

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE**
held at County Hall, Matlock on 14 June 2017

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkins, H Elliott (substitute Member), P Makin and R Mihaly

Investment Advisor

Mr A Fletcher

Colliers Capital

Messrs T Kidd, N Parsons and A Payne

21/17 PETITION RESOLVED (1) to receive the under-mentioned petition:-

<u>LOCATION/SUBJECT</u>	<u>SIGNATURES</u>	<u>LOCAL MEMBER</u>
Request for Derbyshire County Council to immediately freeze any new investments in fossil fuels; and to divest from direct ownership and any commingled funds that include fossil fuel, public equities and corporate bonds within 5 years	Over 1,000	Countywide

and (2) that the Director of Finance and ICT considers the matters raised in the petition.

22/17 PRESENTATION ON DIRECT PROPERTY Colliers Capital gave a presentation on the direct property portfolio held by the Derbyshire Pension Fund ("the Fund"). The portfolio consisted of 16 properties countrywide at 31 March 2017 and was valued at £173.080m with £9,328,132 per annum rent roll, which gave a current yield of 5%. This included four new acquisitions since March 2016, a retail warehouse at Roundhay Road, Leeds in the sum of £7,717,000; a Premier Inn at Rubery, Birmingham in the sum of £5,847,000; a freehold distribution warehouse in South Normanton in the sum of £13,720,000; and a multi-let industrial estate in Basingstoke in the sum of £11,880,000. Since March 2015 the portfolio had been weighted more to

industrial premises with a dilution in the weighting of offices in Central London, focussing on investing more toward the Midlands and Yorkshire/Humberside.

Details were given on asset management, which had included 6 rent reviews resulting in rent increase of 20.9%; 5 lease renewals resulting in rent increases of 29.1%, 4 lettings resulting in rent of £433,610 pa, and 4 lease re-gears resulting in rent of £668,225 pa.

The Fund's property portfolio had outperformed the benchmark in the year to 31 March 2017, with a benchmark total return of 9% against a benchmark total return of 4.6%. Over the last 3 and 5 year periods the Fund's total property return was 14% pa and 13.2% respectively against benchmark returns of 10.9% pa and 9.8% pa. The Fund's property portfolio performance was ranked in the top quartile in 2016/17 by IPD.

The future strategy was to invest available liquidity in sectors and in individual properties that offered the best opportunities for rental growth and total returns in the medium term to improve the diversification of the portfolio further both by sector and by region, with a view to purchasing suitable properties in the alternative sector offering long leases with strong tenants; suitable properties in the retail warehouse sector offering relatively attractive yields; and further investment in the industrial sector, which was forecast to see the best returns over the short and medium term.

RESOLVED to thank Collier Capital for the informative presentation.

23/17 **MINUTES RESOLVED** that the Minutes of the meeting held on 20 March 2017 be received.

24/17 **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 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, 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 30 April 2017, and the recommendations of the Director of Finance & ICT and the Fund's Independent Adviser in relation to the Pension Fund's benchmark were

reported. Relative to the benchmark, the Fund as at 30 April 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 & ICT which had been adjusted to reflect the impact of future investment commitments. These largely related to Alternatives, Multi-Asset Credit and Property, and totalled £242m at 31 May 2017. The In-house Investment Fund Manager Team believed that these were likely to occur over the next 18-24 months.

The Fund's investment assets had increased by £157.7m between 31 January 2017 and 30 April 2017. Over the twelve months to 30 April 2017, the value of the Fund's investment assets had risen by £769m. A copy of the latest portfolio was presented.

A summary of world equities and UK Fixed Income and UK 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 then recovered in the first four months of 2017, however, returns over the last quarter had significantly lagged behind equity market returns. In terms of asset class weightings, markets had generally been strong in May 2017.

Details were given on the Fund's performance over 1, 3, 5 and 10 years to 31 March 2017. 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.

25/17 **VOTING ACTIVITY** Details of the Fund's voting activity for the period 7 March 2017 to 1 June 2017 were presented, along with votes against management proposals

RESOLVED that the report be noted.

