PUBLIC Agenda Item 3

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held at County Hall, Matlock on 11 September 2018

PRESENT

Councillor J Perkins (in the Chair)

Derbyshire County Council

Councillors R Ashton, N Atkin, P Makin, S Marshall-Clarke, R Mihaly, B Ridgway and J Twigg (substitute Member)

Derby City Council

Councillor M Carr

Derbyshire County Unison

Mr M Wilson

Apologies for absence were received on behalf of Councillor A Fox

54/18 **MINUTES RESOLVED** that the minutes of the meeting held on 1 August 2018 be confirmed as a correct record and signed by the Chairman.

55/18 **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, 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 2018, 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 2018 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 around £341m at 31 July 2018. The In-house Investment Fund Manager Team believed that these were likely to occur over the next 18 to 36 months.

The value of the Fund's investment assets had risen by £187.4m between 30 April 2018 and 31 July 2018 to just under £5bn, comprising an unexpected advanced contribution payment of £40m, net divestment of around £33m, cash inflows from dealing with members and investment income of around £15m and a market gain of around £100m. Over the twelve months to 31 July 2018, the Fund's investment assets had risen by £372m, comprising the unexpected advanced contribution payment of £40m, net investment of around £25m, cash inflows from dealing with members and investment income of around £80m and a market gain of around £225m. A copy of the latest portfolio was presented.

A summary of world equities, UK fixed income and UK index linked bond performance for the last twelve months was given. Equity markets had continued to climb higher throughout 2017, 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. UK Equity returns in 2017 were lower than other regional equity returns, affected by the on-going uncertainty 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. Returns for Sterling investors also benefited from a stronger US$.

UK bonds had largely traded sideways for much of the last 12 months. Yields rose slightly in the quarter to June 2018, but increased equity market volatility increased flows into 'safe-haven' developed market bonds, with events in Italy dominating overseas bond markets.

In terms of asset class valuations, many global stock markets were still trading at, or close to, all-time highs and it was noted that recent asset class returns were well in excess of long term averages.

Details were given on the Fund's performance over 1, 3, 5 and 10 years to 30 June 2018. The Fund had performed in line with the benchmark over the last twelve months and outperformed the benchmark over the last three, five and ten year periods.

Members welcomed what the in-house Investment Team were trying to achieve in securing the Fund's position and asked what the opinion of LGPS Central was and could the process be accelerated. It was reported that Chester West and Cheshire Council had already adopted this approach.

Members of the Committee wished to thank Anthony Fletcher, Dawn Kinley for their presentations and the work they had undertaken.

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.

56/18 **VOTING ACTIVITY** Details of the Fund's voting activity for the period 30 May 2018 to 22 August 2018 were presented, along with votes against management proposals. The resolutions were all passed.

RESOLVED that the report be noted.

57/18 **ASSET LIABILITY MODELLING REVIEW AND REVISED INVESTMENT STRATEGY STATEMENT** Derbyshire Pension Fund's ("the Fund") Actuary, Hymans Robertson, had been commissioned to carry out an Asset Liability Modelling Review ("the Review'') following an improvement in the Pension Fund's funding level.

At the last formal actuarial valuation at the end of March 2016, the funding level, which was the value of the assets held by the Fund expressed as a proportion of its liabilities, was 86.7% with assets of £3,672m and estimated past service liabilities of £4,236m. This was an improvement on the funding level of 82.5% at the formal valuation at the end of March 2013.

The Actuary carried out an interim funding update at 31 December 2017 using the membership data from the March 2016 formal valuation but updating the financial assumptions contained in that valuation to reflect market conditions at December 2017. The updated funding level of 92.8% benefited from the very strong market returns between the March 2016 valuation and December 2017, with assets of £4,835m and estimated past service liabilities of £5,210m.

Based on the performance of the assets in the Fund since the December 2017 update and the largely unchanged yields in long dated UK sovereign bonds (bond yields feed into the calculation of the Fund's liabilities), the current funding level was estimated to be very similar to the December 2017 level. The

next formal actuarial valuation, including updated membership information, would be carried out at March 2019, with the preliminary results of that valuation due in the autumn of 2019. Given the improvement in the funding level and the volatility that can be experienced in funding levels due to the link to prevailing market conditions, it was considered prudent to commission an Asset Liability Modelling Review ahead of the next formal valuation.

