

**MINUTES** of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**  
held at County Hall, Matlock on 14 December 2016

**PRESENT**

Councillor D J Wilcox (in the Chair)

**Derbyshire County Council**

Councillors S Brittain, S Freeborn, J Innes, S Marshall-Clarke, R A Parkinson  
and I Ratcliffe (substitute member)

**Derby City Council**

Councillors M Carr and P Hezelgrave

**Trade Union Observers**

Mr M Wilson – Derbyshire County Unison

**Investment Advisers**

Mr A Fletcher

Apologies for absence were submitted on behalf of Councillors R Davison and  
S J Ellis

**80/16** **MINUTES RESOLVED** that the minutes of the meeting held on  
26 October 2016 be confirmed as a correct record and signed by the Chair.

**81/16** **LOCAL GOVERNMENT PENSION SCHEME ASSET POOLING**

Over the past 2½ years, the Government had explored a number of options for improving the efficiency and sustainability of the LGPS, and had undertaken consultation on the potential to deliver savings through greater investment management collaboration. A national cost benefit exercise, led by Hymans Robertson, had concluded that significant savings could be achieved through greater use of collective investment approaches, provided that certain regulatory restrictions were removed. The Government had subsequently announced its intention to introduce a new regulatory framework which would facilitate collective investing, and had issued guidance and criteria to help administering authorities to deliver the proposals for pooling aimed at reducing costs and improving efficiencies. Initial proposals for pooling had been required by February 2016, followed by more detailed business case submissions in July, with a target implementation date of 1 April 2018. The Government had also announced that ‘backstop’ powers would be introduced to allow the Secretary of State to intervene where

authorities had failed to bring forward sufficiently ambitious proposals in accordance with the guidance and criteria.

It had been determined that a pool based around a Midlands grouping would be the most beneficial for the Derbyshire Pension Fund. Following confirmation from the Minister for Local Government that the proposal was acceptable, a joint working group of officers drawn from the eight authorities had developed a detailed business case setting out how LGPS Central would meet the four key assessment criteria laid down by the Government. In readiness for meeting the date of April 2018, LGPS Central Ltd had been incorporated as a company registered with Companies House. To assist in its creation, Wolverhampton City Council had established the company as the subscriber shareholder with a sole Director. The other authorities in the pool would subscribe to the company following finalisation of adoption of the various legal agreements.

Detailed reports had been presented to the Committee explaining the key elements of the business case and seeking approval for the proposed governance, oversight and management structure of the pool. The governance structure was presented, and this would allow participating funds to exercise control over the new arrangements, not only as investors in the pooled fund but also as shareholders of the operator company. The Government had also made clear its expectation that pooled entities must be registered with the Financial Conduct Authority and regulated under the Financial Services and Market Act 2000. As such, the LGPS Central company would be subject to ongoing oversight by the Regulator, and key management positions would need to be 'approved persons' able to demonstrate appropriate knowledge, expertise and track record in investment management. They would also carry significant legal personal liability.

The merits of buying or renting an established operator to manage the day to day running of the pool had been considered against the benefits of setting up a jointly owned company with associated shareholder rights. It had been agreed that the latter option, whilst more expensive in the short term, offered significant advantages in terms of greater flexibility and control, and this was the basis upon which the business case had been developed. Whilst assets would be managed on a pooled basis, each Fund would be able to exercise its investor rights independently, although benefits of scale would be most effectively harnessed where parties worked together in a co-ordinated way to align decision making. The degree of control to be exercised by the shareholders through their reserve powers would be greater than was generally the case, ensuring the company was a publicly owned company over which the local authorities had direct control. This was to satisfy the exemption criteria in Regulation 12 of the Public Contracts Regulations 2015 and thereby avoid the need for a full procurement exercise to procure the services of the company.

A Shareholder Forum would have formal decision making powers. The Derbyshire Pension Fund would have equal voting rights alongside the other participating funds, and unanimous decisions would be required on certain reserved matters before the actions could be implemented – this would be specified in the company's Shareholders Agreement and Articles of Association. Other matters not directly related to the control of the company but to manage its operation were subject to a majority approval (75%). A Joint Committee, set up in accordance with the provisions of the Local Government Act 1972, would be the forum for dealing with common investor issues and for collective monitoring of the performance of the pool against the objectives set out in the business case submission. It would, however, have no formal decision making powers, and recommendations would require the approval of individual authorities in accordance with their local constitutional arrangements. To support the Joint Committee, a Practitioner's Advisory Forum would be created, consisting of officers from each of the individual Funds, and this would support Joint Committee meetings and action any recommendations. In order to avoid potential conflicts of interest, and to maintain clarity over the governance arrangements, it was recommended that the Council nominated different representatives to the Joint Committee and the Shareholder Forum.