26/17 **LGPS CENTRAL LIMITED** The background to Local Government Pension Scheme Investment Pooling was explained to the Committee.

The Director of Legal Services reported that on 8 February 2017 the Council had agreed to becoming a joint shareholder of LGPS Central Limited, a private company limited by shares, held solely by the participating funds on a “one fund, one vote” basis; incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000, and had appointed the Chairman of the Pensions and Investment Committee to represent the Council on the Shareholder Forum.

Wherever possible, any matter regarding LGPS Central Limited which required a shareholder decision would be brought to the Pensions and Investment Committee for consideration. The Shareholder Forum was to make several decisions at its meeting on 19 June 2017, including the decision to approve the Company’s Regulatory Business Plan which formed part of the Shareholder Agreement and a report about the Plan was to be considered later in the meeting (Ex Minute No 32/17).

However, there might be occasions where it was not possible to call a meeting of the Pensions and Investments Committee before a decision had to be made as to how the Chairman of the Committee should vote at a Shareholder Forum meeting. It was, therefore, proposed that the decision-making should be delegated to the Director of Finance & ICT following consultation with the Chairman or Vice-Chairman of the Committee. The Chairman (or Vice-Chairman) would then vote in accordance with that decision at the Shareholder Forum meeting.

RESOLVED that the Committee delegates authority to the Director of Finance and ICT to make decisions, in consultation with the Chairman or Vice-Chairman of the Pensions and Investment Committee, on any matter which requires a decision by the shareholders of LGPS Central Limited.

27/17 ANNUAL ALLOWANCE – VOLUNTARY SCHEME PAYS The Director of Finance & ICT reported on the availability of ‘Voluntary Scheme Pays’ for members of the Local Government Pension Scheme who breached HMRC’s Annual Allowance limit on pension savings growth in a financial year. He explained that the annual allowance was the annual limit on pension savings that could be made in each financial year which would receive tax relief. If the value of pension benefits grew by more than this allowance then the excess amount was subject to a tax charge. The 2016/17 annual allowance had been set at £40,000, and remained at that rate for 2017/18.

‘Scheme Pays’ was a mechanism by which an individual could request that their annual allowance charge was met by the Pension Fund, and required the Fund to make an equivalent reduction to the member’s pension benefit. ‘Mandatory Scheme Pays’ had been available for many years and ‘Voluntary Scheme Pays’ had recently been identified by the Local Government Pensions Committee following legal advice as potentially

available to LGPS members. The legal advice confirmed that administering authorities that were local authorities had the vires to agree to a Voluntary Scheme Pays request.

The Director of Finance & ICT explained that with regards to Mandatory Scheme Pays, scheme members were normally required to pay their tax charges directly to HMRC, however, where the annual allowance charge in a tax year exceeded £2,000 members were able to elect to meet some or all of the tax charge from their future pension benefits. This was known as the Mandatory Scheme Pays option, which required the Pension Fund to pay the tax charge on the member's behalf and then to reduce their future pension benefits accordingly.

With regards to Voluntary Scheme Pays, where the scheme member's annual allowance tax charge was less than £2,000, the member might ask the Pension Fund to pay their annual allowance tax charge on a voluntary basis via the Voluntary Scheme Pays option with a corresponding reduction to their LGPS benefits. This was subject to the administering authority's approval, which was discretionary.

An important consideration, however, was that in the tax year 2016/17 HMRC had amended the annual allowance rules by introducing the tapered annual allowance for employees with taxable income in excess of £150,000 (including the value of the employer's pension contribution). For every £2 of income over £150,000 the standard annual allowance was reduced by £1. This was subject to a minimum reduced annual allowance of £10,000. As it currently stood, high earning scheme members whose pension growth in a year breached the Mandatory Scheme Pays limit had only the two options, to pay the tax charge directly to HMRC or to opt for Mandatory Scheme Pays option for the breach over £40,000. The Voluntary Scheme Pays option could be utilised to the benefit of Derbyshire Pension Fund members in such circumstances by enabling the tax charge on the £30,000 tapered annual allowance in this example to be paid by the Pension Fund and recouped from future benefits. For clarity, however, if a member exceeded the annual allowance by virtue of savings across multiple pension schemes, without exceeding the annual allowance in any one scheme and a tax charge were to arise, it would not be appropriate for Derbyshire Pension Fund to offer the Voluntary Scheme Pays option.

