

# Pension Fund Committee Minutes

Monday 20 September 2021

## **PRESENT**

*Note: This was held as a hybrid meeting, with some members and officers attending in person and some joining online. A recording of the meeting can be found at: <https://youtu.be/GCq-UNBHuEQ>*

**Councillors in attendance:** Councillors Iain Cassidy (Chair), Rowan Ree, Guy Vincent and Matt Thorley

**Councillors joined remotely:** Councillor Jonathan Caleb-Landy and Helen Rowbottom

**Officers in attendance:** Phil Triggs (Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager), Patrick Rowe (Pension Fund Manager)

**Co-opted members joined remotely:** Michael Adam and Peter Parkin

**Officers joined remotely:** David Hughes (Director of Audit, Fraud, Risk and Insurance), Eleanor Dennis (Pensions Manager), Emily Hill (Director of Finance) Rhian Davies (Director of Resources)

**External in attendance:** Kevin Humpherson (Deloitte), Anthony Esse and James Penney (Darwin)

### 1. **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

### 2. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

### 3. **MINUTES OF THE PREVIOUS MEETING**

#### **RESOLVED:**

That the minutes of the meeting held on the 21<sup>st</sup> July 2021 were approved.

#### **4. DRAFT MINUTES OF THE PREVIOUS PENSION BOARD MEETING**

##### **RESOLVED:**

That the minutes of the meetings held on the 9<sup>th</sup> June 2021 were noted.

#### **5. MANAGER APPOINTMENT: LEISURE DEVELOPMENT FUND**

Matthew Hopson (Strategic Investment Manager), presented the report and gave a summary of the key points. It was noted that a presentation would be provided by Darwin Alternatives (Darwin), a leading asset manager in this field, and with an established foothold in the Local Government Pension Scheme with a view to making an investment allocation.

Anthony Esse and James Penney (Darwin) gave a presentation and noted the following key points, relating to the Darwin Leisure Development Fund:

- Invested in UK holiday parks, particularly consolidating fragmented smaller operators and improving the offering to generate greater returns.
- Focused on income rather than capital growth as a driver of return.
- Utilised modest gearing to help finance acquisitions and redevelopment.
- Committed to ensuring that it focused on Environmental, Social and Governance (ESG) factors and working towards the portfolio achieving net zero emissions by 2050.
- Provided a diversified investment opportunity with low downside risk but substantial upside potential.
- There was strong focus on operating the portfolio in a sustainable and responsible manner.
- The benefits of the Leisure Development Fund's strategy were also outlined.
- Darwin had developments in national parks across the Peak District and Lake District. A proposal for a signature site was also being considered at Blenheim Palace in the near future.

Councillor Jonathan Caleb-Landy enquired how Darwin protected the biodiversity of the local area where the developments took place. In response Anthony Esse (Darwin) explained that the Leisure Development Fund was working towards achieving net zero emissions by 2050 and had put in place a series of environmental aims and targets for the Darwin Escapes holiday parks to help achieve this goal. This included achieving a biodiversity net gain when undertaking any development work. The Fund was also actively working to reduce emissions, waste and energy use where applicable on all sites.

Councillor Jonathan Caleb-Landy asked what controls were put in place to ensure that the developments were progressing on schedule and building costs were limited as a result of the Covid-19 pandemic. In response Anthony Esse (Darwin) provided a summary of the measures that were put in place to avoid potential delays and additional costs for new developments, noting that the majority of their materials, including the food and beverage producers were locally sourced.

Michael Adam (Co-opted Member) asked for further clarification to be provided on the barriers to entry into the market for this particular asset class. In response James Penney (Darwin) explained that Darwin were the only large-scale asset manager who operated in this asset class and were the first movers bringing this strategy to mainstream investors. He outlined the key barriers to entry, noting that these were mainly around planning permission and land. However, all of Darwin's portfolio locations were situated in areas of outstanding natural beauty. There were high barriers to entry for new assets due to competing demands for land use. In addition, this asset class provided a different approach to investment in comparison to its competitors due to long term stable cash flows with inflation-linked returns.

In response to a question asked by Councillor Guy Vincent, Darwin confirmed that the Leisure Development Fund had no issues regarding the deferral of redemptions as a result of the Covid-19 pandemic. The vast majority of the capital was locked in for a minimum of 10 years at the request of the investors. Since the parks had reopened, (as a result of Covid-19 restrictions) the Leisure Development Fund had made a strong recovery.

Kevin Humpherson (Deloitte), enquired what proportion of income did Darwin receive from each revenue stream. In response James Penney (Darwin) provided a breakdown of the proportion of income received for the Leisure Development Fund, noting that the majority of parks within this Fund were holiday rentals.

Councillor Rowan Ree asked a question in relation to the risks associated around applying for planning permission for the sites within Darwin Escapes. In response James Penney (Darwin) explained that all the greenfield sites would only be purchased with a planning deal already in place to eliminate any risks.

Councillor Rowan Ree asked how Darwin's ESG targets work in line with the Council's commitment to tackle climate change and cut CO2 emissions to net zero by 2030. In response Matthew Hopson (Strategic Investment Manager), advised that the Fund's carbon footprint was continuously monitored and the strategy for managing this would be adapted as the investment strategy evolved. Where individual managers were unable to reach a net zero position their negative impacts would look to be offset elsewhere.

Phil Triggs (Director of Treasury and Pensions) asked a series of questions in relation to the Leisure Development Fund. In response James Penney (Darwin) provided further clarification on the minimum lock in period and the terms set out for voting within unit classes in the event of a private equity buy out.

