a pension once retired. As a result of this, the focus of the report should not be on the funds and their investment activities, but on the 'pensions promise'. She noted that Greater Manchester Pension Fund offered a Sharia compliant AVC section and that she could provide a contact for the Secretariat if needed.
24. ML asked about the Department's engagement with the issue. JH explained that informal conversations had been had but the Department was happy for SAB to take the lead on this issue. JD added that the Department would need to get involved if the issue is, as anticipated, litigated at some point in future.

Agreed – that the Sharia compliance paper is submitted to the Board for addition to the 2023-24 work programme

Item 9 – DLUHC Update

25. DLUHC representatives were not present at this meeting to give an update.

Item 10 – AOB and date of next meeting

26. The Chair thanked Bob Holloway (BH) for his contributions to the committee and all wished him well ahead of his retirement on 24th February.

The date of the next meeting was confirmed as 15th May 2023.

* * *