

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 31 July 2019

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boulton, S Marshall-Clarke, R Mihaly, B Ridgway and G Wharmby (substitute Member)

Derby City Council

Councillor M Carr

Derbyshire County Unison

Mr M Wilson

Also in attendance – N Dowey, K Gurney (Pension Board member), D Kinley, K Riley and N Smith

Apologies for absence were received on behalf of Councillor P Makin

43/19 ALTERNATIVE INVESTMENTS Neil Smith provided Members with training on alternative assets. The Committee were informed of the characteristics of alternative assets and were provided with information on private equity, infrastructure and property, private credit and diversified multi-asset credit investments, including details of the types of alternative assets held by the Derbyshire Pension Fund.

On behalf of the Committee, the Chairman thanked Mr Smith for a most informative presentation. Councillor Marshall-Clarke suggested that it would be very useful for the Committee to be taken through the rationale for a specific alternative investment held by the Fund and it was agreed that this would happen.

44/19 MINUTES RESOLVED that the minutes of the meeting held on 11 June 2019 be confirmed as a correct record and signed by the Chairman.

45/19 GOVERNANCE POLICY AND COMPLIANCE STATEMENT The Local Government Pension Scheme Regulations 2013 required an

administering authority, after consultation with such persons as it considered appropriate, to prepare, publish and keep under review, a written statement setting out:

- whether it delegated its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority
- the terms, structure and operational procedures of any such delegations
- the frequency of any committee or sub-committee meetings
- whether such a committee or sub-committee included representatives of Scheme employers or members, and if so, whether these representatives had voting rights
- the extent to which a delegation, or the absence of a delegation, complied with guidance given by the Secretary of State and, to the extent that it did not comply, the reasons for not complying
- details of the terms, structure and operational procedures relation to the local pension board

The Statement set out the governance arrangements for Derbyshire Pension Fund and recorded the extent to which the Fund complied with the statutory guidance issued by the Secretary of State in respect of these matters.

The Pensions and Investment Committee approved the Fund's inaugural Government Policy and Compliance Statement in August 2018. The Statement had been updated to: include the Fund's governance objectives; reflect the Committee Terms of Reference approved by Full Council in May 2019; reflect the development of a Fund Conflicts of Interest Policy; and to report the up to date position with regard to compliance with best practice.

Dawn Kinley noted that the Statement attached in the Appendix would be amended to reflect the ongoing development of the Fund's Conflicts of Interest Policy. It was also agreed to note in the Statement that delegated shareholder decisions with respect to LGPS Central Ltd will be reported to the following meeting of the Pensions and Investments Committee.

RESOLVED to approve the attached draft Derbyshire Pension Fund Governance Policy and Compliance Statement subject to the revisions noted above.

46/19 PENSION ADMINISTRATION STRATEGY The Pension Administration Strategy was last approved by the Pensions and Investment Committee in January 2018. Minor amendments had been made to the previous version, and were wholly concerned with updating the document to reflect recent developments such as the implementation of the Altair pension administration system.

There were no revisions this year to the substantive aspects of the Strategy, which were the employing authority and administering authority performance targets, and the arrangements for the management of employer underperformance. The necessary reports for measuring certain of the administering authority performance targets were currently being developed on the new pension administration system. The administering authority performance targets would be reviewed once the new system was fully established.

As no material changes to the Strategy were proposed, it was not intended to consult with employers on this update. The Pension Administration Strategy would be circulated to all participating employers and posted on the Fund's website.

RESOLVED to approve the draft Pension Administration Strategy 2019, attached as Appendix 1 to the report.

47/19 QUARTERLY PENSION ADMINISTRATION PERFORMANCE REPORT 1 APRIL 2019 TO 30 JUNE 2019 A report from the Director of Finance & ICT was presented on performance levels achieved by the pensions administration team of Derbyshire Pension Fund and other activity undertaken in the first quarter of 2019-20 (Q1).