The objective of the Review was to consider the potential impact on the Fund's long-term funding position of several alternative Strategic Asset Allocation Benchmarks (''SAAB''). The majority of the SAABs modelled were designed to ''lock-in'' some of the recent improvement in the Pension Fund's funding position, and to lower the Fund's exposure to investment risk. A benchmark with a higher allocation to risk assets had also been modelled for completeness. The SAABs modelled by Hymans Robertson were presented. Hymans Robertson allocated assets into the following three categories:

- Growth Assets: largely equities plus other volatile higher return assets such as private equity
- Income Assets: assets which are designed to deliver an excess return but with more stable return patterns than Growth Assets because income represents a large proportion of the total return of these assets
- Protection Assets: lower risk government or investment grade bonds, together with cash

The Review assumed no change to the current contributions levels.

A summary of the Fund's current SAAB, together with that recommended going forward was provided.

The proposed SAAB reduced the Fund's equity weighting from 58% to 53%, reflecting reductions in respect of UK (-9%) and European (-1%) Equities, partly offset by a higher allocation to Emerging Market Equities (+2%), and the introduction of a new specific allocation to Global Sustainable Equities (+3%).While the UK remains Derbyshire Pension Fund's domestic market, it was now prudent to reduce the UK Equity weighting by 9% to 16% and the reasons for this were highlighted.

The Fund's policy in relation to Responsible Investment was to seek to understand relevant environmental, social and governance (ESG) factors alongside conventional financial considerations as part of the process of evaluating all investments. However, it was recognised that the practice of integrating ESG factors into the investment process was continuing to develop and was reliant on the disclosure of relevant detailed information from investee companies/vehicles. As the Fund continued to develop its approach to Responsible Investment, it was recommended that a 3% allocation was made to Global Sustainable Equities, targeting investments in global companies that

were sustainable in financial, environmental, social and governance terms and, where appropriate, that were providing solutions to sustainability challenges. It was proposed that the allocation was benchmarked against the FTSE All World Index. Members welcomed the 3% allocation, and if successful, recommended that the Committee considered an increase to the allocation in the future.

Derbyshire County Council, as the administering authority for Derbyshire Pension Fund, formulated and approved the Fund's first Investment Strategy Statement, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the 2016 Regulations"), in March 2017. Under the 2016 Regulations, the Investment Strategy Statement must be reviewed, and if necessary revised, following any material change in the factors which were judged to have a bearing on the stated investment policy, and at least every three years. Given the proposed changes to the Fund's SAAB set out in the report, a revised Investment Strategy Statement had been prepared, a copy of which was set out in Appendix 2 to the report. In addition to the change to the SAAB, the Investment Strategy Statement had been updated to reflect developments with regard to the LGPS Central Pool and to the Fund's approach towards Responsible Investment.

The Fund's independent investment adviser, Anthony Fletcher, had reviewed the revised Investment Strategy Statement and the proposed changes to the SAAB and a copy of the adviser's review was set out at Appendix 3 to the report.

It was intended to consult with scheme employers, the local pension board and other stakeholders on the revised Investment Strategy Statement. The results of the consultation would be reported to Committee in October 2018. Approval was sought for the Director of Finance & ICT, in conjunction with the Chairman of the Committee, to consider the results of the consultation in the meantime, and for the Director of Finance & ICT and the Chairman to determine if any revisions to the proposed SAAB were necessary following the consultation, in able to allow for a possible adoption of the new SAAB at the beginning of Q3 2018/19.

RESOLVED that the Committee (1) notes the results of the Asset Liability Modelling Review carried out by Hymans Robertson;

(2) approves the revised Investment Strategy Statement set out in the report, including the proposed changes to the Strategic Asset Allocation Benchmark, subject to the outcome of the consultation with the Fund's stakeholders; and

(3) delegates the consideration of the results of the consultation, and the determination of whether any revisions to the proposed SAAB are necessary

following the consultation, to the Director of Finance & ICT in conjunction with the Chairman.

58/18 **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 confirm the exempt minutes of the meeting held on 1 August 2018 (contains exempt information)

2. To consider the exempt report of the Director of Finance and ICT on LGPS Investment Pooling
(contains information relating to the financial of business affairs of any particular person (including the Authority holding that information))