It was expected that staff who were currently employed by partner funds in the Pool to manage their investments would transfer under TUPE to the new company, subject to consideration of current and future roles. This applied to staff currently employed by the Derbyshire and West Midlands Pension Funds, as they were the only funds in the pool which had significant in-house investment teams. It had been agreed that LGPS Central Ltd would be based at two locations – the headquarters would be based in Wolverhampton with a satellite office in Matlock.

The current Terms of Reference for the Pensions and Investment Committee had been circulated, along with suggested amendments to reflect the Committee's post pooling responsibilities. These changes would be included in the report to Council on 8 February 2017 to enable the necessary amendments to be made to the Constitution. For the most part, the role of the Committee would be unaffected, and it would continue to be responsible for monitoring the overall management, performance and administration of the Fund and for setting investment strategy. The Committee would also continue to be responsible for communicating with individual scheme members. Responsibility for the direct investment management through an in-house team and appointing external investment managers and overseeing their performance would transfer to the Pool, as would tactical decisions on the implementation of the overall investment strategy and the choice of specific investment vehicles. All Funds in the Pool would be seeking approval, in

accordance with the terms of their own Constitutions, to a series of recommendations, and these were presented.

The estimated costs of setting up LGPS Central was around £4m, and this would be shared equally between the participating funds. There would also be significant transition costs as existing investment mandates were unwound and funds transferred into new collective investment vehicles. It was not possible to accurately predict these costs, but the business case had included an estimate of £50m, and transition costs would also be shared equally. As the new company would be a regulated entity under FCA rules, it would need to hold regulatory capital to guarantee its solvency – this was expected to be in the region of £8m. Derbyshire's share of all costs would be met from the Pension Fund. Estimated net total savings for LGPS Central were around £182m over the period 2018/19 – 2032/33, with annual savings of £29m being achieved by the end of the period. Comparative figures for the Derbyshire Pension Fund were £47m and £4m.

Comprehensive programme governance arrangements were in place to ensure that the statutory deadline for the implementation of pooling was achieved, and that costs and savings were managed in accordance with the agreed business case. The S151 Officers of each of the participating funds sat on the LGPS Central Programme Board and regular joint meetings were held between the Chairs and Vice-Chairs of the Committees to ensure effective member oversight of progress and delivery. Expert advisers had been appointed to provide support to LGPS Central, and professional recruitment consultants were being appointed to advise on executive recruitment and remuneration. Browne Jacobson had been appointed by the Funds to assist with reviewing and approving the documents required to establish the joint pension fund investment pool.

**RESOLVED** to note the changes that will be required to the operation and governance arrangements of the Derbyshire Pension Fund and the recommendations to be made to Full Council on 8 February 2017.

**82/16**      **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. Mr Fletcher also presented his views on the potential impact of the Trump presidency, and how the US markets had responded. 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 October 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 October 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 £136m at 31 October 2016. The In-house Investment Fund Manager Team believed that these were likely to occur over the next 18 months.

Investment activity since the last meeting was reported. Equities had outperformed bonds between 1 August – 31 October 2016. The FTSE All Share had reported a gain of 4.2% in the three month period. Whilst regional equities had outperformed the FTSE All Share, this had reflected further weakness in the value of Sterling, and the devaluation of Sterling since the EU referendum had had a significant impact on equity returns. Over the 10 months to 31 October 2016, the FTSE All World return had totalled 27.2%. UK equities had been the best performing region on a local currency basis, but the performance of bonds in the three months to 31 October 2016 had been more mixed. Conventional and Investment Grade Corporate Bond returns had fallen on the expectation that UK inflation would rise, and this had pushed Index-Linked Bonds yields lower. Net divestment between 1 August 2016 and 31 October 2016 had totalled £5.5m, reflecting continued divestment in respect of UK Equities (£12.2m) and the sale of some Index-Linked Bonds (£11.3m). This had been partly offset by investment into Multi-Asset Credit (£5.0m) and Property (£2.0m). There had also been a £32m switch out of US equities into European equities. The Fund's investment assets had increased by £194.9m between 31 July and 31 October 2016. 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 despite some volatility over the last twelve months, market returns had been positive. Equity returns had performed strongly since the EU referendum, and bond returns had weakened.

