

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 20 March 2017

PRESENT

Councillor D J Wilcox (in the Chair)

Derbyshire County Council

Councillors R Davison, S Ellis, S Freeborn, S Marshall-Clarke and D Williams (substitute member)

Derby City Council

Councillor P Hezelgrave

Investment Advisor

Mr A Fletcher

Apologies for absence were submitted on behalf of Councillors S Brittain, M Carr, J Innes and R A Parkinson

Due to forthcoming County Council elections, it was reported that this would be the last meeting for Councillors D Wilcox and S Ellis. Both were thanked for their contribution to the Committee.

11/17 **MINUTES RESOLVED** that the minutes of the meeting held on 20 March 2017 be confirmed as a correct record and signed by the Chair.

12/17 **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, Conventional Bonds, Index Linked Bonds, Corporate Bonds, Multi-Asset Credit, Property, Alternatives, 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 2017, 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 January 2017 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, multi-asset credit and property, and totalled £192m at 31 January 2017. The In-house Investment Fund Manager Team believed that these were likely to occur over the next 18-24 months.

The Funds's investment assets had increased by £70.3m between 31 October 2016 – 31 January 2017. Over the twelve months to 31 January 2017, the Fund's investment assets had risen by £749m. 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. Despite some weakness over September and October, market returns had generally been very strong over the past year. The election of Donald Trump had boosted equity markets, and overseas equity returns had been very strong for UK investors since the EU referendum. Bond markets had retreated in Q4 2016 and had generally been flat to date in Q1 2017. In terms of asset class weightings, markets had generally been strong in February 2017.

Details were given on the Fund's performance over 1, 3, 5 and 10 years to 31 December 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, total assets and long term performance analysis in the report be noted; and

(3) the strategy outlined in the report be approved.

13/17 INVESTMENT STRATEGY STATEMENT AND FUNDING STRATEGY STATEMENT CONSULTATION RESULTS The Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS) had both been approved by the Committee on 7 February 2017, subject to the outcome of the consultation process. The consultation period had been between 8-28 February 2017. Stakeholders in the Derbyshire Pension Fund had been asked for comments on the proposed statements, and an email had been sent to each of the Fund's employers and to members of the local Pensions Board to invite them to comment. Employers had been asked to highlight the consultation to their scheme members and the Fund's February Employer

Newsletter had contained a reminder about the consultation. It had also been advertised on the County Council's website. The Fund had received one email response to the ISS consultation and no responses to the FSS consultation.

The response to the ISS consultation had concerned the FT All Share's suitability as a benchmark for the UK Equity portfolio, given the large weighting of certain stocks and sectors within the index, and had contained a suggestion to increase the equity weighting in the overall portfolio in response to rising inflation risks. The In-house Fund Management Team continually reviewed the suitability of all the asset class benchmarks, and the FT All Share was still felt to be the most appropriate benchmark for the UK Equity portfolio, although the increasing concentration risk within the index meant that it was being kept under review. The total quoted equity weighting in the Strategic Asset Allocation Benchmark was 58%, with private equity accounting for a further 4%, providing the Fund with a large exposure to equities overall. It was also noted that the 5% weighting in infrastructure offered the Fund access to inflation linked returns.

The Fund would continue to explore ways to increase the level of employer and employee in order to increase the participation rate in any future consultations.

RESOLVED to (1) confirm that no changes to the proposed Investment Strategy Statement are required based on the outcome of the consultation and to approve the Investment Strategy Statement; and

(2) confirm that no changes to the proposed Funding Strategy Statement are required based on the outcome of the consultation and to approve the Funding Strategy Statement.

14/17 UNQUOTED INVESTMENTS The Pension Fund invested in a wide variety of asset classes and across a large number of investment markets. Increasingly, this involved investing in long-term, illiquid, 'unquoted' vehicles. Direct Property, Infrastructure, Private Equity and Multi-Asset Credit were the main unquoted areas that the Fund invested in.

It had previously been agreed that the Committee would delegate authority to invest in unquoted investments to the Director of Finance, with an upper limit of £15m per investment. Above that level, a report to the Committee would be required on a case by case basis prior to the investment being made. Since then, the valuation of the Derbyshire Pension Fund had increased, which meant that average investment sizes had increased accordingly. In addition, the Committee had since approved strategic benchmark asset allocation increases for Infrastructure and Private Equity, as

well as the introduction of a new unquoted asset class, Multi-Asset Credit – these were detailed.

As a result, the In-house Fund Management Team had a lot more unquoted investments to make, and now required more flexibility around both the amount per investment and the timing in which commitments could be made. The Fund's neutral allocation to unquoted investments in total had increased from 8% in December 2014 to 15% at January 2017. The Investment Strategy Statement proposed to increase the unquoted neutral weighting to 18% post implementation in April 2017. It was therefore recommended that the maximum amount for which the Director of Finance had delegated authority to invest in unquoted investments be increased to £25m, in line with the new benchmark allocations.

RESOLVED to agree to delegate authority to invest in unquoted investments to the Director of Finance up to a level of £25m, with a report of investments made being report to the next appropriate meeting of the Committee for information.

15/17 VOTING ACTIVITY Details of the Fund's voting activity for the period 5 December 2016 – 6 March 2017 were presented, along with votes against management proposals

RESOLVED that the report be noted

16/17 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 7 February 2017
2. To consider the exempt reports of the Director of Finance on:-
 - a) Progress on the Guaranteed Minimum Pension (GMP) Reconciliation Exercise (contains information relating to the financial or business affairs of any particular person (including the Authority holding the information))
 - b) Request by Mellors Catering Services Ltd for Admission Body Status (contains information relating to the financial or business affairs of any particular person)

- c) Pensions Administration System (contains information relating to the financial or business affairs of any particular person (including the Authority holding the information))