

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held at County Hall, Matlock on 7 September 2016

PRESENT

Councillor D J Wilcox (in the Chair)

Derbyshire County Council

Councillors R Davison, S Ellis, S Freeborn, R A Parkinson and I Ratcliffe
(substitute Member)

Derby City Council

Councillors M Carr and P Hezelgrave

Derbyshire Pension Board

Messrs R Graham and N Read

Investment Adviser

Mr A Fletcher – Allenbridge

Apologies for absence were received from Councillors S Brittain, J Innes and S Marshall-Clarke.

57/16 **MINUTES RESOLVED** that the minutes of the meeting held on 3 August 2016 be confirmed as a correct record and signed by the Chair.

58/16 **INVESTMENT REPORT** The report of the external adviser to the Committee was presented, and Mr Anthony Fletcher of AllenbridgeEpic Investment Advisers Limited, attended the meeting. The report incorporated Mr Fletcher's view on the global economic position, information on global market returns, the performance of the Derbyshire Fund, and his latest recommendations on investment strategy and asset allocation.

Details were provided of Mr Fletcher's investment recommendations in UK Equities, North American Equities, European Equities, Japan, Asia/Pacific, Emerging Markets, Bonds, Property, Alternatives 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 2016, and the recommendations of the Director of Finance and the Fund's Independent Adviser in relation to the Pension Fund's benchmark were reported. Relative to the benchmark, the Fund as at 31 July 2016 was overweight in equities and

cash but underweight in bonds, property and alternative investments. Details were also provided of the recommendations of the Director of Finance which had been adjusted to reflect the impact of future investment commitments. These largely related to alternatives and property, and totalled £138m at 31 July 2016. The In-house Investment Fund Manager Team believed that these were likely to crystallise over the next 18 months.

Investment activity since the last meeting was reported. Equities had outperformed bonds between 1 May – 31 July 2016. The initial market response to the EU referendum had been negative, and whilst equity markets had subsequently rallied for unhedged Sterling investors, the weakness in Sterling had masked poor equity returns in certain local markets. Bonds had continued to perform strongly, and yields had fallen further in August 2016, after the Bank of England had announced an additional package of measures to support the UK economy, including a cut in the Base Rate to 0.25%. Net investment between 1 May 2016 and 31 July 2016 had totalled £3.4m, principally reflecting continued divestment in respect of UK Equities (£16.3m) and Index-Linked Bonds (£4.7m). This had been partly offset by investment into Infrastructure (£10.1m), Property (£6.2m) and Emerging Market Equities (£3.0m). The Fund's investment assets at 31 July 2016 had exceeded £4.0bn for the first time. A copy of the latest portfolio was presented.

A summary of world equities and UK fixed income and index linked bond performance over the past year was given. This demonstrated that markets had been volatile over the last twelve months, and it was felt that this was likely to continue for the foreseeable future. Markets had performed strongly in Sterling terms following the EU referendum.

Details were given on the Fund's performance over 1, 3, 5 and 10 years to 31 July 2016. The Fund had underperformed the benchmark over the one and three year periods. Performance had been in line over the five year period and the Fund had outperformed over the 10 year period. The Fund's one year performance had been adversely impacted by a strong Q1 2015/16 falling out of the measure, replaced by a weak Q1 2016/17.

RESOLVED that (1) the report of the external advisor, Mr Fletcher, be noted;

(2) the asset allocations, investment activity and long term performance analysis be noted; and

(3) the strategy of the Director of Finance outlined in the report be approved.

59/16 VOTING ACTIVITY Details of the Fund's voting activity for the period 20 May – 25 August 2016 were given, along with a summary of votes against management proposals.

RESOLVED that (1) the report be noted; and

(2) future reports include the outcome of voting.

60/16 CURRENCY HEDGING The Committee was updated on Derbyshire Pension Fund's currency hedging policy. The Fund had exposure to currency risk on all its overseas investments. By investing in overseas assets, the Fund automatically exposed itself to currency risk, as the Fund's liabilities were denominated in sterling. Subsequent changes in the exchange rate could either enhance or diminish to returns from the underlying securities. The Fund's current policy was to hedge the currency risk in respect of the Fund's overseas fixed income holdings by entering into forward foreign exchange (Forex) contracts. When an investment was made in a foreign bond, the underlying long position was matched by a short sale of the denominated currency, typically for a period of three months. Should the relevant currency weaken over the period, the value of the bond would decrease but the value of the Forex hedge would increase by an equivalent amount. Under current arrangements, the Fund used BNY Mellon for its Forex hedging transactions.

A report had been prepared by the Fund's External Advisor, Mr Fletcher, to review the Fund's currency hedging policy, to set out the factors which should be considered and to decide whether the current policy was still appropriate or whether a revision was required. Mr Fletcher's key conclusions were that:-

1. The outcome of the EU referendum was unexpected, increasing volatility and leading to a significant depreciation in the value of sterling
2. Given the uncertainty and significance of the change in the value of sterling, now was not a good time to reduce the currency hedge
3. From an investment risk and liability matching point of view, the Fund's non-sterling bond exposure should remain hedged.

