

PUBLIC

**MINUTES** of a meeting of **PENSIONS AND INVESTMENTS COMMITTEE** held on Wednesday, 6 December 2023 in the Council Chamber, County Hall, Matlock,.

**PRESENT**

Councillor D Wilson (in the Chair)

Councillors P Smith, N Atkin, C Ashby (Derby City Council), B Bingham, M Foster and M Yates.

Also in attendance was A Fletcher (Independent Investment advisor), N Read (Trade Union representative) and S Ambler and L Seeley (Pension Board members via MS Teams)

Apologies for absence were submitted for Councillors G Musson and L Care (Derby City Council).

**55/23 TO RECEIVE DECLARATIONS OF INTEREST (IF ANY)**

There were no declarations of interest.

**56/23 MINUTES**

The minutes of the meeting held on 25 October 2023 were confirmed as a correct record.

**57/23 INVESTMENT REPORT**

The Pension Fund's independent investment advisor, Anthony Fletcher, took the Committee through a presentation on the market background, the Fund's performance, the economic and market outlook, and on his asset allocation recommendations.

The Investment Report was the presented by the Fund's Investments Manager who explained the rationale for the recommendations for each asset class set out in the report.

Members of the Committee asked several clarifying questions regarding the economic outlook, the performance of global sustainable equities and about the growth of renewable energy production.

**RESOLVED:**

That the Committee:

- a) Notes the report of the independent external advisor, Mr Fletcher;
- b) Notes the asset allocations, total assets and long-term performance analysis set out in the report of the Director of Finance & ICT; and
- c) Approves the IIMT recommendations outlined in the report.

**58/23 STEWARDSHIP REPORT**

The Committee was provided with an overview of the stewardship activity that had been carried out by the Pension Fund's external investment managers in the quarter ended 30 September 2023. The following two reports would ensure that the Committee was aware of the engagement activity that had been carried out by Legal & General Investment Manager (LGIM) and by LGPS Central Limited (LGPSC):

- Q3 2023 LGIM ESG Impact Report
- Q2 2023-24 LGPSC Quarterly Stewardship Report

The Committee was informed that LGPSC currently had four stewardship themes, agreed in collaboration with the eight Partner Fund of the LGPS Central Pool, in respect of Climate Change, Plastic, Human Rights Risk, and Fair Tax Payment & Tax Transparency. The Partner Funds and LGPSC believed that identifying material core themes would help direct engagement and send a clear signal to companies of the areas that Partner Funds and LGPSC were likely to be concerned with during engagement meetings.

The themes were subject to review every three years and LGPS Central Limited had proposed updating the themes to Climate, Natural Capital, Human Rights and Controversial Activities. The In-House Investment Management Team had discussed the proposed themes with LGPSC and supported the updated choice of stewardship themes. Members of the Committee had been provided with an opportunity to feedback on the updated themes.

**RESOLVED** that the Committee notes the stewardship activity of LGIM and LGPSC.

**59/23 STRATEGIC ASSET ALLOCATION BENCHMARK AND INVESTMENT STRATEGY STATEMENT**

Following the receipt of the formal March 2022 actuarial valuation, the Fund's Strategic Asset Allocation Benchmark (SAAB) had been reviewed,

taking into consideration the further improvement in the funding level and the proposed changes were highlighted.

The proposed final SAAB included a 5% switch from Growth Assets to Income Assets, reflecting the improvement in the Fund's funding position. It was proposed that the majority of the recommended 5% increase was allocated to infrastructure, taking the asset class weighting from 10% to 13%. The proposed final SAAB also included a change in the composition of the Fund's equity exposure.

Given the proposed changes to the Fund's SAAB as set out in the report, a revised Investment Strategy Statement had been prepared, a copy of which was set out at Appendix 2 to the report.

It was intended to consult with scheme members, scheme employers, members of Derbyshire Pension Board, and other stakeholders on the revised Investment Strategy Statement and the results of the consultation would be reported to Committee at the March 2024 meeting.

In response to a question, the Investments Manager confirmed that the proposed 5% switch from Growth Assets to Income Assets was expected to reduce the volatility of investment returns but was not expected to reduce the level of future returns based on forecast long term asset class returns.

