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To: Members of Pensions and Investments Committee

Tuesday, 12 January 2021

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **11.15 am** on **Wednesday, 20 January 2021**. This meeting will be held virtually. As a member of the public you can view the meeting via the County Council's website. The website will provide details of how to access the meeting, the agenda for which is set out below.

Yours faithfully,

A handwritten signature in black ink that reads 'Helen E. Barrington'.

Helen Barrington
Director of Legal and Democratic Services

AGENDA

PART I - NON-EXEMPT ITEMS

1. To receive apologies for absence
2. To receive declarations of interest (if any)
3. To confirm the minutes of the meeting held on 9 December 2020 (Pages 1 - 6)
4. Exclusion of the Public

(That under Regulation 4 (2)(b) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the public be excluded from the meeting for the following items of business on the grounds that in view of the nature of the items of business, that if members of the public were present, exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 would be disclosed to them.)

PART II - EXEMPT ITEMS

5. To receive declarations of interest (if any)
6. To confirm the exempt minutes of the meeting held on 9 December 2020 (Pages 7 - 10)

To consider the exempt reports of the Director of Finance and ICT on:

- 6 (a) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure - (Report A) (Pages 11 - 22)
- 6 (b) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure - (Report B) (Pages 23 - 32)

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MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held on 9 December 2020

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boulton, P Makin, S Marshall-Clarke, R Mihaly
and B Ridgway

Derby City Council

Councillors L Care and M Carr

Derbyshire County Unison

Mr M Wilson

Also in attendance – M Fairman, D Kinley, N Smith and S Webster.

57/20 **MINUTES RESOLVED** that the minutes of the meeting held on 4
November 2020 be confirmed as a correct record.

58/20 **INVESTMENT REPORT** Mr Anthony Fletcher, the external adviser
from MJHudson Allenbridge Investment Advisers Limited, attended the meeting
and presented his report to the Committee. The report incorporated Mr
Fletcher's view on the global economic position, factual information on global
market returns, the performance of the Derbyshire Pension Fund, and his latest
recommendations on investment strategy and asset allocation. Mr Fletcher also
provided details on the potential impact the coronavirus outbreak could have on
the markets and a general overview of the current market situation.

Details were provided of Mr Fletcher's investment recommendations in
UK Equities, North American Equities, European Equities, Japan, Asia/Pacific,
Infrastructure, Private Equity and Cash, along with those of the Derbyshire
Pension Fund In-House Fund Management Team

The Fund's latest asset allocation as at 31 October 2020 and the
recommendations of the Director of Finance & ICT and Mr Fletcher, in relation
to the Fund's strategic asset allocation benchmark, were set out in the report.
The recommendations of the Director of Finance & ICT, adjusted to reflect the
impact of future investment commitments were presented. These commitments

(existing plus any new commitments recommended in the report) related to Private Equity, Multi-Asset Credit, Property and Infrastructure and totalled around £280m.

Mr Fletcher referred to the current economic and markets outlook position with particular reference to the impact of the Covid-19 pandemic and an effective vaccine, the new Biden administration in the US and the on-going Brexit negotiations.

The Chairman thanked Mr Fletcher for his attendance and informative presentation.

RESOLVED that (1) the report of the external adviser, Mr Fletcher, be noted;

(2) the asset allocations, total assets and long term performance analysis in the report of the Director of Finance and ICT be noted; and

(3) the strategy outlined in the report of the Director of Finance and ICT be approved.

59/20 **STEWARDSHIP REPORT** Members were provided with an overview of the stewardship activity carried out by Derbyshire Pension Fund's external investment managers in the quarter ended 30 September 2020.

The report had attached the following two reports to ensure that the Committee was aware of the engagement activity being carried out by LGIM and by LGPS Central Limited (the Fund's pooling company):

- Q3 2020 Legal & General Investment Management (LGIM) ESG Impact Report (Appendix 1)
- Q2 2020-21 LGPS Central Limited Quarterly Stewardship Report (Appendix 2).

The Committee were introduced to Valborg Lie, the Stewardship Manager from LGPS Central Ltd, who attended the meeting to inform Members of LGPS Central Ltd.'s stewardship activities.

Responsible Investment (RI) was becoming the new standard for best practice management. LGPS Central Ltd.'s approach to RI and Engagement carried two objectives: to support investment objectives; and be an exemplar for RI within the financial services industry, promote collaboration and raise standards within the industry. LGPS Central Ltd.'s stewardship efforts were supplemented by global engagement and voting services and examples of this work were highlighted.

Following a client survey of all LGPS Central Pool Partner Funds, it had become apparent that priority should be given to the following stewardship themes over the next three year:

- Climate change
- Single-use plastics
- Fair tax payment and tax transparency
- Technology and disruptive industries

Members were informed of the engagement that had been undertaken with Climate Action 100+. Letters had been sent to all CA100+ companies asking them to commit to a net-zero carbon emission target by 2050.

Members of the Committee welcomed the activity and the update that had been provided. On behalf of the Committee, the Chairman thanked Valborg Lie for her most informative presentation.

