

**FALKIRK COUNCIL**

**MINUTE OF MEETING OF THE PENSIONS PANEL  
THURSDAY 29 MAY 2014 AT 2.00 P.M.  
MUNICIPAL BUILDINGS, FALKIRK**

**PRESENT:-**

**Officers – Falkirk Council**

Jason Koumides, Pensions Accountant  
Alastair McGirr, Pensions Manager  
Antonia Sobieraj, Committee Services Officer

**Organisations**

Andrew Douglas, Unison  
Mary Keggan, Unison  
Sandy Harrower, UCATT  
Gordon Laidlaw, Scottish Autism  
Ed Morrison, Scottish Children's Reporter Administration's (SCRA)  
Susan MacKay, Clackmannanshire Council  
Ian McLean, Pensioner Representative  
Alistair Redpath, Pensioner Representative  
William Watson, Stirling Council (Convener)  
Jennifer Welsh, SEPA

**Attending**

Cameron Graham and Mark Nicolson, SL Capital (for agenda item 10)  
(minute item 11)  
David Moylett and Rob Hay, Newton Investment Management (for  
agenda item 9) (minute item 10)  
Bruce Miller, Investment Manager, Lothian Pension Fund,

**1. CONVENERSHIP OF MEETING**

In terms of Standing Order 12.1, the Clerk presided at the start of the meeting in the absence of the Convener and invited a member of the Panel to take the Chair for the duration of the meeting. William Watson, Stirling Council thereafter took the Chair with the consent of members present.

**2. APOLOGIES**

Apologies were intimated on behalf of Councillor Callum Campbell, Stirling Council; Councillor Archie Drummond, Clackmannanshire Council; Bryan Smail, Chief Finance Officer, Falkirk Council; and Alison Stewart, Head of Finance, Forth Valley College.

### **3. DECLARATIONS OF INTEREST**

No declarations were made.

### **4. MINUTES**

#### **Decision**

- (a) The minute of the meeting of the Pensions Panel held on 20 February 2014 was approved;**
- (b) The minute of the meeting of the Pensions Committee held on 6 March was noted; and**
- (c) The minute of the special meeting of the Pensions Committee held on 17 March was noted.**

### **5. LOCAL GOVERNMENT PENSION SCHEME - 2015 UPDATE**

The Panel considered a report by the Chief Finance Officer providing an update on the recent developments in relation to the ongoing reform of the Local Government Pension Scheme through the Public Service Pensions Act 2013 with effect from 1 April 2015

The report detailed that a Heads of Agreement on scheme design was reached in December 2013 between COSLA, Trades Unions and the Scottish Government. A Heads of Agreement on governance requirements was subject of ongoing discussions.

Prior to full implementation of the scheme, the Scottish Parliament would produce appropriate legislation to expand on the high level principles within the Heads of Agreement. There was a delay however by the Scottish Public Pensions Agency in drafting the provisions. Although this was not considered material, further slippage may have consequences on software houses in the development of systems with resulting cost implications for local authorities. This issue was currently being pursued by COSLA through appropriate channels.

Confirmation in relation to the scheme's governance arrangements included as undernoted:-

- At a national level a Scheme Advisory Board would provide advice and guidance on the effective administration and management of the scheme. At local level a Scheme Manager (such as the Pensions Committee) would take scheme decisions with support from a Pensions Board to support the Scheme Manager and comprise an equal number of Trades Union and member representatives;
- The existing Scottish Local Government Pensions Advisory Group (SLOGPAG) becoming the Scheme Advisory Board for Scotland with the Scottish Government acting as observers rather than being voting members; and

- At the local level differing views being raised by Trades Unions and other stakeholders on whether to combine Committees and Boards or for them to operate as separate entities, one pertinent issue being the implications in terms of voting rights on setting the Investment Strategy.

The report additionally highlighted developments within England and Wales and possible implications on the Pension Fund within Scotland including the issues associated with passive investment.

