

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held on 9 September 2020

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

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

Derby City Council

Councillors L Care and M Carr

Derbyshire County Unison

Mr M Wilson

Also in attendance – M Fairman, D Kinley, N Smith and S Webster.

Apologies for absence were received on behalf of Councillor R Mihaly.

36/20 **CHAIRMAN'S ANNOUNCEMENTS** The Chairman welcomed Mrs Mary Fairman to her first meeting of the committee. Mrs Fairman had recently been appointed as Assistant Director of Legal Services and would take up the role of the committee's adjudicator for applications at AADP.

37/20 **MINUTES RESOLVED** that the minutes of the meeting held on 21 July 2020 be confirmed as a correct record.

38/20 **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 31 July 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 £310m (£320m at 30 April 2020).

Mr Fletcher referred to the current economic and markets outlook position with particular reference to the impact of the Covid-19 pandemic, the US Presidential Election and the 'No-Deal' Brexit.

Members asked how the pandemic had affected the property investments for example town centre shops and offices. The Investments Manager reported as part of the diversified portfolio, the Fund was currently underweight in offices and retail but overweight in industrial, which had actually seen a growth over the past few months.

The Chairman thanked Mr Fletcher for his attendance and informative presentation.

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.

39/20 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 30 June 2020. Members were informed that this report previously came to committee as a voting report. However, since the Fund had moved more into pooled vehicles, this report was more concerned with insuring that we were satisfied with the stewardship arrangements of our managers and that they had robust policies in place.

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):

- Q2 2020 Legal & General Investment Management (LGIM) ESG Impact Report (Appendix 1)
- Q1 2020-21 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 that Members welcomed this report and would encourage further reports detailing the stewardship activity of LGIM and LGPS Central Limited.

40/20 RESPONSIBLE INVESTMENT FRAMEWORK AND CLIMATE STRATEGY Approval was sought for Derbyshire Pension Fund's proposed Responsible Investment Framework and Climate Strategy. Members were asked to consider this report alongside the Strategic Asset Allocation Benchmark (SAAB) and Investment Strategy Statement which was also presented to the committee.

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Fund's Investment Strategy Statement (ISS) must set out the administering authority's policy on how environmental, social and corporate governance (ESG) considerations were taken into account in the selection, non-selection, retention and realisation of investments. The Investment Strategy Statement must also cover the authority's policy on the exercise of rights (including voting rights) attached to its investments.

A report outlining the Fund's approach to incorporating the implications of climate change into the Fund's investment process was presented to Committee in August 2017. A Climate Risk Report was presented to Committee in March 2020, together with a copy of the Fund's first Taskforce for Climate-related Disclosures (TCFD) report.

In recognition of the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund, a separate Climate Strategy had been developed for the Fund. The Fund's revised ISS, which was being considered separately by this Committee, contained links to the proposed RI Framework and Climate Strategy.

Members of this Committee and of Derbyshire Pension Board had taken part in training sessions covering the ISS, and the proposed RI Framework and Climate Strategy as part of the process of formulating these strategies.

The RI Framework was consistent with LGPS Central Limited's Responsible Investment & Engagement Framework, which had been developed in collaboration with the eight LGPS funds (Partner Funds) within the LGPS Central Pool. A copy of the Fund's proposed Responsible Investment Framework was set out at Appendix 1 to the report.

The Fund's Climate Risk Report, high level climate change risk analysis from the Fund's actuary, Hymans Robertson, guidance on implementing the TCFD recommendations for assets owners from the TCFD, together with additional internal research into climate risk metrics and the output of the recent member training sessions, had been utilised to develop the proposed Climate Strategy which was attached as Appendix 2 to the report.

The Climate Strategy set out the Fund's approach to addressing the risks and opportunities related to climate change. It included the introduction of targets to reduce the carbon emissions of the Fund's investment portfolio and to increase investment in low carbon and sustainable investments. The targets would be reviewed at least every five years. A material increase in the targets in the five year period to 2030, and in each subsequent five year period, was expected, in line with the stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050. Progress against the targets would be reported every two years.

Members welcomed this report and found the previous training sessions covering these strategies invaluable. As part of the consultation process, it was suggested that a 'Frequently asked Questions' document be drawn up to assist stakeholders and members with understanding the strategies.

The Fund would consult with its stakeholders, including scheme employers, the local pension board and members of the pension fund, on the proposed RI Framework and Climate Strategy. The consultation would close on 14 October 2020. It was proposed that the results of the consultation would be reported to Committee in December 2020, however, Members felt that it would be more beneficial for the full Committee to consider any proposed revisions to the documents following consultation, rather than delegating that function to the Director of Finance & ICT and the Chairman of the Committee.

On behalf of the Committee, the Chairman thanked Dawn Kinley, Head of Pension Fund and Neil Smith, Investments Manager for their most informative presentation and the tremendous amount of hard work that had been undertaken in developing these strategies.

RESOLVED to (1) approve the proposed Responsible Investment Framework and Climate Strategy for the purposes of consultation; and

(2) consider the proposed final document at the Committee meeting in December 2020.

41/20 STRATEGIC ASSET ALLOCATION BENCHMARK AND INVESTMENT STRATEGY STATEMENT Details of the Investment Strategy Statement (ISS) and the proposed changes to the Strategic Asset Allocation Benchmark (SAAB) were included in the Director of Finance & ICT's presentation for the previous item.