It was noted that, due to the implementation of the new pension administration system (Altair) on 4 March 2019, the reporting of workload data was currently being redeveloped. Also, due to the fact that cases had been migrated to the new system, backlog reporting on long-term work tasks such as transfers and aggregations could not commence immediately.

Included in the report were details of performance data, including membership movements, achievement against performance standards, monthly contribution returns, new academies and admission bodies, and Application for Adjudication of Disputes Procedures cases; communications; governance; development, and projects; and collaboration.

It was highlighted that there had been a small drop in active members since March 2019. The facility to report on membership movements each quarter was to be improved. This will enable a more detailed analysis of trends to be provided at future meetings.

Thirteen new academies had joined the Fund as scheme employers and four new admission bodies had also joined the Fund in Q1.

On 7 June 2019 a presentation had taken place with Fund members of the Fire Authority who were potentially being impacted by restructuring.

Activity in Q1 had been dominated by the switch to the Altair system (replacement pension administration system) which went live on 4 March 2019. Data conversion and mapping difficulties had been experienced by the supplier during the project, and Heywood's team continued to work with the Fund's Project Team on data cleansing and a diminishing number of 'teething troubles'. Two Team Briefings had been held internally since 'go-live' to enable the Project Team to understand the issues being experienced by the key users and to target training and system improvements effectively. Details of how much more quickly processes had been brought on line in the months after 'go-live' than was achievable with the previous system were presented.

RESOLVED to note the workloads and performance levels outlined in the report.

48/19 DERBYSHIRE PENSION FUND RISK REGISTER The Risk Register was kept under constant review by the risk owners, with quarterly review by the Director of Finance & ICT. A copy of both the Summary and Main Risk Registers were presented. Changes from the previous quarter were highlighted. The Risk Register had the following four High Risk items:-

- (1) Fluctuations in assets and liabilities (Risk No. 15)
- (2) LGPS Central related underperformance of investment returns (Risk No. 25)
- (3) Impact of McCloud judgement on funding (Risk No 32)
- (4) Impact of McCloud judgement on administration (Risk No. 40)

There was an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and funding levels fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. Whilst the Fund had a significant proportion of its assets in growth assets, the newly agreed Strategic Asset Allocation Benchmark introduced a lower exposure to growth assets with the aim of protecting the improvement in the Fund's funding level following strong market gains since the triennial valuation in March 2016. For the March 2019 valuation, the Fund's actuary had indicated that assumed investment returns over the next 20 years and the likelihood of those returns being achieved would be considered when determining the discount rate to value the liabilities for the funding level. This risk based approach, rather than relating the discount rate to bond yields on a particular day, would be in line with the approach taken by the actuary to set employer contribution rates.

The Fund was expected to transition the management of the majority of its investment assets to LGPS Central Limited (LGPSC), the operating company of the LGPS Central Pool (the Pool), over the next few years. Ultimately, the Fund was expected to invest via LGPSC's pooled investment vehicles. In the shorter term, the Fund had a discretionary management agreement with the

company with respect to the Fund's UK equity portfolio, and advisory management agreements with respect to Japanese and Asia Pacific equities. LGPSC was a newly formed company which launched its first investment products in April 2018. There was a risk that the investment returns delivered by the company would not meet the investment return targets against the specified benchmarks.

The Fund continued to take a meaningful role in the development of LGPSC, and had input into the design and development of the company's product offering to ensure that it would allow the Fund to implement its investment strategy. The company's manager selection process was scrutinized by the Partner Funds and the Fund would initially continue to carry out its own due diligence on selected managers as confidence was built in the company's manager selection skills. The performance of LGPSC investment vehicles was constantly monitored and reviewed jointly by the Partner Funds.