Details of the timeline for the payment of the tax charges were given in the report. In order to apply a consistent approach the Pension Fund would seek all Mandatory and Voluntary Scheme Pays applications in writing by 30 November in the following tax year (ie 30 November 2017 for charges arising from tax year 2016/17) to enable the Derbyshire Pension Fund to meet the January deadline.

RESOLVED that (1) the Pensions and Investment Committee, in its role as the administering authority of the Derbyshire Pension Fund approves the use of Voluntary Scheme Pays where:

(a) a member's pension savings within the Derbyshire Pension Fund are subject to the tapered annual allowance, and

(b) that member's total tax charge exceeds £2,000, and

(c) the tapered breach stems only from the member's Derbyshire Pension Fund LGPS benefits rather than via growth in multiple pension schemes, and

(d) the application is received in writing by Derbyshire Pension Fund by 30 November in the tax year following the year to which the tax charge relates; and

(2) the Committee also allows for consideration of other cases outside the circumstances recommended above, with each case considered on its own merits.

28/17 2016 ACTUARIAL VALUATION REPORT (Minute No 7/17) At its meeting in February 2017 the Committee had considered a report on the preliminary results of the 2016 Valuation carried out by Hymans Robertson, the Fund's actuary. The Actuary had subsequently issued his final Valuation Report on 31 March 2017, including the Rates and Adjustments Certificate which set the minimum level of contribution payable by each employer for each of the next three years; the full list of applicable rates was shown in Appendix H to the Valuation Report.

RESOLVED to receive the 2016 Actuarial Valuation Report and to thank Hymans Robertson.

29/17 AWARD OF CONTRACT LGPS FRAMEWORK – ACTUARIAL SERVICES It was a statutory requirement for Derbyshire County Council to obtain, from an actuary, a triennial valuation of the Derbyshire Pension Fund's assets and liabilities, a report in respect of the valuation, and a rates and adjustments certificate. To establish a compliant procurement, officers had considered a number of procurement options which concluded that the most appropriate route was to use the National Local Government Pension Scheme (LGPS) Framework, which had been agreed by the Pensions and Investment Committee on the 7 February 2017.

There were four nationally recognised suppliers of actuarial services used by LGPS Funds in England, Scotland and Wales, and each of them was represented on this framework. A procurement exercise using a mini

competition process had been run through the National Local Government Pension Scheme (LGPS) Framework. The tender opportunity was managed through the Pro Contract tendering portal, published on the 13 February 2017 with a return deadline of 7 March 2017 and four tender responses had been received by the tender deadline.

The tender responses had been evaluated on the basis of 35% technical score (based on the response to the questions in the specification), 25% price and 40% presentation and interview. Hymans Robertson LLP had achieved the highest score in relation to the overall tender by offering the best value and quality when compared to the other bids.

In view of the timescales involved approval had been sought to delegate the appointment of a supplier to provide actuarial services from the framework to the Director of Finance in consultation with the Chair of the Pensions & Investment Committee.

RESOLVED to note that the award of a framework contract to Hymans Robertson LLP, for a period of three years from 1 July 2017, with the option to extend for a further three years, has been approved by the Director of Finance in consultation with the Chair of the Pensions & Investment Committee.

30/17 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 receive the exempt minutes of the meeting held on 20 March 2017
2. To consider the exempt reports of the Director of Finance and ICT on:-
 - a) Local Government Pension Scheme Investment Pooling (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
 - b) Request from Caterlink Ltd for Admission Body Status (contains information relating to the financial or business affairs of any particular person (including the Authority holding the information))
 - c) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure – DG (contains information relating to any individual)

- d) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure – RSM (contains information relating to any individual)
- e) Stage 2 Appeal under the LGPS Application for Adjudication of Disagreement Procedure – JLR (contains information relating to any individual)

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