PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENTS COMMITTEE** held at County Hall, Matlock on 12 March 2019

PRESENT

Councillor N Atkin (in the Chair)

Derbyshire County Council

Councillors R Ashton, J Boult, P Makin, R Mihaly, J Perkins and B Ridgway

N Dowey, D Kinley, P Peat and N Smith

Apologies for absence were received on behalf of Councillor S Marshall-Clarke

09/19 **MINUTES** Matters Arising: Minute number 05/19. There had been a challenge made to Government on the judicial scheme and had therefore been put on hold as there were implications for all parties. This had been placed on the risk register.

RESOLVED that the minutes of the meeting held on 23 January 2019 be confirmed as a correct record and signed by the Chairman.

10/19 **INVESTMENT REPORT** Mr Anthony Fletcher the external adviser from Allenbridge Epic 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, Pacific EX Japan, Emerging Markets, Global Sustainable, Private Equity Multi-Asset Credit, Infrastructure, Direct Property, Indirect Property, Conventional Bonds Index –Linked Bonds, Corporate Bonds and Cash.

The Fund's latest asset allocation as at 31 December 2018 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new strategic asset allocation benchmark were shown in the table in on the report. This also showed the recommendations of the Director of Finance & ICT, adjusted to reflect the impact of future investment commitments. These commitments (existing plus any new commitments recommended in the report) related to Private Equity, Multi-Asset Credit, Property and Infrastructure and totalled around £465m. Whilst the timing of drawdowns would be uneven

and difficult to predict, the In-house Investment Management Team (IIMT) believed that these were likely to occur over the next 18 to 36 months.

The value of the Fund's investment assets fell by £22.1m (-0.5%) between 31 October 2018 and 31 January 2019 to £4.8bn, comprising a non-cash market loss of around £40m, partly offset by cash inflows from dealing with members and investment income of around £20m. Over the twelve months to 31 January 2019, the value of the Fund's investment assets had fallen by £21m (-0.4%), comprising an unexpected advanced contribution payment of £40m and cash inflows from dealing with members and investment income of around £90m, partly offset by a non-cash market loss of around £150m. A copy of the latest portfolio was presented at Appendix 2 to the report.

A summary of world equities, UK fixed income and UK index linked bond performance for the twelve months to 21 February 2019 was given.

Global Equity markets rose between March and August 2018 which reflected robust US earnings growth and an easing in trade tensions between the US and China, with returns for sterling investors benefiting from a stronger US dollar. Global Equity markets sold-off sharply in the final quarter of 2018, recoding a 10.5% fall in sterling terms. Investor confidence was impacted by a number of factors, including concerns over the sustainability of US economic growth; an indication from the US Federal Reserve that there was scope for further interest rate rises; worries over a slowdown in China; and fears of a global trade war.

Equity markets had recovered strongly in the period 1 January to 21 February 2019. The FTSE All World Equity Index was up 10.2% in US dollar terms and 7.5% in sterling terms. Whilst economic data had continued to moderate, optimism that US-China trade relations might improve, together with a more dovish tone from the US Federal Reserve, had lifted equity markets. The UK Equity market had performed well in Q1 2019 to date, but had lagged global equities on a local currency basis as sterling strengthened on hopes that the UK would avoid a disorderly exit from the European Union. Notwithstanding the recovery, investor confidence remained fragile, with heightened levels of volatility and corporate earnings forecasts remaining under pressure.

Bonds had largely traded sideways between March and September 2018. Core government bond yields had fallen in the last quarter of 2018 with UK, US, German and Japanese yields all falling. There was also a marked widening in credit spreads prompted by the "risk-off" environment. High yield bonds under-performed relative to investment grade bonds. Global bond yields fell further early in Q1 2019 to data but had risen more recently.

Asset class weightings and recommendations were based on values at the end of January 2019, and were relative to the new strategic asset allocation benchmark which had become effective on 1st January 2019. Many global stock markets were still trading close to all-time highs, despite the weakness in Q4 2018 and it was noted that recent asset class returns remained well in excess of long term averages.

The new strategic asset allocation benchmark reflected a re-balancing of the Fund's assets from Growth Assets to Income Assets and introduced a new 3% allocation to Global Sustainable Equities. Overall, the Fund was overweight in Growth Assets at 31 January 2019 and underweight in Income Assets and Protection Assets; the table in the report assumed that all new commitments would be funded out of the current cash weighting. The Fund had progressively reduced its exposure to Growth Assets over the last two years, as equity valuations had become increasingly stretched, and increased the allocation to Income Assets and Protection Assets.

It was noted that the recommendations were subject to market conditions, which could have been significantly impacted in the short term by the outcome of the on-going UK parliamentary votes in respect of the Brexit deal. The proposed new 3% allocation to Global Sustainable Equities was subject to the completion of satisfactory due diligence on several potential products.

Details were given on the Fund's performance over 1, 3 and 5 years to Q1 in 2019 and Mr Fletcher's recommendations were noted. The Fund had outperformed the benchmark over each of the periods.

Members made a number of comments and asked questions which were duly noted or answered.

RESOLVED that (1) the report of the external adviser be noted; (2) the asset allocations, total assets and long term performance analysis in this report be noted; and (3) the strategy outlined in the report be approved.

11/19 **VOTING ACTIVITY** Details of the Fund's voting activity for the period 24 November 2018 to 27 February 2019 were presented. There were no votes against management proposals.

RESOLVED that the report be noted.

12/19 **FAIR DEAL CONSULTATION** The Committee was informed of an MHCLG consultation on proposals to amend the Local Government Pension Scheme (LGPS) regulations that would provide greater pension protection for employees of LGPS employers who were compulsorily transferred to service providers.

The report went on to outline the consultation process and the new Fair Deal employer, which was required to ensure that protected transferees were given access to the LGPS for as long as they remained a protected transferee and were entitled to be a member of the scheme.

It was proposed that new service providers would not necessarily need to become admission bodies in the LGPS to participate in the scheme and would use the 'deemed employer' status which already existed within the LGPS. It was noted that this approach might be more appropriate for larger, longer term contracts where it was more fitting for a service provider to have full employer responsibilities under the LGPS regulations.

It was also proposed that when an LGPS scheme employer was merged into or taken over by another organisation, the responsibility for the pension's liability automatically transferred to the successor body, unless specific legislative provisions required otherwise.

The number of employing authorities in the LGPS had increased significantly in recent years - in Derbyshire it had increased by 30% over the last two years to the current figure of 280. Concerns about the proposals were focused on the more remote relationship between the pension fund and the service provider under the deemed employer approach. Currently, a service provider's obligations to the pension fund were clearly set out in a formal admission agreement but this would not be the case under the deemed employer approach.

The consultation process closed on 4th April 2019. A response from Derbyshire County Council, from the perspective of the administering authority of Derbyshire Pension Fund, was being formulated.

Members made a number of comments and asked questions which were duly noted or answered.

RESOLVED to delegates the consideration of the response to the Local Government Pension Scheme: Fair Deal – Strengthening pension protection consultation and the approval of its submission to MHCLG to the Director of Finance & ICT in conjunction with the Chair of the Committee.

13/19 **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 23 January 2019 (contains exempt information).

2. To consider the reports of the Director of Finance & ICT on:

   (a) Investment Pooling
   (b) Asset Pooling Consultation
   (c) (i) Stage 2 Appeal under the LGPS Application of Adjudication of Disagreement Procedure
   (ii) Stage 2 Appeal under the LGPS Application of Adjudication of Disagreement Procedure