The LGPS regulations required an administering authority to formulate an ISS in accordance with guidance issued by the MHCLG Secretary of State. The ISS set out the long-term investment strategy for the Fund and described the framework used to make these decisions. The Fund's Investment Strategy Statement had last been revised in October 2018.

Under the 2016 Regulations, the ISS must be reviewed, and if necessary revised, following a material change in the factors which were judged to have a bearing on the stated investment policy, and at least every three years. Given the proposed changes to the Fund's SAAB which were detailed in the report, a revised ISS has been prepared, a copy of which was set out at Appendix 1 to the report.

In addition to the changes in the SAAB, the ISS has been updated for the following:

- extending the Fund's hedging policy to include both Income Assets and Protection Assets (previously just Protection Assets) to reduce the Fund's overseas currency exposure. The Fund continued to regard the currency exposure associated with investing in overseas equities as part of the return on overseas equities; and
- reference to the Fund's standalone Responsible Investment Framework and Climate Strategy, both of which were supplementary to the Investment Strategy Statement.

The Fund's independent investment adviser, Anthony Fletcher, had reviewed the revised Investment Strategy Statement and the proposed changes to the SAAB and approved of the proposals. A copy of the advisor's review was set out at Appendix 2 to the report.

It was intended to consult with scheme employers, the local pension board and other stakeholders on the revised Investment Strategy Statement. The results of the consultation would be reported to Committee in December 2020. Again, Members were of the opinion that this Strategy should be packaged

together with the Responsible Investment Framework and the Climate Strategy and it was agreed that this would also come to the Committee meeting in December 2020 for consideration of any proposed revisions following consultation.

RESOLVED to (1) approve the revised Investment Strategy Statement set out in the report, including the proposed changes to the Strategic Asset Allocation Benchmark, for the purposes of the consultation; and

(2) consider the proposed final document at the Committee meeting in December 2020.

42/20 DERBYSHIRE PENSION FUND EXIT CREDITS POLICY The Committee was advised of the outcome of the Pension Fund's consultation exercise in respect of the proposed Exit Credits Policy and approval was sought for the updated Policy attached as Appendix 1 to the report.

An email had been sent to the Fund's current scheme employers, to the recently ceased employers and to members of Derbyshire Pension Board to highlight the consultation. The consultation was also featured on the news page of the Fund's website. Two responses to the consultation had been received, both from scheme employers and details of these were provided.

The Director of Finance and ICT, in conjunction with the Chairman of the Committee, had determined that no changes were necessary to the Policy that was approved on 21 July 2020 as a result of feedback to the consultation.

The Policy had, however, been revised to clarify that any costs associated with the determination of an exit credit may be deducted from any exit credit payment at the Fund's discretion. This point had been raised by a member of the Committee when the proposed Policy was considered at the last meeting. The proposed revision to the Policy was highlighted.

RESOLVED to approve the proposed Exit Credits Policy attached at Appendix 1 to the report.

43/20 MHCLG AMENDMENTS TO THE STATUTORY UNDERPIN CONSULTATION The Committee were advised of the publication of the Ministry of Housing, Communities and Local Government's (MHCLG) consultation on draft regulations introducing proposed changes to the LGPS statutory underpin protection. The changes were intended to remove unlawful discrimination found by the Courts in relation to public service pension scheme transitional protection arrangements. The judgement of unlawful discrimination was commonly referred to as the McCloud Judgement. Approval was also sought for the Director of Finance & ICT, in consultation with the Chairman of the Committee, to consider the Fund's response to the consultation and to

authorise its submission to MHCLG. The draft regulations set out in the MHCLG consultation proposed to:

- remove the condition that required a member to have been within ten years of their 2008 Scheme normal pension age on 1 April 2012 to be eligible for underpin protection.
- extend the underpin protection to apply where a member leaves with either a deferred or an immediate entitlement to a pension (previously the underpin did not apply to leavers with a deferred benefit entitlement)

The impact the proposed changes would have on members of the LGPS and the impact on employers, was set out in the report.

The implementation of the proposed remedy would have a significant affect on the administration of the scheme. Initial analysis had indicated that around 26,000 members of the Fund were likely to fall into the scope of the proposed changes to the underpin. Members expressed real concern relating to the impact on resources and the cost implications. It was reported that collaborative work with pooling partners was being undertaken to look at solutions, such as shared software. Adverts had recently been placed for additional staffing resources.

The MHCLG consultation would close on 8 October 2020. A response to the consultation had been received from Hymans, the Fund's actuary and was being considered. The Local Government Association (LGA) would also be submitting a response to the consultation which would be shared in advance of the closing date.

A McCloud Project Board had been established to govern the implementation of the remedy. The Project Board was currently working through the MHCLG consultation document and would formulate a response to the consultation in due course, taking into consideration the responses from Hymans and the LGA. The response would be circulated to members of the Committee prior to its submission to MHCLG.

RESOLVED to (1) note the publication of MHCLG's consultation on draft regulations introducing proposed changes to the LGPS statutory underpin protection; and

(2) delegate the consideration of the Fund's response to the consultation, and the approval of its submission to MHCLG, to the Director of Finance & ICT in conjunction with the Chairman of the Committee.

44/20 **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 21 July 2020 (contains exempt information)
3. To consider the exempt report of the Director of Finance and ICT on Stage 2 Appeal under the LGPS Application for Adjudication Disagreement Procedure – NG (contains information relating to any individual)