In response to a question asked by Councillor Matt Thorley, James Penney (Darwin) provided clarification on the legal ownership for the development at Blenheim Palace. It was noted that a 50-year lease was obtained for this site. The planning arrangements and the controls for the land were also outlined.

The Chair enquired whether it was likely that people would still holiday in the UK next year as the Covid-19 restrictions eased. In response, Darwin explained that their main market was short breaks, and the occupancy rates across most of their sites were high all year around.

Members noted that the following information was required by the Committee before a decision could be reached:

- Financial statements for the previous three years following the 30 September 2021 closedown.
- Clarification on the occupancy rates on pre and post the Covid-19 pandemic.
- Confirmation on fund fees and charges.

**RESOLVED:**

That the Pension Fund Committee agreed to defer the decision to approve a 2.5% allocation of Pension Fund assets to the Darwin Leisure Development Fund until the next meeting.

**6. LOG OF RECOMMENDATIONS UPDATE**

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points. This paper provided a progress log of the 32 recommendations that came out of the independent review of the governance arrangement for the Pension Fund and the results achieved to date on them. The log showed that good progress had been made, with 9 recommendations implemented, and 12 commenced.

Councillor Rowan Ree enquired how often the log of recommendations was updated. In response Phil Triggs (Director of Treasury and Pensions) confirmed that this was refreshed regularly between Committee meetings. He also provided further clarification on recommendations 5, 30 and 31.

**RESOLVED:**

That the Pension Fund Committee noted the report.

**7. QUARTERLY UPDATE PACK**

Patrick Rowe (Pension Fund Manager), presented the report and gave a summary of the key points.

It was noted that Appendix 3 provided information about the Pension Fund's investments and performance. In general, this had been a positive quarter for equity markets.

Overall, the investment performance report showed that over the quarter to 30 June 2021, following the downturn in markets caused by the Covid-19 outbreak, the market value of the assets increased by 47.4m to £1,260.6m.

The Fund was in line with its benchmark net of fees by delivering a return of 4.2% over the quarter to 30 June 2021, and the estimated funding level was 94.0% as at 30 June 2021. Over the year to 30 June 2021, the Fund overperformed against its benchmark by 1.6%, returning 14.3% overall.

**RESOLVED:**

That the Pension Fund Committee noted the report.

**8. UPDATE ON THE LGPS PENSION ADMINISTRATION SERVICE**

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report and gave a summary of the key points. It was noted that Officers were making good progress against the project workstreams. Four of the key areas were now complete. These included, workforce and recruitment, Surrey County Council (SCC) exit plan, undecided leavers project and the budget.

Councillor Guy Vincent asked for further clarification to be provided on the nature of the issues faced with SCC and how it got to this stage. In response David Hughes (Director of Audit, Fraud, Risk and Insurance) provided an overview of the key concerns that had arisen relating to the performance issues leading to the independent review and subsequent decision to exit the arrangement with SCC. It was noted that there were legacy data issues with Capita and BT that had impacted SCC's ability to maintain accurate pension records. In September 2019 it came to light that SCC, as part of the triennial review data provision, had fallen below expected standards for data quality and the delivery of day to day administration tasks that supported the pensions function.

**RESOLVED:**

That the Pension Fund Committee noted the report.

**9. PENSION FUND DATA QUALITY**

Eleanor Dennis (Pensions Manager) presented the report and gave a summary of the data quality issues for the Council and the mitigations the Pension Manager was taking on behalf of the Fund to improve these. The processing of legacy cases had not increased at the pace expected due to technical problems. ITM had been temporarily unable to access the Altair system and process the legacy data to bring member files up to date. However, the second tranche of data cleansing project has had excellent results, as ITM have provided a 91% success rate.

**RESOLVED:**

That the Pension Fund Committee noted the report.

**10. PENSION ADMINISTRATION PERFORMANCE UPDATE**

Eleanor Dennis (Pensions Manager) presented the report and gave a summary of the performance for SCC in providing a pension administration

service to the Fund. The Key Performance Indicators for the period (January to July 2021) were still below the desired level that we required from our administrators, but the Council had continued to see improvements in key areas such as deaths and transfers. The Pensions Manager continued to work with SCC to understand the activity trends and challenge poor performance.

Councillor Guy Vincent enquired what measures were in place with Local Pensions Partnership Administration (LPPA) to ensure that similar issues did not arise again. In response David Hughes (Director of Audit, Fraud, Risk and Insurance) explained that there was a clear mechanism in place for identifying and dealing with poor performance issues, including provision within the LPPA delegation agreement for an improvement plan to be implemented to manage their performance effectively. Eleanor Dennis (Pensions Manager) noted that going forward it was vital to recognise the importance of continuously monitoring the performance on a quarterly basis to ensure that the highest quality of service was being provided by LPPA.

Councillor Guy Vincent enquired if the Council would be compensated for the performance failings of SCC and the additional charges paid to ITM. Eleanor Dennis (Pensions Manager) confirmed that there would have been a charge from SCC to bring in a contractor to carry out the work and that direct control over the quality of the work, by appointing ITM, was determined to be the best approach to deal with this matter.

Councillor Rowan Ree asked for further clarification to be provided on the likely impact on those members where their data had not been reported accurately. In response Eleanor Dennis (Pensions Manager) outlined the different implications for members and provided a summary of the possible outcomes for those individuals.

**RESOLVED:**

That the Pension Fund Committee noted the report.

Meeting started: 19:00pm

Meeting ended: 21:11pm

Chair .....

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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.