Mr Fletcher's report had been reviewed and considered by the Internal Fund Management Team, and it was agreed that the current policy of hedging the currency exposure of the Fund's overseas bond holdings should be kept in place, but should remain subject to periodic review.

RESOLVED to approve the continuation of the Fund's current currency hedging policy.

61/16 DERBYSHIRE PENSION FUND ANNUAL REPORT In accordance with the Local Government Pension Scheme (Administration) Regulations 2008, the Administering Authority had to prepare and publish an Annual Report on or before 1 December following the year end. The Pension Fund Annual Report for 2015/16 had previously been circulated to members, and those elements specific to 2015/16 were highlighted.

RESOLVED to approve publication of the Pension Fund Annual Report as required by the Regulations.

62/16 DERBYSHIRE PENSIONS BOARD The Pensions Board had met three times, most recently on 18 August 2016. Prior to the most recent meeting, the Chair of the Pensions Board had written to members of the Pensions and Investment Committee setting out the Board's view of its own role, how it intended to carry out that role, and the three key areas of work it intended to concentrate on in the immediate future, namely admitted bodies covenant strength, internal dispute resolution, and policy/strategy developments. The Board had requested the Committee's comments on the Board's proposed approach and that it identify any other areas where it believed the Board could assist the Administering Authority.

RESOLVED (1) to thank the Pension Board for the report;

(2) that other area of work be included in the work programme as necessary;

(3) that the Board consider how the Fund should compare its performance with others; and

(4) that consideration be given on how best to integrate the Board's findings into the Committee's processes.

63/16 LOCAL GOVERNMENT PENSION SCHEME PRESENTATIONS FOR FUND MEMBERS Within the terms of its Communications Strategy, Derbyshire Pension Fund was working in collaboration with employing authorities and with Prudential to deliver LGPS presentations at venues across the county. The presentations, devised and delivered by Prudential, would give an overview of how the LGPS worked, but the main focus was on explaining the options available to Fund members who were within ten years of retirement.

Earlier this year, sessions had been delivered in a number of locations, and had been well attended. Further sessions had now been arranged during September and October. Assistance in communicating the events to all Fund members had been provided by Unison and Unite, and the employing authorities. Colleagues from the DCC Adult Care division around the county

had been active in ensuring that the harder to reach staff were informed of the events. The two academies that were hosting events had also been diligent in getting the invitations out to feeder schools and supplier organisations where Derbyshire Pension Fund members were employed.

There was no cost to the Pension Fund budget, as the venues were provided by employing authorities and Prudential did not charge for its involvement.

RESOLVED to note the report.

64/16 ANNUAL BENEFIT STATEMENTS 2015/16 It was a requirement of the Pensions Act 2013 that occupational pension schemes provided their members with an Annual Benefit Statement (ABS) within five months of the financial year end. Derbyshire Pension Fund was required to provide ABSs to approximately 65,000 Fund members by the end of August each year. Failure to do so could be considered a 'material breach' and should be reported to the Pensions Regulator.

Last year, DPF had been unable to produce the ABSs until the end of November, although this had been in common with the vast majority of LGPS Funds across the country. The Pensions Regulator had accepted that there were mitigating circumstances and had not required Funds to self-report. This year, it was clear that Derbyshire Pension Fund would miss the 31 August deadline again. While the ABSs for the Fund's deferred beneficiaries had been provided in good time, software issues had prevented the timely running of the ABSs for the current, contributing Fund members. The Pensions Regulator had been contacted about the position, and had advised that the breach be reported to them for consideration.

It was likely that the software problems preventing the running of the necessary jobs would soon be resolved. However, it was understood that the majority of LGPS Funds would have met the deadline this year, with perhaps only the Civica UK customers finding themselves in breach. Derbyshire County Council was in regular contact with Civica UK, the software supplier, regarding the terms of the contract between the two parties. Where the provider failed to meet the terms, payment was withheld. Furthermore, there were financial penalties applicable for failure to respond effectively within the terms of the agreement to issues raised. Although it was unlikely that the Pensions Regulator would fine the Pension Fund, if such costs did arise it had been made clear that they would be passed to Civica UK as the responsible party.

A verbal update was given and the Committee was advised that the ABSs were now being produced and that the majority of Fund members would receive their statement during the third week of September. It was also noted

that some LGPS Administering Authorities had made the decision to send out incomplete ABSs in order to comply with the statutory five month deadline.

RESOLVED to note the report and endorse the officers' actions in delaying the despatch of benefit statements late to ensure they were accurate.

65/16 **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 3 August 2016
2. To consider the exempt reports of the Director of Finance on:-
 - a) Request by Churchill Contract Catering Ltd for Admission Body Status (contains information relating to the financial or business affairs of any particular person)
 - b) Request by Taylor Shaw Ltd for Admission Body Status (contains information relating to the financial or business affairs of any particular person)
 - c) Stage 2 Appeal under the Local Government Pension Scheme Application for Adjudication of Disagreement Procedure (contains information relating to an individual)

At the end of the meeting, the Committee received a presentation from Geoff Nathan on the Fund's 2016 Actuarial Valuation.