

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 12 December 2018

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, J Boulton, P Makin, S Marshall-Clarke, R Mihaly, B Ridgway

Apologies for absence were received on behalf of Councillor M Carr (Derby City Council)

68/18 **MINUTES** **RESOLVED** that the minutes of the meeting held on 31 October 2018 be confirmed as a correct record and signed by the Chairman.

69/18 **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 October 2018 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new strategic asset allocation benchmark, which would become effective on 1 January 2019, were shown in the table in on the report.

The table 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 £450m. 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 £169.4m (-3.4%) between 31 July 2018 and 31 October 2018 to £4.8bn, comprising a non-cash market loss of around £185m, partly offset by cash inflows from dealing with members and investment income of around £15m. Over the twelve months to 31 October 2018, the value of the Fund's investment assets had risen by £83m (+1.8%), 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 £50m. 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 between 1 November 2017 to 31 October 2018 was given.

Global Equity markets climbed higher in the final two months of 2017, a trend which continued into January 2018, with growth being supported by accommodative monetary policy, modest inflation expectations, low unemployment and steady and synchronised global economic growth. However, some of the benefit for sterling investors was offset by a recovery in the value of sterling, after the sharp devaluation in the pound in 2016/17, following the EU Referendum.

Global Equity markets weakened in the first quarter of 2018, experiencing increased volatility as investors became concerned about the path of interest rates, US protectionism and growing barriers to global trade. Markets recovered strongly in April and May 2018, reflecting robust US earnings growth and some easing in the trade tensions between the US and China, with returns for sterling investors also benefiting from a stronger US\$. Following a subdued period in June 2018, global equities increased further between July and September 2018, reflecting momentum in the US which represents around 53% of the global equity index. Returns in other regional markets were much more mixed, with heightened volatility, as concerns over trade wars, the continued strength of the US\$ and signs of a slowdown in China weighed on investor sentiment.

Equity markets sold-off sharply in October 2018, with the month recording the sharpest one-month decline for global equities since May 2012; the FTSE All World fell by 5.6% 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; fears of a global trade war; and nervousness surrounding the Italian 2019 budget proposal, which was rejected by the European Commission.

Bonds had largely traded sideways for much of the last 12 months. Global bond yields generally rose in the quarter to September 2018, driven by a rising oil price, increasing inflation and a rise in US rates. Whilst US bond yields continued to rise in October 2018, yields in most other countries fell, with the

UK ten-year yield falling from 1.57% to 1.44% amid expectations that the Autumn Budget would confirm an ongoing reduction in government borrowing, and weaker inflation data in September 2018.

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

Details were given on the Fund's performance over 1, 3, 5 and 10 years to 31 October 2018. 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, Mr Fletcher, 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.

70/18 VOTING ACTIVITY Details of the Fund's voting activity for the period 23 August 2018 to 23 November 2018 were presented. There were no votes against management proposals.

RESOLVED that the report be noted.

71/18 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 report of the Director of Finance and ICT on Investment in Multi Asset Credit (contained information relating to the financial or business affairs of any particular person (including the Authority holding the information)).
2. To consider the report of the Director of Finance & ICT on Stage 2 Appeal under the Local Government Pension Scheme application for Adjudication of Disagreement Procedure (contained information relating to an individual).

3. To receive a presentation from LGPS Central Ltd (contained information relating to the financial or business affairs of any particular person (including the Authority holding the information)).