

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 1 November 2017

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, A Griffiths (substitute member), P Makin, S Marshall-Clarke, R Mihaly and B Ridgway

Derby City Council

Councillor M Carr

Trade Union Observer

Mr M Wilson – Derbyshire County Unison

Apologies for absence were submitted on behalf of Councillors P Hezelgrave and T King

50/17 INFRASTRUCTURE AS AN ASSET CLASS - PRESENTATION

Joe Davis and Angela Gyulveszy from Pensions Infrastructure Platform (PIP), attended the meeting to provide Members with an introduction to Infrastructure as an asset class.

On behalf of the Committee, the Chairman thanked Mr Davis and Ms Gyulveszy for a most informative presentation.

51/17 MINUTES RESOLVED that the minutes of the meeting held on 6 September 2017 be confirmed as a correct record and signed by the Chairman.

A verbal update on investment pooling was provided by the Head of Investments covering recruitment within LGPS Central, Financial Conduct Authority issues and the draft transition plan. It was reported that a Heads of Terms agreement was being drawn up for accommodation on Smedley Street, Matlock. Members suggested that a paper on the proposed transition plan, setting out the timescales involved, would be useful for this Committee. It was agreed that a report on transition would be taken to the January 2018 meeting.

52/17 DERBYSHIRE PENSION FUND RISK REGISTER The Pension Fund's Risk Register was last presented to the Pensions and Investment

Committee in October 2016. The Risk Register had been significantly restructured since that date and a copy of the current register was attached to the report. The Risk Register was kept under constant review by the risk owners, with quarterly review by the Director of Finance and ICT. It was intended that the full Risk Register would be presented to the Committee on an annual basis with an update report setting out the high risk items on a quarterly basis. The Risk Register had identified four high risk items:

- The Fund was left with insufficient investment skills and experience post the launch of LGPS Central in April 2018;
- Fund assets insufficient to meet liabilities/fluctuations in assets and liabilities;
- Performance deterioration and/or missed investment opportunities caused by lack of ability to retain and recruit experienced staff resources; and
- Procurement and implementation of potential replacement pensions administration system.

Staff recruitment and retention within the Investment Section had been a long term issue. There was a risk that the launch of LGPS Central in April 2018 would leave the Fund with insufficient investment skills and experience to discharge its ongoing responsibilities, including strategic asset allocation and monitoring the development and performance delivery of LGPS Central. Furthermore, whilst the launch of LGPS Central should improve long term investment management sustainability, the transition of the Fund's assets into the products offered by LGPS Central was likely to take several years, and it was likely that the Fund would need to directly manage investments for some time to come. Work was underway to determine staffing levels and appropriate staffing requirements to manage the revised workload required by the Pension Fund including benchmarking against salaries due to be paid by LGPS Central.

Members were informed that a report would be submitted to Cabinet before Christmas 2017 setting out the required structure and ensuring recruitment was completed well before 31 March 2018. Councillor Ridgway requested that any papers related to the Pension Fund should come to this Committee before Cabinet in order for the views of the Members to be fed into the reports.

There was an inevitable risk for any pension fund that assets may be insufficient to meet liabilities and fluctuate from one valuation to the next, principally reflecting external risks around both market returns and the discount rate used to value the Fund's liabilities. The Fund was 86.7% funded at 31 March 2016 and the long term target as set out in the Funding Strategy Statement was to eliminate the deficit by 2032. The Fund constantly monitored its Asset Allocation and had significant proportion of its assets in growth assets, while proactively managing investment risk.

The current pensions administration system had failed to meet service requirements. It was intended that a new system would be procured on the expiry of the current contract. There was an inevitable risk that the Fund failed to procure an effective new system or failed to migrate data accurately resulting in continued inadequate systems support. To mitigate this risk, the Council's ICT team had completed a detailed risk assessment to support the procurement process and appropriately skilled resource had been allocated to the project, including the establishment of a project board.

RESOLVED to note the current Risk Register.

53/17 DERBYSHIRE PENSION FUND ANNUAL REPORT In accordance with the Local Government Pension Scheme Regulations 2013, 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 2016-17 had previously been circulated to Members.

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

54/17 FRC STEWARDSHIP CODE The Financial Reporting Council (FRC) was the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promoted high standards of corporate governance through the UK Corporate Governance Code which set out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability, and relations with Shareholders. The Pension Fund considered these best practice standards when exercising its voting rights.

As a consequence of the global financial crisis, the focus had moved to long term institutional investors, including pension funds, with a strong encouragement that they act as responsible and engaged corporate owners. The UK Stewardship Code was designed by the FRC to lay out the responsibilities of institutional investors as shareholders and provide guidance as to how these responsibilities might be met. The Code was a set of best practice principles that were intended to frame both shareholder engagement with companies, and the disclosure of such activity. Administering authorities are expected to become signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a "comply or explain" basis.

RESOLVED to approve the Pension Fund's Statement of Compliance with the UK Stewardship Code for Institutional Investors, which was attached at Appendix 1 to the report.

55/17 **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 consider the exempt report of the Director of Finance and ICT on the Quarterly Pensions Administration Performance Report 1 July to 30 September 2017 (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
2. To consider the exempt report of the Assistant Chief Executive on Early Release of Pension on Flexible Retirement Grounds (contains information relating to any individual)