DERBYSHIRE PENSION FUND

INVESTMENT COMMITTEE

BUSINESS PLAN 2010/11

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1 Committee's powers and responsibilities

The County Council is the designated administering authority for the Local Government Pension Scheme within Derbyshire under the terms of the Local Government Pension Scheme Administration Regulations 2008.

Responsibility for investment matters has been delegated to an Investment Committee which reports directly to the Council.

The Committee includes members representing Derbyshire County Council, Derby City Council and the Local Government Association (Derbyshire) and has Trades Union representatives as non voting members.

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Council's Investment Committee has a wide range of statutory responsibilities, including:-

- To appoint managers, advisers etc
- To monitor performance
- To determine an investment policy having regard to:

  The advisability of investing in a wide variety of investments

  The suitability of particular investment and types of investments

The Regulations require that advice should be taken in carrying out these duties.

- To produce and publish the Fund's Statement of Investment Principles, which sets out the Fund's policy and its compliance with Myners' Principles for Institutional Investment; its Funding Strategy Statement (FSS); Pension Fund Annual Report; Communications Policy Statement and Governance Compliance Statement.
- To ensure that investments comply with the authority's Statement of Investment Principles (SIP)
- To ensure that investments fall within the prescribed limits

The above are statutory duties in compliance with Local Government Pension Scheme regulations. In addition to these core statutory responsibilities, the Committee in conjunction with the Pensions Committee is also subject to general local government law on the way in which it conducts its affairs; to manage potential areas of conflict; and to exercise its duty of care to those who bear the financial and investment

risks of the Scheme. It also bears a responsibility, on behalf of scheme members and beneficiaries, to ensure that the Scheme is managed effectively and efficiently. In more general terms, the Committees are responsible for a wide range of important decisions relating to the management and actuarial valuation of LGPS funds under part 4 of the Local Government Pension Scheme (Administration) Regulations 2008.

Non statutory duties include the following:

- Non-routine matters
- Investment decisions relating to direct property investment and unquoted investments such as private equity and infrastructure
- Voting decisions not covered by voting guidelines

2 Regulations

The investment of the Fund is controlled by regulations issued under the Superannuation Act 1972. The current investment regulations are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3 Committee Membership

The committee comprises the following:

7 County Councillors
2 Derby City Councillors
2 Councillors representing LGA (Derbyshire)
3 Trades Union representatives (non voting members)

The actual membership is determined at the start of each financial year. The County Council representatives reflect the political balance of the Council.

4 Statement of Investment Principles

The investment of the Pension Fund will be carried out in accordance with its Statement of Investment Principles (SIP), a copy of which is published on the County Council's website.

5 Other Policy Statements

In addition to the SIP, and the Investment Committee's Business Plan, the following documents are also published on the council's website:

Funding Strategy Statement
Annual Report
Governance Policy/Compliance Statement
Communications Policy Statement

6 Investment Committee Objective

To invest the Pension Fund with the aim of maximising its returns subject to an agreed level of risk and having taken into account the Fund's liabilities and its projected cash-flows.

7 Targets

The Fund's targets are as follows:

To beat the actuary's long term assumptions of returns (currently an investment return of 6.5%pa)

To outperform the Fund's benchmark index return by ¼% over 1, 3, 5 and 10 year periods

The Fund's current benchmark index was introduced on 1 April 2009. Comparisons for periods prior to this are against the former benchmark, for the period from 1 April 2004, and prior to that against Local Authority average returns.

8 Performance measurement

Investment performance is calculated independently by the WM Company on a quarterly basis. Results are considered by the Investment Committee as they become available and are reported to Fund members on an annual basis as part of the Annual Report.

9 Schedule of meetings

Investment Committee meetings are held quarterly. For 2010/11 meetings have been arranged for the following dates:

7 June 2010
6 September 2010
6 December 2010
21 March 2011

The Pension Fund's Annual General Meeting is to be held following the publication of the Annual Report at a date yet to be arranged.

10 Work programme

The committee's work programme for the coming year will be as follows:

(a) Business Meetings

At each meeting

To review the current economic background and recent investment market returns.

To review the Fund's asset allocation, investment activity since the last meeting and the current investment portfolio.

To approve investment strategy in the light of recommendations from the Director of Finance and the Fund's independent advisers

To review investment performance

To receive the minutes of the Local Authorities Pension Fund Forum (LAPFF)

To consider the Director of Finance's report in respect of Corporate Governance issues

To consider the Director of Finance's report in respect of Risk

Annually

To approve a Business Plan for the forthcoming year

To approve the Fund's Treasury Management Strategy for the forthcoming year

To approve the Pension Fund's Annual Report.

To consider the Director of Finance's report in respect of Socially Responsible Investment

To review the Pension Fund's Statement of Investment Principles (SIP)

To consider the Committee's training requirements

As required

To review any changes to investment regulations

To consider matters relating to direct property investments and unquoted investments.

