

**MINUTES** of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 6 September 2017

**PRESENT**

Councillor J Perkins (in the Chair)

**Derbyshire County Council**

Councillors R Ashton, N Atkin, S Brittain (substitute member), Mrs C Dale and P Makin

**Derby City Council**

Councillor M Carr

**Trade Union Observer**

Mr M Wilson – Derbyshire County Unison

**Investment Advisor**

Mr A Fletcher

Apologies for absence were submitted on behalf of Councillors T King, S Marshall-Clarke and R Mihaly

**42/17**      **MINUTES RESOLVED** that the minutes of the meeting held on 2 August 2017 be confirmed as a correct record and signed by the Chairman.

**43/17**      **INVESTMENT REPORT** Mr Anthony Fletcher the external adviser from AllenbridgeEpic 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, 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 July 2017, and the recommendations of the Director of Finance and 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 31 July 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 and ICT which had been adjusted to reflect the impact of future investment commitments. These commitments largely related to alternatives, multi-asset credit and property, and totalled £221m at 31 July 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 £135.2m between 30 April 2017 – 31 July 2017. Over the twelve months to 31 July 2017, the Fund's investment assets had risen by £558m, reflecting strong equity market returns. A copy of the latest portfolio was presented.

A summary of world equities and UK fixed income and index linked bond performance between 16 August 2016 and 15 August 2017 was given. Equity markets had been strong over the last 12 months. The election of Donald Trump in November 2016 had boosted equity markets, and overseas equity returns had been particularly strong for UK investors since the EU referendum. Bond returns had traded sideways for much of the last 12 months and had lagged behind equity market returns. In terms of asset class weightings, many global stock markets were now trading at all-time highs and it was noted that the asset class returns over the last 12 months were well in excess of long term averages.

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.

The Chairman thanked Mr Fletcher for his very comprehensive report.

**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 of the Director of Finance and ICT be noted; and

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

**44/17 IMPLEMENTATION OF THE MARKETS IN FINANCE INSTRUMENTS DIRECTIVE (MiFID II)** Members received a report which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (MiFID II) and in particular the risk to Derbyshire County

Council as the administering authority for the Derbyshire Pension Fund of becoming a retail client on 3 January 2018. The report also sought approval to elect for professional client status for the administering authority.

Under the current UK regime, local authorities were automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and were categorised as 'per se professional' clients for MiFID scope business if they satisfied the MiFID Large Undertakings test. Local authorities that did not satisfy the Large Undertakings test may 'opt up' to elective professional client status if they fulfilled certain 'opt-up criteria'.

Following the introduction of the Markets in Financial Instrument Directive 2014/65 (MiFID II) from 3 January 2018, firms would no longer be able to categorise a local public authority or a municipality that (in either case) did not manage public debt ("local authority") as a 'per se professional client' or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as 'retail clients' unless they were opted up by firms to an 'elective professional client' status.

A move to retail client status would mean that all financial services firms such as banks, brokers, advisers and fund managers would have to treat local authorities as they did non-professional individuals and small businesses. This would include applying a series of protections to ensure that investment products were suitable for the customer's needs, and that all the risks and features had been fully explained. This provided a higher standard of protection for the client but it also involved more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements had been met.

Such protections would prevent local authorities being able to access the wide range of assets needed to implement an effective, diversified investment strategy as retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS were not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so. Even if an institution secured the ability to deal with retail clients, the range of instruments it could make available to the client would be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers would no longer be able to even discuss ('promote') certain asset classes and vehicles with the local authority as a retail client.

MiFID II allowed for retail clients which met certain conditions to elect to be treated as professional clients (to 'opt up'). There were two tests that must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test. The Local Government Pension Scheme

Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) had successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities. The new tests recognised the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test could now be performed on the local authority as a collective rather than on an individual in the local authority.

The election to professional status must be completed with all financial institutions prior to the change of status on 3 January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

In order to continue to effectively implement the authority's investment strategy after 3 January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority had an existing or potential relationship in relation to the investment of the pension fund. This process should commence as soon as possible in order to ensure completion in good time and avoid the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.

It was recommended that the Director of Finance & ICT should be authorised to make applications on the Authority's behalf and to determine the nature of each application on either full or single service basis.

**RESOLVED** to (1) note the potential impact on investment strategy of the implementation of the Markets in Financial Instruments Directive 2014/65 with effect from 3 January 2018;

(2) acknowledge that in electing for professional client status, the Pension Fund will lose the protections available to retail clients attached as Appendix 2 to the report; and

(3) authorise the Director of Finance and ICT to apply for elected professional client status with all relevant institutions in order to ensure the Derbyshire Local Government Pension Fund could continue to implement an effective investment strategy and to determine the basis of each application as either full or single service.

**45/17      PENSION BOARD ANNUAL REPORT 2016-17** The Derbyshire Pension Board was established in 2015 and a copy of their first annual report was presented for Members' information.

**RESOLVED** that the report be noted.

**46/17**      **VOTING ACTIVITY** Details of the Fund's voting activity for the period 2 June 2017 – 16 August 2017 were presented, along with votes against management proposals

**RESOLVED** that the report be noted

**47/17**      **DELEGATION OF RESPONSIBILITIES IN RELATION TO THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)** The Government's new Fair Deal Guidance introduced in 2013 and the Best Value Authorities Staff Transfers (Pensions) Direction 2007 provided for continued LGPS membership where public sector employees were transferred to an outsourced contractor.

The Committee's terms of reference included considering applications for admitted body status to the Derbyshire Pension Scheme. However, the effect of the above Guidance and Direction was that the Committee had no alternative but to approve an application provided the new employer had agreed to the required financial safeguards for the Pension Fund.

There had been a significant increase in the number of such applications and the requirement to take each one to a Committee meeting inevitably delayed the process and risked not complying with the time limits for approval. It was recommended therefore, that the Committee should delegate consideration and determination of applications for admitted body status to the Derbyshire LGPS to the Director of Finance and ICT.

**RESOLVED** that the Committee delegates authority to the Director of Finance and ICT to determine applications for admission body status to the Derbyshire Local Government Pension Scheme.

**48/17**      **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 2 August 2017

**49/17**      **MINUTES** **RESOLVED** that the exempt minutes of the meeting held on 2 August 2017 be confirmed as a correct record and signed by the Chairman.