

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 4 September 2019

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boulton, P Makin, S Marshall-Clarke, B Ridgway and M Wall (substitute Member)

Derby City Council

Councillor L Eldret

Also in attendance – D Kinley and K Riley

Apologies for absence were received on behalf of Councillors M Carr (Derby City Council) and R Mihaly (Derbyshire County Council), and M Wilson (Derbyshire Unison)

53/19 COUNCILLOR LISA ELDRET The Chairman welcomed Councillor Lisa Eldret to her first meeting of the Pensions and Investment Committee. Councillor Eldret had been appointed as an additional representative from Derby City Council.

54/19 PUBLIC QUESTION TO THE PENSIONS AND INVESTMENTS COMMITTEE The following question had been received from a member of the public, Sue Owen:-

What does the committee intend to do to consult with members of the pension scheme about investments in relation to climate change, and how does it intend to provide transparent information to pension members about the climate risk report of September/October 2019?

Dawn Kinley, Head of Pension Fund responded as follows:-

The Fund's Climate Risk Report from LGPS Central Ltd is due to be received around the end of September. The report is expected to set out the potential size, nature and timing of climate related risks for the Fund and also set out potential actions that could be taken to reduce the Fund's exposure to these risks. An initial report on the Climate Risk Report will be taken to the open

section of this Committee on 11 December 2019, with a more detailed report planned for the 22 January 2020 meeting of Committee.

It is expected that the Climate Risk Report will assist with the development of a more detailed strategy to manage climate change risk. The Fund will consult with its stakeholders formally on any significant change to its Investment Strategy Statement, which includes its approach to Responsible Investment and managing climate change risk.

We are aiming to implement member self-service within the next two years which will greatly enhance our ability to communicate directly with the Fund's membership. In the meantime, the launch of the Fund's website last autumn and the continued development of employer engagement is expected to increase the level of stakeholder participation in any future consultations.

I would be happy to sit down on an informal basis with representatives of interested parties following the December Committee meeting to discuss the Fund's approach to managing climate risk.

Members welcomed a consultation process and looked forward to the Fund having the ability to consult wider with stakeholders in the future. It was suggested that the strategy statement to manage climate change risk be included in the Annual Report.

55/19 **MINUTES RESOLVED** that the minutes of the meeting held on 31 July 2019 be confirmed as a correct record and signed by the Chairman.

56/19 **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.

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 July 2019 and the recommendations of the Director of Finance and ICT and the Fund's Independent Adviser in relation to the Pension Fund's new strategic asset allocation benchmark were reported. Relative to the new benchmark, the Fund as at 31 July 2019, was overweight in cash, and underweight in growth assets, income assets and protection assets. Details were also provided of the recommendations of the Director of Finance and ICT, which had been adjusted

to reflect the impact of future investment commitments. These commitments largely related to private equity, multi-asset credit, property and infrastructure and totalled around £320m. Whilst the timing of drawdowns would be difficult to predict, the In-house Investment Management Team (IIMT) believed that these were likely to occur over the next 18 to 36 months.

The value of the Fund's investment assets had risen by £169.6m between 30 April 2019 and 31 July 2019 to a little under £5.2bn, comprising a non-cash market gain of around £150m and cash inflows from dealing with members and investment income of around £20m. Over the twelve months to 31 July 2019, the value of the Fund's investment assets had risen by £231.4m, comprising a non-cash market gain of around £160m and cash inflows from dealing with members and investment income of around £70m. A copy of the latest portfolio was presented at Appendix 2 to the report.

A summary of global equities in sterling and the US dollar, UK equities, UK fixed income and UK index linked bonds for the twelve months to 22 August 2019 was given. Equity markets had generally risen in Q2 2019 and sterling investors had also benefited from a weaker pound. Following further positive returns in July 2019 equity markets sold off in early August 2019 following a further escalation in the US – China trade negotiations, reducing optimism about dramatic monetary policy easing from the Fed, and growing concerns over the health of the global economy.

Bonds yields had fallen since September 2018 (pushing up prices and returns), reflecting market uncertainty and increased demand for safe-haven assets, together with more dovish tones from central banks in response to weaker economic news. UK bond yields had fallen sharply in July and early August 2019 reflecting growing concerns over the health of the UK economy and the risk of a “no-deal” Brexit.

The new strategic asset allocation benchmark included a 3% allocation to Global Sustainable Equities. The Committee had previously approved the use a non-DCC framework to appoint two or three investment managers to manage the planned allocation on a discretionary basis and the IIMT was currently waiting for the non-DCC framework to be finalised. It was expected that this would happen in early September. The IIMT was positive about the long term growth prospects for the asset class and had recommended a neutral allocation of 3.0%. Whilst noting that completion of the necessary due diligence, and call-off from the non-DCC framework should result in investments being made into the asset class in late October, some flexibility would be required around the timing of any investment.

Members of the Committee welcomed the allocation to global sustainable equities. Councillor Marshall-Clarke also congratulated the IIMT for the strategy they had adopted in relation to property and infrastructure and in particular the

acquisition of a multi-storey car park, windfarms and solar power and the potential returns they could generate.

In terms of asset class valuations, many global stock markets were still trading close to all-time highs, despite the recent weakness in August 2019, and it was noted that recent asset class returns remained well in excess of long term averages. Details were given on the Fund's performances over 1, 3, 5 and 10 years to 30 June 2019. The Fund had out-performed the benchmark over all time periods.

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.

57/19 VOTING ACTIVITY Details of the Fund's voting activity for the period 25 May 2019 to 20 August 2019 were presented. The Fund's votes against management proposals were shown in Appendix 2 to the report and the total shareholder votes for these proposals were provided.

RESOLVED that the report be noted.

58/19 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 31 July 2019 (contains exempt information)

59/19 MINUTES RESOLVED that the exempt minutes of the meeting held on 31 July 2019 be confirmed as a correct record and signed by the Chairman.