

INVESTMENT AND PENSION FUND COMMITTEE

15 September 2017

Present:-

Devon County Council

Councillors R Gilbert (Chairman), Y Atkinson, C Channon, R Edgell and R Hosking

Unitary and District Councils

Councillors L Parker-Delaz-Ajete (Plymouth City Council), J O'Dwyer (Torbay Council) and M Hicks (Exeter LGA)

Other Employers

Councillor D Healy (Dartmoor National Authority)

Also in attendance (observers)

Mr Bowman and Mr Nicholls

Apologies:-

Councillor A Connett, Councillor P Edwards, R Franceschini, C Lomax, J Rimron and A Connett

* 13

Minutes

RESOLVED that the Minutes of the meeting held on 16 June 2017 be signed as a correct record.

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Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

* 15

Pension Fund Annual Report and Accounts 2016/17

The Committee considered the report of the County Treasurer (CT/17/70) together with the Annual Report and Accounts, summarising the performance of the Fund's external managers, including stewardship activity and the market outlook, followed by the Statement of Accounts.

The County Treasurer reported that, as detailed in the Report (Appendices, Audit Opinion), that it had been the Auditor's opinion that there were no significant issues with the Pension Fund accounts and that the draft financial statements had been prepared to a high standard.

Members' discussion points included:

- actuarial review, methodology and calculations based on investment strategy and returns and progress towards reducing the recovery period, (further training on actuarial methodologies would be considered for members as part of the training programme)
- recording of the calculation of employers' contributions;
- consideration by the Treasurer to review (for next year's Report) the need to record explicitly the aim towards achieving full funding, reflected in the Funding Strategy Statement; and
- review of the Governance Compliance Statement in respect of non-compliance relating to 'where appropriate, independent professional observers'.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Parker-Diaz-Ajete and

RESOLVED that the Pension Fund Annual Report and Accounts for 2016/17 be adopted.

* **16** **Brunel Pension Partnership - Progress Report**

The Committee considered the Report of the County Treasurer (CT/17/71) on the establishment of the Brunel Pension Partnership Limited (BPP Ltd.) and progress since the last meeting, including a draft response to Government on the proposed establishment of a Cross Pool Information Forum.

The next phase of work would concentrate on securing the regulatory approvals required from the Financial Conduct Authority and then planning and agreeing the portfolios that would be required for the participating funds to invest in. The project remained on track to meet the target date of April 2018 for the Company to begin transitioning assets from the participating funds.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Edgell and

RESOLVED

(a) that the progress with establishing the Brunel Pension Partnership Limited company be noted; and

(b) that the County Treasurer's draft response to the consultation on the proposed Cross Pool Information Forum as attached at Appendix 2 of Report CT/17/71, be agreed.

* **17** **Markets in Financial Instruments Directive II**

The Committee considered the Report of the County Treasurer (CT/17/72) on the Financial Instruments Directive (MiFID II) which would result in LGPS funds being reclassified as retail clients and Financial Conduct Authority (FCA) final policy statement which set out the rules for implementation of the Directive, with effect from 3 January 2018.

The Statement also provided greater clarity on the criteria for local authorities administering LGPS pension funds to "opt up" to be treated as "professional" (rather than "retail") clients. Members noted the 'warnings' in the Report relating to the loss of protections as a professional client which would result from this proposal.

It was **MOVED** by Councillor Hicks, **SECONDED** by Councillor Atkinson and

RESOLVED

(a) that the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018 be noted;

(b) that the immediate commencement of applications for elected professional client status with all relevant institutions be agreed in order to ensure it could continue to implement an effective investment strategy;

(c) that in electing for professional client status the Committee acknowledges and agrees to forgo the protections available to retail clients, as attached as Appendix 1 of Report CT/17/72; and

(d) that the County Treasurer be authorised to complete the appropriate 'opt up' process with all the relevant institutions and determine the basis of the application as either a full or single service.

* **18** **Investment Strategy Statement**

The Committee considered the Report of the County Treasurer (CT/17/73) on a proposed revised Investment Strategy Statement (ISS). After the commitment to private debt agreed at

the last meeting of the Committee on 16 June 2017, it was proposed that the ISS should be updated to reflect that decision. The opportunity had also been taken to make other minor changes suggested by Internal Audit who had reviewed the strategy and the process for putting it together.

It was **MOVED** by Councillor Parker-Delaz-Ajete **SECONDED** by Mrs Healy and

RESOLVED that the revised Investment Strategy Statement, attached to Report CT/17/73, be approved.

* **19** **Investment Management Report**

The Committee considered the Report of the County Treasurer (CT/17/74) on the current Fund Value and Asset Allocation. The value of the fund as at 30 June 2017 stood at £3,989.1 million, an increase of £60m over the last quarter. The County Treasurer highlighted that while the allocation to 'cash' was higher than target, this would be reduced by the drawdown of the commitment made to private debt funds. The Fund was over exposed to the UK and there was a significant under exposure to North America with a smaller under-exposure to Japan compared to the World Market.

Members considered a proposal to change the investment in the State Street Emerging Markets Fund from an equal country weighted strategy to a fund tracking the MSC Emerging Markets Index.

The Report also detailed Fund performance over periods to 30 June 2017, State Street Equal Country weighted fund Performance to June 2017 and budget forecast monitoring and cash management.

It was **MOVED** by Councillor Edgell, **SECONDED** by Councillor Gilbert and

RESOLVED

(a) that the Investment Management Report be noted;

(b) that compliance with the 2017/18 Treasury Management Strategy be noted;

(c) that the County Treasurer in consultation with the Chairman be authorised to move up to £100m from UK passive equities to overseas passive equities (North America and Japan), if market conditions provide an opportunity and the appropriate trigger points are hit, and that the trigger points be reviewed at the next meeting of the Committee; and

(d) that the Specialist Funds investment in the State Street Emerging Markets Fund be switched from the current equal country weighted fund to a fund tracking the MSCI Emerging Markets index.

* **20** **Pension Fund Risk Register**

The Committee noted the Report of the County Treasurer (CT/17/75) on the Pension Fund Risk Register and the additional actions taken to mitigate that risk. The review of the Register was part of the regular scrutiny process by this Committee.

Identified risks emanated from a range of sources including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. The risks identified had been incorporated into the Fund's Risk Register and assessed in terms of the potential impact of the risk event should it occur.

Members referred to the risk associated with any potential loss of key Officers within the In-House team.

* **21** **Committee Training**

The Committee noted the Report of the County Treasurer (CT/17/76) on an update of scheduled training events for Members. Consideration to training in relation to 'currency hedging' would be given for inclusion in this or a future programme, as well as the actuarial role.

* **22** **Applications for Admitted Body Status**

The Committee noted that following applications for admitted body status had been approved under delegated powers:

(a) Parkwood Leisure: from 1st October 2017, 4 staff currently in the LGPS with Torbay Council to run the velopark.

(b) Petroc College: 23 staff had transferred on 1st September 2017 from the College to Taylor Shaw Ltd to provide catering services.

(c) Creative Connected Communities: 1 staff member had transferred on 1st September to this new charity based in Plymouth, working with the Peninsula Dental School.

All three admission agreements had been on a closed basis.

* **23** **Dates of Future Meetings**

Friday, 17 November 2017 and Friday, 23 February 2018 all at 10.30 am

The County Council's Calendar available at

<http://democracy.devon.gov.uk/mgCalendarMonthView.aspx?GL=1&bcr=1>

***DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 10.30 am and finished at 11.32 am