

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE**
held on 10 June 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

Councillor M Carr

Also in attendance – N Dowey, D Kinley, P Peat, K Riley, N Smith and S
Webster.

Apologies for absence were received on behalf of Councillor L Eldret (Derby
City Council) and Mr M Wilson (Derbyshire County Unison).

16/20 CHAIRMAN'S ANNOUNCEMENTS The Chairman welcomed
Elected Members, officers and members of the public to the first virtual meeting
of the Pensions and Investments Committee.

The Chairman announced that this was Mr Nigel Dowey's last meeting of
the Pensions and Investments Committee as he would shortly be retiring from
the County Council. On behalf of the Committee, Councillor Perkins wished to
thank Mr Dowey for all the help and support he had given to members and this
committee in particular, and wished him all the very best for the future.

17/20 MINUTES RESOLVED that the minutes of the meeting held on 4
March 2020 be confirmed as a correct record.

18/20 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 30 April 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 £320m (£310m at 31 January 2020).

Over the last five years this Committee had approved several changes to the Strategic Asset Allocation Benchmark (SAAB) which had resulted in a re-balancing of the Fund's assets from Growth Assets to Income Assets. The impact on the Fund's annualised and cumulative returns over the last five years to 31 March 2020 of the changes to the SAAB, together with the impact of the relative out-performance achieved by the Fund over that period were presented.

The analysis prepared by the In-house Investment Management Team (IIMT) indicated that the SAAB changes and relative out-performance had cumulatively increased the Fund's investment assets by £229m at 31 March 2020 (equivalent to 4.9% of total investment assets at that date), with both levers contributing to the positive outcome. The IIMT were working with Portfolio Evaluation Limited to separately show the performance attributable to products and services provided by LGPS Central Limited, and those resulting from the Fund's non-pooled assets.

Members welcomed this report, in particular the continued investment in renewable energy and supported the discussions taking place with the tenants of the Fund's investment properties related to the Covid-19 pandemic.

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.

19/20 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 31 March 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):

- Q1 2020 Legal & General Investment Management (LGIM) ESG Impact Report (Appendix 1)
- Q4 2019/20 LGPS Central Limited Quarterly Stewardship Report (Appendix 2).

LGIM managed around £1bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; and Emerging Market Equities. It was expected that LGPS Central Limited would manage a growing proportion of the Fund's assets going forward as part of the LGPS pooling project. These two reports provided an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter.

RESOLVED to note the stewardship activity of LGIM and LGPS Central Limited.

20/20 **DERBYSHIRE PENSION FUND SERVICE PLAN** The Derbyshire Pension Fund Service Plan for 2020-21, including the annual budget for the year, was presented. The Service Plan, which was attached as Appendix 1 to the report set out:

- The objectives of Derbyshire Pension Fund (the Fund)
- Details of the Pension Fund Team
- Key services of the Fund
- Key achievements in 2019-20
- Review of 2019-20 performance indicators
- Forward plan of Pension Fund procurements to 31 March 2022
- The Fund's medium term priorities
- The 2020-21 budget required to deliver the Fund's services
- 2020-21 key performance indicators

In line with best practice, the Fund was seeking approval from Committee for its annual budget in order to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources. As this was the first year that Committee's approval had been sought for the Fund's budget, the forecast budget was compared in the Service Plan to actual Fund spend in 2019-20. A budget of £32.9m was sought to deliver the services of the Pension Fund; this represented an increase of 5.5% over the previous year.

Dawn Kinley, Head of Pension Fund, highlighted the following Fund achievements from 2019-20:

- Sound management of the triennial actuarial valuation process;
- Development and implementation of a detailed Covid-19 Business Continuity Plan;
- The enormous commitment and flexibility of the Team over the past 12 months ensuring that the critical activities could be delivered remotely;
- Procurement of a Climate Risk Report;
- Active participation in the development of the LGPS Central offer;
- Continued building of significant commitments to Infrastructure, Private Equity and Multi-Asset Credit;
- Completion of due diligence on the options for the new allocation to Global Sustainable Equities.

The Committee were informed of the intention to review the current structure of the Team to enable it to become more customer focused, more resilient and to achieve succession planning. The Committee would receive further reports on this as it developed.

Members welcomed this report and congratulated Ms Kinley and her Team for the considerable work they had undertaken over the last 12 months.

RESOLVED to approve the 2020-21 Service Plan including the annual budget of £32.9m.

21/20 DERBYSHIRE PENSION FUND 2019 ACTUARIAL VALUATION

Members received the Derbyshire Pension Fund's 2019 Actuarial Valuation Report, which was attached as Appendix 1 to the report.

At its meeting in December 2019, the Committee had considered a report on the initial whole fund results of the actuarial valuation of the assets and liabilities of the Pension Fund as at 31 March 2019. Since that date, the method of setting contribution rates for different categories of employers had been agreed and confirmed following a consultation exercise on the Pension Fund's Funding Strategy Statement.

The whole fund results, which provided a high-level snapshot of the funding position at 31 March 2019, reported an improvement in the funding level of the Pension Fund from 87% in March 2016 to 97% at March 2019, with a reduction in the deficit from £564m to £163m. For the purposes of reporting a funding level, an investment return of 3.6% p.a was assumed.

The Valuation Report included the Rates and Adjustments Certificate which set out the minimum contribution rates payable by the Fund's employers from 1 April 2020 to 31 March 2023. The rates of three of the Fund's employers

were revised after the Valuation Report had been issued following consideration of further information. An updated Rates and Adjustments Certificate was attached at Appendix 2 to the report.

Hymans Robertson (the Fund's actuary) had noted the significant volatility experienced in the financial markets as a result of the coronavirus pandemic. This volatility may impact funding balance sheets for those employers planning to exit the Fund during the period covered by the Rates and Adjustments Certificate. In order to effectively manage employer exits from the Pension Fund, the Fund had retained the right to revisit the contribution rate for employers that were expected to cease participation in the Fund before 31 March 2023.

RESOLVED that the Committee receives the Fund's 2019 Actuarial Valuation Report and the updated Rates and Adjustment Certificate.

22/20 **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 receive declarations of interest (if any)
2. To confirm the exempt minutes of the meeting held on 4 March 2020 (contains exempt information)
3. To consider the exempt reports of the Director of Finance and ICT on:
 - a) Stage 2 Appeal under the LGPS Application for Adjudication Disagreement Procedure – LG (contains information relating to any individual)
 - b) Stage 2 Appeal under the LGPS Application for Adjudication Disagreement Procedure – DD (contains information relating to any individual)
 - c) Summary of Appeals and Ombudsman Escalations during 2019-20 (contains information relating to any individual)