

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held on 3 March 2021

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

Councillors L Care and M Carr

Derbyshire County Unison

Mr M Wilson

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

7/21 **MINUTES RESOLVED** that the minutes of the meeting held on 20
January 2021 be confirmed as a correct record.

8/21 **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 an update 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 January 2021 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 £330m.

The Fund's Investment Strategy Statement which had been approved by Committee in November 2020, noted that the Fund's currency exposure in respect of Income Assets and Protection Assets should be hedged back to sterling. Previously the currency hedge related solely to the Fund's Protection Assets.

The current quarterly operational transaction limit for currency hedging purposes was £100m. For transactions above that level, approval would be sought from the Director of Finance & ICT. The limit was set several years ago, when the Fund's investments assets were significantly lower, and the currency hedge only covered Protection Assets. As the currency hedge now covered both Income Assets and Protection Assets, the IIMT estimated that the transaction value of the Fund's quarterly currency hedge was likely to be in the region of £350m. The IIMT recommend that the quarterly operational transaction limit for currency hedging was increased from £100m to £350m.

Mr Fletcher referred to the current economic and markets outlook position with particular reference to the roll-out of the Covid-19 vaccine and the new Biden administration in the US and in particular, the President's willingness to re-join the Paris Accord.

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;

(3) the strategy outlined in the report of the Director of Finance and ICT be approved; and

(4) the quarterly operational transaction limit for currency hedging is increased from £100m to £350m.

9/21 **STEWARDSHIP REPORT** Members were provided with an overview of the stewardship activity carried out by Legal & General Investment Management (LGIM), in the quarter ended 31 December 2020.

The Q4 2020 LGIM ESG Impact Report was presented to ensure that the Pensions & Investments Committee was aware of the engagement activity

being carried out by LGIM. LGIM managed around £1.4bn of assets on behalf of the Fund through passive products covering: Low Carbon Global Sustainable Equities; UK Equities; Japanese Equities; and Emerging Market Equities. The report provided an overview of LGIM's current key stewardship themes and voting and engagement activity over the last quarter. Consideration would be given to how the Fund could raise awareness of its investment activity to a wider audience.

The quarterly Stewardship Report to the Pensions & Investments Committee generally also included a quarterly stewardship report from LGPS Central Limited (LGPSC), the Fund's pooling company. However, following a change to the LGPSC stewardship reporting cycle, this had not been possible for the last quarter. LGPSC planned to issue an annual stewardship report for the year to 31 March 2021 in April 2021, which will be reported to Committee in due course. This will be supported by higher level quarterly updates thereafter.

RESOLVED that Committee notes the stewardship activity of LGIM.

10/21 **DERBYSHIRE PENSION FUND PENSION ADMINISTRATION STRATEGY** The Committee's approval was sought for the draft Derbyshire Pension Fund Pension Administration Strategy which was attached as Appendix 1 to the report.

All employers participating in the Fund would be signposted to the revised version of the PAS which will be published on the Fund's website. The PAS sets out the roles, responsibilities and service standards which the Fund and participating employers will be expected to deliver in order to enable the efficient administration of Fund members' records. It also included details of how employers will be monitored, supported and managed should they fail to meet their required standards of performance in submitting accurate and timely data and payments to the Fund.

The last review of the PAS was undertaken and approved by the Committee in January 2020. The revisions made at that time were mainly concerned with a revision to the method of charging employers where performance standards were not being met. This draft revised version of the PAS included changes to recognise the Fund's implementation of the i-Connect secure data transmission service hosted by Aquila Heywood, the supplier of the Fund's pensions administration system. The methods of submitting data to the Fund as an employer using the i-Connect service, and as an employer yet to implement i-Connect, were both summarised in the revised PAS.

Additionally, the revised version recognised the Fund's development of a member self-service portal, which was to be introduced in 2021, and included a new section on data protection responsibilities. It was intended to consult with the Fund's participating employers and the local pension board on the revised

Pension Administration Strategy. The results of the consultation will be reported to the Committee in April 2021.

Approval was sought for the Director of Finance & ICT, in conjunction with the Chairman of the Committee, to consider the results of the consultation in the meantime, and for the Director of Finance & ICT and the Chairman to determine if any revisions to the proposed Pension Administration Strategy were necessary following the consultation, to enable the strategy to be implemented from 1 April 2021.