The McCloud case related to transitional protections given to scheme members in the judges and firefighters schemes which were found to be unlawful by the Court of Appeal on the grounds of age discrimination. On 27 June 2019, the Supreme Court denied the Government permission to appeal the judgement in the case. The Chief Secretary to the Treasury subsequently announced on 15 July 2019 that the Government respected the Court's decision and would fully engage with the Employment Tribunal to agree how the discrimination would be remedied; she also announced that remedies relating to the McCloud judgement would need to be made in relation to all public service schemes. It was anticipated that any remedy would be backdated to the commencement of transitional protection (April 2014 in the case of LGPS).

Following the judgement in the McCloud case, and confirmation that remedies relating to that judgement would need to be made to all public service schemes, LGPS benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, would benefit from the 'underpin'. Alternatively, restitution may be achieved in a different way, for example by paying compensation. Quantifying the impact of the judgement at this stage was very difficult because it would depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdrew from active service. The Government Actuary's Department (GAD) had estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions.

The Fund's actuary had adjusted GAD's estimate to better reflect Derbyshire Pension Fund's local assumptions. The revised estimate as it applied to the Fund was that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.4% higher as at 31 March 2019, an increase of approximately £26.7m.

These numbers were high level estimates and depended on several key assumptions. The impact on employers' funding arrangements was expected be damped by the funding arrangements they had in place, however it was likely that there would be unavoidable upward pressure on contributions in future years.

For cost cap changes, the Government had stated its intention to apply these from April 2019. The LGPS Scheme Advisory Board (SAB) had announced a pause in the cost cap management process pending the outcome of the case. The SAB said it may resubmit the existing proposals or review the package, taking into account the cost of any remedy resulting from the McCloud case and the impact of backdating.

The LGPS SAB had recommended that local authorities sought Counsel's advice and this would be investigated.

The uncertainty caused by the McCloud judgement was reflected on the Risk Register under two separate risks for clarity, one under Funding and Investments and one under Administration, although the two risks were closely linked.

The funding risk related to the risk of there being insufficient assets within the Fund to meet the increased liabilities. The administration risk related to the enormous challenge that would be faced by administering authorities and employers in potentially backdating scheme changes over such a significant period; this risk had been recognised by SAB. The Fund would continue to keep up to date with news related to this issue from the Scheme Advisory Board, the Local Government Association, the Government Actuary's Department and the Fund's actuary.

Risk No.32, the impact of the McCloud judgement on funding, as detailed above, had been added to the Risk Register. No items had been removed from the Risk Register.

RESOLVED to note the risk items identified in the Risk Register.

49/19 LGPS CENTRAL JOINT COMMITTEE MEETING Members were asked to note the items that had been considered at the LGPS Joint Committee meeting held in Nottingham on 21 June 2019. Councillor Neil Atkin, Vice-Chairman of the Committee represented Derbyshire at the meeting.

The agenda for the meeting was attached at Appendix 1 to the report and there was a full set of the meeting papers available via a link on the Derbyshire Pension Fund's website. The agenda items for the Joint Committee would continue to develop as more performance data from LGPS Central Ltd and data from a new cost savings model became available. There were no

recommendations made at the meeting for consideration by the Pensions and Investments Committee.

Councillor Marshall-Clarke enquired as to the Fund's input into the PAF Responsible Investments Working Group (RIWG). Dawn Kinley noted that she had attended the last meeting of the RIWG.

RESOLVED that the items considered at the recent meeting of the LGPS Central Joint Committee are noted.

50/19 EXCLUSION OF THE PUBLIC RESOLVED that the public be excluded from the meeting during the Committee's consideration of the remaining items on the agenda to avoid the disclosure of the kind of information detailed in the following summary of proceedings:-

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

1. To confirm the exempt minutes of the meeting held on 11 June 2019 (contains exempt information)
2. To consider the report of the Director of Finance and ICT on a Stage 2 Appeal under the Local Government Pension Scheme Application for an Adjudication of Disagreement Procedure (contains information relating to any individual)