**RESOLVED** that the Committee approves the draft revised Investment Strategy Statement attached at Appendix 2 to the report, which includes the proposed changes to the Fund's Strategic Asset Allocation Benchmark, for consultation with the Pension Fund's stakeholders.

## 60/23 **RESPONSIBLE INVESTMENT FRAMEWORK AND CLIMATE STRATEGY**

Approval was sought for a consultation exercise to be undertaken with the Fund's stakeholders in relation to the Fund's updated Responsible Investment Framework and updated Climate Strategy.

There were no significant proposed changes to the Fund's Responsible Investment Framework. A copy of the draft updated RI Framework was set out in Appendix 2 to the report and it would be amended to include LGPS Central Limited's updated stewardship themes when they had been finalised.

The Fund had made significant progress against the targets set out in the Fund's current Climate Strategy, as detailed below:

Target	Target by end of 2025	Actual on 31 March 2023
Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025	(30%)	(47%)
Invest at least 30% of the Fund portfolio in low carbon & sustainable investments by the end of 2025	30%	Invested: 29% Committed:30%

As a result of the progress, the Fund's proposed updated targets in respect of these two metrics showed a material increase relative to the Fund's current targets, and the Fund's In-House Investment Management Team (IIMT) believed that these were in line with the Fund's stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050.

The updated strategy also set out targets in respect of the Fund's stewardship and engagement activities in respect of climate change, together with a reference to Derbyshire County Council's corporate climate change strategy, which as the administering authority for Derbyshire Pension Fund, covered the Fund's corporate emissions.

It was noted that the target related to absolute financed emissions of the Fund's listed equity and investment grade bond portfolios in the updated strategy should be linked to the Fund's reported absolute financed emissions in 2020, rather than being linked to the Fund's weighted 2020 benchmark for those portfolios.

A copy of the Fund's draft updated Climate Strategy was set out at Appendix 3 to the report.

Members of the Committee asked questions about the expected future level of investment in companies with exposure to fossil fuels, the impact of engagement with investee companies and about the Fund's plans for highlighting the progress made to date against the climate-related targets.

**RESOLVED** that the Committee approves the draft updated Responsible Investment Framework and draft updated Climate Strategy, attached as Appendix 2 & Appendix 3 to the report, for consultation with the Fund's stakeholders.

**61/23 REVIEW OF THE ADMINISTERING AUTHORITY DISCRETIONS POLICY**

Approval was sought for the Statement of Policy on the Administering Authority's Discretions in respect of the Local Government Pension Scheme (LGPS), which was attached at Appendix 2 to the report.

Under the LGPS regulations there were a number of areas where administering authorities and employers were permitted a level of discretion in the way they applied the rules locally for LGPS members.

A review of the last statement of policy had identified that a number of minor technical amendments were required. Discretions which sat with the Adjudicator for appeals were no longer included in the Policy. Some discretions previously not included had been added to the Policy and reflected:

- Procedures applicable to Derbyshire Pension Board, including appointments and membership
- Approval for admission arrangements to take retrospective effect where necessary
- Exit arrangements for employers

**RESOLVED** that the Committee approves the draft Statement of Policy on Administering Authority LGPS Discretions included at Appendix 2 to the report.

**62/23 DERBYSHIRE PENSION FUND COMMUNICATIONS POLICY**

A detailed review of the Fund's approach to communicating with scheme members, employers and other stakeholders, and a summary of the Fund's strategy with regard to its communications for the three-year period from 2024 to 2027 was reflected in the draft revised Communications Policy, attached at Appendix 2 to the report. The Policy reflected developments and improvements achieved over the last two years, and the developments and improvements planned for the period 2024 to 2027.

One of the developments achieved over the last two years was the launch of the My Pension Online platform, and Members requested a demonstration of the system at a future meeting to views it functions and capabilities.

It was intended that progress in meeting the communications-related developments included in the three-year strategy, would be reviewed annually and reported in the Half-Year Pension Administration Performance Report. The Policy will be published on the Fund's website in a suitable format in consideration of its accessibility to all of the Fund's stakeholders.

In response to a question, it was noted that the Fund has the ability to add messages to the back of pension payslips, which were sent out three times a year to all pensioner members of the Fund.

**RESOLVED** that the Committee approves the draft revised Communications Policy attached at Appendix 2 to the report.