To review the appointment of advisers/managers

(b) Annual General Meeting

The Annual General Meeting will take into account the work of both the Investment and Pensions Committees. Its Agenda is likely to be as follows:

Introduction by the Committee Chair

Presentations by Officers in respect of:

Annual Report and Accounts
Administration/Benefit issues
Investments

Any Other Business

Questions from scheme members

11 Training programme

Training is provided in separate meetings after the close of each Investment Committee meeting, with attendance restricted to Committee members, other council members and trades union representatives. A log is maintained of members' attendance at the training meetings. The proposed 2010/11 programme shown below is based on an assessment of training needs which was undertaken following the County Council elections of June 2009:

A review of Myners' Principles
An in-depth look at equity investment
An in-depth look at bond investment
An in-depth look at infrastructure investment

12 Investment Advisers

The committee's independent advisers for 2009/10 were:

Morley Fund Management (Patricia O'Loughlin/John Somers)
No.1 Poultry
London

Philip Williams (Allenbridge Epic)
17 Hill Street
London W1

The contracts are due to expire on 31 March 2010. The posts have been advertised in the financial press and arrangements have been made to interview suitable candidates.

13 Investment Managers

The Fund's assets are managed as follows:

(a) UK bonds, International bonds, UK equities, Japanese equities*, Asia Pacific equities*, Emerging Market equities*, Private Equity*, Infrastructure*, Cash

* through pooled investment funds.

By the in-house team based at County Hall, Matlock comprising:

Graham Hunt (Director of Finance)

The Investment Section

Investment Management

John Waterfall/Steven McManus* (Investment Officer)
David Henry (Principal Assistant)
Jane Ingle (Principal Assistant)
Dawn Kinley (Principal Assistant)
Ian Sandiford (Principal Assistant)
Richard Fanshawe (Trainee Fund Manager)

* John Waterfall is due to retire at the end of May 2010 and will be replaced by Steven McManus

Treasury Management/Administrative Support

Wendy Round/Jonathan Clarke* (Senior Assistant)
Lesley Crowder (Investment Clerk)
Paul Evans (Investment Clerk)
Catherine Bedford (Investment Clerk)

* Wendy Round is currently on secondment to the Capital Section within the Corporate Finance division. Jonathan Clark is on secondment from the Council's Property Division.

(b) Direct property

Keneth Peters & Co
10 Gees Court
St. Christopher's Place
London

Keneth Peters & Co act in an advisory capacity - final decisions are taken by the Investment Committee

(c) European equities

UBS Global Investment Management (uk) Ltd.
21 Lombard Street
London

UBS Global Investment Management (uk) Ltd act in a discretionary capacity)

(d) North American equities

Wellington Management International Ltd.
Cardinal Place
80 Victoria Street
London

Wellington Management International Ltd act in a discretionary capacity

(e) Indirect Property

Cushman & Wakefield Investors (Finance) Ltd
9 Colmore Row
Birmingham

Cushman & Wakefield Investors (Finance) Ltd act in an advisory capacity - final decisions are taken by officers in the Investment Section

(f) Currency Hedging

Currency hedging is undertaken to protect the Fund's holdings of overseas bonds from the effect of currency fluctuations. The Fund maintains a list of suitable counterparties with whom it enters into forward sale contracts of the relevant currencies so that any rise or fall in the value of bonds due to foreign exchange movements is offset by an opposite movement in the value of the forward exchange contract. In line with normal practice, the hedge covers only part of the value of the bonds in order to allow the Fund's managers the flexibility to sell/switch bonds without having to unwind the forward sale contract. Transactions are either with the Fund's counterparties using its broker:

King & Shaxson Capital Ltd
Candlewick House
120 Cannon Street
London

or with the Fund's custodian:

BNY Mellon

14 Legal Adviser

The County Secretary,
Derbyshire County Council
County Hall
Matlock

15 Other Contracts

Other services are provided as follows:

(a) Global Custodian

BNY Mellon Asset Servicing
160 Queen Victoria Street
London

The contract with BNY Mellon is due to expire on 30 September 2010 and has been placed out to tender.

(b) Property Valuer

Edmund Kirby & Co.
Nations House
Edmund Street
Liverpool

(c) Risk Measurement

Northfield Information Services
Shakespeare House
168 Lavender Hill
London

(d) Corporate Governance Research/Voting

Risk Metrics Proxy Exchange (formerly RREV)
1 Commodity Quay
East Smithfield
London

(e) Performance Measurement

WM Company
State Street Investment Analytics
525 Ferry Road
Edinburgh

(f) Specialist Information Technology

Bloomberg Finance LP
39-45 Finsbury Square
London

DataStream/Reuters
Thomson Reuters
The Reuters Building
South Colonnade
Canary Wharf
London

(g) Banking Services

The Co-operative Bank
31 East Street
Derby

16 Membership of other organisations

The Pension Fund is a member of the following organisations:

National Association of Pension Funds (NAPF)

Local Authorities Pension Funds Forum (LAPFF)

17 Audit

The audit of the Pension Fund is undertaken by the Council's Audit Services Section and externally by the Audit Commission.

18 Projected cashflow

Projected cashflow is as follows:

	2008-09	**2009-10**	**2010-11**	**2011/12**
	Actual	**Forecast**	**Forecast**	**Forecast**
	£000	**£000**	**£000**	**£000**
Contributions less benefits	44,355	33,600	36,600	37,500
Investment income	68,896	62,000	65,700	70,000
TOTAL	113,251	95,600	102,300	107,500

The above figures have been estimated using the Fund Actuary's assumptions for salary increases, pensions increases, inflation and investment returns. Actual figures could differ widely from the estimates should the assumptions prove to be inaccurate or the Fund's asset allocation be varied significantly.