Details were given on the Fund's performance over 1, 3, 5 and 10 years to 31 October 2016. The Fund had outperformed the benchmark over each of the periods.

**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 outlined in the report be approved.

**83/16**      **VOTING ACTIVITY** Details of the Fund's voting activity for the period 26 August 2016 - 2 December 2016 were presented, along with votes against management proposals.

**RESOLVED** that the report be noted.

**84/16**      **ADMISSION BODIES AND ACADEMIES ENTRY PROCEDURES FOR NEW EMPLOYERS IN THE DERBYSHIRE PENSION FUND**

A number of situations had arisen where outsourcing of services by Scheme Employers had taken place without the Derbyshire Pension Fund being consulted or informed, or where the Fund had been informed only at the end of the process. This had led to confusion for employees, who in some cases had contacted the Pension Fund to find out what had happened to their pension, and at times, this had been the first indication to the Fund that a new employer was involved. In other cases, a new employer was surprised to learn that there were costs involved in the process, and they were unprepared for the level of employer contribution rate or the requirement for a bond to be in place.

Where a new employer had failed to prepare for being an LGPS employer, there were risks to the Fund and to individual scheme members, and employers could face financial costs. A recent case which had highlighted the consequences of the Pension Fund not being involved from an early stage was presented. Other issues caused when New Fair Deal protections were not considered by outsourcing employers were stated. There had also been cases where the admission process had gone ahead, and once the Actuary report had been generated, the new employer had decided that the costs were too great and had delayed or cancelled the process. There were two current cases where this had occurred.

It had been recognised that there was a lack of information available for outsourcing bodies and potential new employers about the LGPS Admissions Body process. A Derbyshire Pension Fund Employer's Newsletter and a special bulletin for Academy employers and Derbyshire County/Derby City Council maintained schools had been developed and issued. Further to this, a review of the process, requirements and costs to potential new employers had highlighted the need for better quality information to be available from an early stage in the arrangements for the outsourcing of a service in order to ensure scheme members' pension rights were protected when their employment transferred to a new employer.

An 'Information for Admission Bodies' guide and standard application form had been prepared to cover all aspects of the new employer process for Admission Bodies, which would require a declaration that the proposed new employer had read and understood the guide and other documents setting out their responsibilities as an employer in the Derbyshire Pension Fund, and also the related costs which would be incurred. It was proposed that the costs should include a standard charge of £1,000, and this would be applied to all prospective new employers to commence the Admission Body process and would cover administrative and legal costs. The charge would protect other employers in the Pension Fund. When a prospective new employer had become an Admitted Body, the £1,000 charge would be reimbursed via the sum being offset against the Actuary charges. In cases where the process was not completed, the £1,000 would not be reimbursed. It was proposed that the revised procedures would be introduced on 1 January 2017.

The increase in numbers of Derbyshire County and Derby City Council schools converting to Academy status had led to a review of the procedures for Academies becoming new employers in the Derbyshire Pension Fund. The Pensions Team had prepared a revised approach for new Academies becoming scheme employers, and this aimed to provide the converting school with relevant information about the process, submit member data to the Actuary to enable him to provide a report and the employer contribution rate prior to the conversion date, and receive relevant contact information for the Academy. An Information for Prospective Academies guide and a standard application form had been prepared to cover all aspects of the new employer process for Academy Conversions, and this would require a declaration that the proposed new employer had read and understood documents setting out their responsibilities as an employer in the Derbyshire Pension Fund, and also the related Actuary costs which would be incurred.

As academies were a Scheduled Body under the Local Government Pension Scheme Regulations 2013, there was no requirement for an Admission Agreement to be prepared or for the initial fee to be charged.

**RESOLVED** to approve the changes to the Derbyshire Pension Fund entry process for new Admission Bodies and Academies.

**85/16**      **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 26 October 2016

2. To consider the exempt reports of the Director of Finance on:-
- a) Stage 2 Appeal under the Local Government Pension Scheme Application for Adjudication of Disagreement Procedure (contains information relating to an individual)
  - b) Request by Action for Children for Admission Body Status (contains information relating to the financial or business affairs of any particular person)
  - c) Request by CSE Education Systems for Admission Body Status (contains information relating to the financial or business affairs of any particular person)