

PUBLIC

**MINUTES** of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 11 December 2019

**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**

Councillor M Carr

**Derbyshire County Unison**

Mr M Wilson

Also in attendance – B Dodds, N Dowey, P Handford, K Riley and N Smith.

Apologies for absence were received on behalf of Councillor L Eldret and D Kinley.

**69/19** **MINUTES RESOLVED** that the non-exempt minutes of the meeting held on 22 October 2019 be confirmed as a correct record and signed by the Chairman.

**70/19** **INVESTMENT REPORT** This report incorporated Mr Fletcher's views on the global economic position, factual information for global market returns, the performance of the Fund and his recommendations on investment strategy and asset allocation.

The Fund's latest asset allocation as at 31 October 2019 was reported and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new strategic asset allocation benchmark.

The recommendations of the Director of Finance & ICT were shown, adjusted to reflect the impact of future investment commitments. These commitments related to Private Equity, Multi-Asset Credit, Property and Infrastructure and total around £290m.

The following three categorisations were reflected in the table:

- **Growth Assets:** largely equities plus other volatile higher return assets such as private equity;
- **Income Assets:** assets which were designed to deliver an excess return, but with more stable return patterns than Growth Assets because income represented a large proportion of the total return of these assets; and
- **Protection Assets:** lower risk government or investment grade bonds.

Relative to the new benchmark, the Fund as at 31 October 2019, was overweight Cash, and underweight in Growth Assets, Income Assets and Protection Assets.

If all of the Fund's commitments were drawn-down, the cash balance would reduce by 5.2% to 0.4%. However, in practice as these commitments were drawn-down, they would be partly offset by new net cash inflows from dealing with members, investment income, distributions from existing investments and changes in the wider asset allocation.

The value of the Fund's investment assets fell by £40.5m (-0.8%) between 31 July 2019 and 31 October 2019 to just over £5.1bn, comprising a non-cash market loss of around £60m and cash inflows from dealing with members & investment income of around £20m. Over the twelve months to 31 October 2019, the value of the Fund's investment assets had risen by £360.5m (7.6%), comprising a non-cash market gain of around £260m and cash inflows from dealing with members & investment income of around £100m.

UK bond yields had risen sharply in Q4 to date (with prices falling), as fears over a 'no-deal' Brexit had receded and investors had become increasingly concerned that UK public spending was likely to increase significantly following the upcoming General Election with a significant accompanying increase in public sector borrowing.

At 31 October 2019, the overall Growth Asset weighting was 55.7%, down from 56% at 31 July 2019, reflecting relative market weakness.

At 31 October 2019, the overall weighting in Income Assets was 20.5%, up from 19.5% at 31 July 2019, principally reflecting net investment of around £30m. The IIMT recommendations would take the overall Income Asset weighting to 21.1%, and the committed weighting to 24.5%.

The Cash weighting at 31 October 2019 was 6.5%, 4.5% overweight relative to the benchmark. Mr Fletcher had maintained his 2% overweight allocation of 4% to Cash, noting that if bond yields continue to rise from their current low level, this additional allocation to cash could be deployed to the bond market if the prospects for equities markets did not improve.

**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 this report be noted; and (3) the strategy outlined in the report be approved.

**71/19**      **VOTING ACTIVITY**      Details of the Fund’s voting activity for the period 21 August 2019 to 15 November 2019 were shown. The Fund voted against management proposal as shown in Appendix 2 and total shareholder votes for the proposal were set out below. The resolution was passed.

<b>Resolution</b>	<b>Votes For</b>	<b>Votes Against</b>
Greene King Plc: Resolution 2	67.5%	32.5%

**RESOLVED** to note the report.

**72/19**      **DERBYSHIRE PENSION FUND 2019 ACTUARIAL VALUATION**

Under Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013, administering authorities of LGPS pension funds were required to obtain an actuarial valuation of the assets and liabilities of the pension fund on 31st March every three years.

In May 2019, MHCLG issued a consultation seeking views on proposals to amend the LGPS valuation cycle in England and Wales from a three year cycle to a four year cycle. The outcome of that consultation was not yet known, however, MHCLG had confirmed to Hymans Robertson, the Fund’s actuary, that the next round of valuations for English and Welsh LGPS funds would be 31 March 2022 regardless of the ongoing consultation. Hymans Robertson would, therefore, certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

The Valuation was a planning exercise for the Fund to determine:

- The expected cost of providing the benefits built up by members at the valuation date in today’s terms (the liabilities) compared to the funds held by the Pension Fund (the assets);
- The contributions needed over an appropriate time horizon to cover the cost of the benefits that active members would build up in the future (the Primary Contribution Rate);
- An adjustment for the difference between the Primary Contribution Rate above, and the actual contribution the employer needed to pay over the time horizon, referred to as the Secondary Contribution Rate. In broad terms, payment of the Secondary Contribution Rate was in respect of benefits already accrued at the valuation date.

Since the last actuarial valuation, the Fund had achieved investment returns of 33.3% compared to an anticipated investment return over that period of 12.6%, leading to a much larger increase in the value of the assets of the Fund than expected.

Longer term expectations for Consumer Prices Index (CPI) inflation had increased slightly from 2.1% per annum in 2016 to the current forecast of 2.3% per annum. Pension benefit increased (both in payment and deferment) and the revaluation of career-average earnings were in line with CPI inflation; a higher level of CPI, therefore, resulted in an increase in the forecast costs of the benefits to be paid from the Fund.

There had been an improvement in the funding level of the Fund from 87% in March 2016 to 97% at March 2019, with a reduction in the deficit from £564m to £163m.

As part of the valuation process, the Fund reviewed the funding strategy to ensure that an appropriate contribution plan and investment strategy was in place. The funding strategy was set out in the Funding Strategy Statement (FSS) which was the Fund's key governance document in relation to the actuarial valuation.

The draft Funding Strategy Statement was attached. The main changes to the FSS since the previous valuation were:

- increased likelihoods of reaching the funding target for all employers to allow for the potential impact of the McCloud judgement;
- a larger increase in the likelihood of reaching the funding target, and a reduction in the time horizon, for Universities and Colleges to reflect changes in the assessment of the employer covenant for the sector;
- increased clarity on risk sharing options;
- the proposed treatment of exit credits;
- increased clarity on pooling arrangements.

The proposed method of setting contribution rates for Academies, and the funding basis to be adopted for Community Admission Bodies that were closed to new entrants, would be finalised upon consideration of the individual employer results. The Fund would then consult with scheme employers, Derbyshire Pension Board and other stakeholders on the proposed FSS.

**RESOLVED** to note (1) the initial whole fund results of the actuarial valuation at 31 March 2019; and (2) the progress on the formulation of the updated Funding Strategy Statement (FSS) and the intention to commence a consultation with the Fund's stakeholders on the FSS in late December.

**73/19**      **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 22 October 2019 (contains exempt information).

**74/19**      **MINUTES RESOLVED** that the exempt minutes of the meeting held on 22 October 2019 be confirmed as a correct record and signed by the Chairman.