RESOLVED that the Committee (1) approves the draft Derbyshire Pension Fund Pension Administration Strategy attached as Appendix 1 to the report, subject to the outcome of the consultation with the Fund's participating employers and the local pension board; and

(2) delegates the consideration of the results of the consultation, and the determination of whether any revisions to the proposed Pension Administration Strategy are necessary following the consultation, to the Director of Finance & ICT in conjunction with the Chairman.

11/21 **DERBYSHIRE PENSION FUND SERVICE PLAN** Approval was sought for the Derbyshire Pension Fund's Service Plan for 2021-22, including the annual budget for the year. The Head of Pension Fund highlighted the key achievements for 2020-21.

The forecast budget requirement for 2020-21 was £32.918m, made up of operational costs of £5.269m and investment management expenses (IMEs) of £27.649m. The current expected outturn for 2020-21 was £33.523m, made up of operational costs of £5.126m and IMEs of £28.398m. The forecast overspend reflected a £1.497m increase in IME costs, largely driven by a higher level of assets under management (assets under management were, on average, approximately £270m higher than forecast during the year), partially offset by the expectation that property expenses will be £0.748m lower than forecast and that operational costs will be £0.143m lower than forecast.

Adjusting the 2020-21 budget forecast to take into account the additional costs related to the increase in assets under management, gives a restated 2020-21 forecast of £34.319m. The forecast outturn for 2020-21 of £33.523m was 1.8% above the unadjusted budget forecast, and 2.3% below the adjusted budget forecast.

For 2021-22, a budget of £33.796m was sought to deliver the services of the Pension Fund, made up of operational costs of £5.425m and IME costs of £28.371m; this represented an increase of 0.8% on the forecast outturn for 2020-21. It was noted that the forecast budget for 2021-22 would be adjusted to take into account the actual level of assets under management and the actual asset mix when the expected budget outturn is reviewed next year.

Councillor Marshall-Clarke wished to thank the Head of Pension Fund and her team for what they had achieved during a particularly difficult year. Members of the Committee agreed that this was a very positive report despite all the challenges.

RESOLVED that the Committee approves the 2021-22 Service Plan, including the annual budget of £33.796m.

12/21 **TREASURY MANAGEMENT STRATEGY** Approval was sought for Derbyshire Pension Fund's proposed Treasury Management Strategy for 2021-22, attached as Appendix 1 to the report.

Derbyshire Pension Fund's (the Fund) Treasury Management Strategy had historically formed part of the County Council's Treasury Management Strategy. However, for 2021-22, the Fund had prepared a standalone Treasury Management Strategy to better reflect the characteristics and requirements of the Fund. In line with the County Council's Treasury Management Strategy, the Fund places security of capital and liquidity ahead of investment return.

The Fund's current benchmark allocation to cash was 2% (about £120m at current asset values). The Fund generally needed to retain a higher level of instant access funds than the County Council. A major buying opportunity in the market could require immediate access to significant sums of cash for investment. The Fund's actual cash allocation at 31 January 2021 was 6.4%, equating to £359m. Future commitments at 31 January 2021 totalled around £330m. The proposed Treasury Management Strategy for 2021-22 included the following requirements and comments:

- The Fund's objective when investing money is to strike a balance between risk and return, minimizing the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income
- The Fund prioritises liquidity for cash investments over investment return
- The maximum amount and duration of cash investments by counterparty should be according to the limits set out in Table 1 on page 4 of the Treasury Management Strategy.
- Investments should be limited by type in accordance with Table 2 on page 6 of the Treasury Management Strategy.

RESOLVED to approve the Treasury Management Strategy for 2021-22 attached as Appendix 1 to the report.

13/21 **EXCLUSION OF THE PUBLIC** **RESOLVED** to move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt

information as defined in Paragraphs 1 & 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

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 20 January 2021 (contains exempt information)
3. To consider the exempt reports of the Director of Finance & ICT on:
 - a) LGPS Investment Pooling (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
 - b) Investment in Infrastructure (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
 - c) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure - GT (contains information relating to any individual)
 - d) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure - CC (contains information relating to any individual)