RESOLVED that Members welcomed this report and would encourage further reports detailing the stewardship activity of LGIM and LGPS Central Limited.

60/20 **LGPS INVESTMENT POOLING** The Committee were updated on progress in respect of Local Government Pension Scheme (LGPS) investment pooling, the development of LGPS Central Limited (LGPSC/the Company), and the plan for the transition of Derbyshire Pension Fund (the Fund) assets into LGPSC pooled products.

The Joint Committee provided assistance, guidance and recommendations to the individual Councils within the Pool and last met virtually on 14 November 2020. The Vice-Chairman of the Pensions & Investments Committee had represented the Fund, and the Director of Finance & ICT and the Head of Pension Fund attended as observers. This meeting included an update from the Practitioners Advisory Forum, presentation of a summary of the Pool's Risk Register and an LGPS Central Performance Update from the Company.

A large number of public questions had been submitted to the Joint Committee. Questions were asked about: the LGPS Central Ltd All-World Equity Climate Multi-Factor Fund; investments in fossil fuel stocks; investments in sustainable assets; the LGPS Central Ltd Climate Risk Reports; Environmental, Social and Human Rights issues; reporting of engagement activities; and ethical investment. The public questions and the answers provided will be included with the minutes of the Joint Committee meeting.

The last Shareholders' Forum meeting was held on 8 September 2020 and focused on briefing the members ahead of the Company's Annual General

Meeting (AGM) on the same day. The resolutions that were put forward by the Company were highlighted. The Director of Finance & ICT had voted for each of the resolutions, and each resolution was unanimously passed by the Company's shareholders.

The Partner Funds, in collaboration with LGPSC, had recently updated the Pool's Cost Savings Model. The Cost Savings Model forecasts the expected net savings from LGPS investment pooling between 1 April 2018 and 31 March 2034.

The 2020 Cost Savings Model forecasts total cumulative net cost savings of £269m between 2018-19 and 2033-34, £21m higher than the £248m forecast by the 2017 Cost Savings Model. A bridge showing the high-level movements between the 2017 and 2020 Cost Savings Model was set out at Appendix 1 to the report.

Whilst the overall Pool savings had increased by £21m, there were several sizeable changes at a Partner Fund level. The Fund's forecast net cost savings fell from £56m in the 2017 Cost Savings Model to £38m in the 2020 Cost Savings Model. The forecast reduction largely reflected the impact of strategic asset allocation changes.

Recognising it was around four years since the initial proposals for the Pool had been agreed and that the Company had been in operation for over two years, the Partner Funds and LGPSC agreed that it was an appropriate time to take stock of progress to date. Three joint working groups had been established over the summer and to discussions were coming to fruition and initial outcomes included:

- Reaffirmation that all eight Partner Funds had a common vision to invest assets through the Company and work through a roadmap of how this was delivered reflecting changing strategic investment priorities
- Creation of a decision tree to aid synergies and cost benefits delivered through the investment product development process in supporting Partner Fund Strategic Asset Allocations
- Consensus that Partner Funds' roles and responsibilities as client and shareholder could be more clearly articulated in the way pooling business was governed and managed
- Recognition that good relationship management was key to successful working and the delivery of investment pooling. With the initial focus understandably on setting up the legal and technical structures needed to launch the Company, going forwards the way Partner Funds and the Company work together will be increasingly important to deliver pooling

Following the completion of successful due diligence, the Fund transitioned its legacy UK corporate bond portfolio of around £300m into LGPSC's Global

Active Investment Grade Bonds Multi-Manager Sub-Fund in February 2020. Since inception to 31 October 2020 the Sub-Fund had outperformed, returning 15.8%, 82 basis points higher than its Target (benchmark plus 70 basis points). This had partially reversed the underperformance experienced during the transition period. The In-house Investment Management Team (IIMT) was currently carrying out due diligence on several other LGPSC products.

LGPSC expected to launch several new products over the next three to six months, including products to cover Multi-Asset Credit; Emerging Market Debt; Targeted Return; Infrastructure; and Direct Property. The IIMT continued to actively engage with LGPSC and other Partner Funds about product development and was assessing the suitability of these products for future use.

LGPSC had now successfully recruited two key vacant positions in respect of a Head of Private Markets and a Director of Responsible Investment & Engagement. Ian Brown, the new Head of Private Markets had joined the Company in September 2020 and was scheduled to meet the IIMT in December 2020. Patrick O'Hara, the new Director of Responsible Investment & Engagement was scheduled to join the Company in January 2021.

RESOLVED that Members note the contents of the report.

61/20 **EXCLUSION OF THE PUBLIC RESOLVED** that under Regulation 4 (2)(b) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the public be excluded from the meeting for the following items of business on the grounds that in view of the nature of the items of business, that if members of the public were present, exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 would be disclosed to them.

SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING

1. To receive declarations of interest (if any)
2. To consider the exempt reports of the Director of Finance & ICT on:
 - a) LGPS Investment Pooling – confidential
 - b) Investment in Infrastructure
(contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))

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