Discussion included the issues associated with the delay in the implementation of the provisions, progress in procuring a new pensions administration system, further timescales, risk parameters and the potential adoption of collective investment vehicles and or more passive investments.

### **Decision**

**The Panel noted the latest developments in relation to the implementation of the LGPS (Scotland) 2015.**

## **6. PENSION FUND - GENERAL GOVERNANCE MATTERS**

The Panel considered a report by the Chief Finance Officer presenting an update on various matters associated with the governance of the Falkirk Council Pension Fund.

The areas covered within the report included the following:-

- The Pensions and the Budget;
- The Pension Fund's Risk Register;
- The Councillors Pensions; and
- The Local Authority Pension Fund Forum (LAPFF) of 58 local authority Pension Funds.

The Panel noted that whilst there was a risk of falling asset values from increased interest rates, this would be countered to some extent by a reduction in liabilities as bond yields rose.

### **Decision**

**The Panel noted the report.**

## **7. INVESTMENT IN SOCIAL/AFFORDABLE HOUSING**

The Panel considered a report by the Chief Finance Officer presenting an update on the recent Committee decision to invest in social and affordable housing.

At the special meeting of the Committee on 17 March 2014 it was agreed that Hearthstone plc be appointed to manage a £30m investment in social and affordable housing in an equal basis (i.e. £15m to be invested towards social housing and £15m towards affordable housing) and subject to the appropriate conditions.

The updated report detailed as undernoted:-

- That in broad terms the £30m investment was estimated to deliver around 300 property units on the basis that each housing unit costing around £100,000;
- The target return from the investment was RPI plus 2% net of fees and costs;
- The manager fee was 0.5% of the Fund per annum;
- The investment process involved the £30m being invested in Hearthstone's soon to be launched "Housing Fund for Scotland" and made available to Hearthstone's strategic partner Castle Rock Edinvar (CRE) Edinburgh;
- The legal structure of the Hearthstone Fund being an EPUT (an Exempt Property Unit Trust), an onshore tax efficient vehicle;
- The investment in social housing being delivered through Hearthstone making a 10 year loan to CRE at a fixed interest rate of 4.5% per annum;
- The investment in affordable housing being delivered through Hearthstone/CRE purchasing newly built properties and consequent rental out under mid-market projects, possibly within in Edinburgh and Aberdeen where rents were highest and thus avoiding an over concentration of risk in one location and envisaging the affordable investment spread across 4 to 5 different sites;
- The opportunities enabling, depending on the growth in property capital value, of eventual sale of some units to maintain an appropriate level of return for the Fund and investors;
- The drafting of the legal documentation for the establishment of the Hearthstone Fund;
- The ongoing discussions with various parties to finalise the investment agreement and to consider the options for the social housing development; and
- That subject to the completion of legal formalities, the expected launch of the Fund towards the start of July 2014.

## **Decision**

**The Panel noted:-**

- (1) the actions taken in relation to investment in social and affordable housing; and**
- (2) that representatives from Hearthstone and CRE would attend the meeting of the Pensions Committee in September 2014 to provide an update in relation to developments.**

## **8. FUND MANAGER PERFORMANCE REVIEW**

The Panel considered a report by the Chief Finance Officer reviewing the overall performance of the Fund and of the undernoted Fund Managers:-

- Aberdeen Asset Management;
- Baillie Gifford Bonds;
- Baillie Gifford Diversified Growth;
- Legal and General;
- Newton Investment Management;
- Schroder Investment Management UK Equities; and
- Schroder Investment Management Property.

### **Decision**

**The Panel noted the Fund Managers' performance and the action taken by them during the quarter to 31 March 2014, in accordance with their investment policies.**

## **9. PRIVATE EQUITY AND ALTERNATIVES UPDATE**

The Panel considered a report by the Chief Finance Officer on the progress of the Pension Fund's private equity and alternatives programme arising from the Investments Programme of SL Capital (Standard Life), Wilshire Associates, Grosvenor Capital and M&G for the quarter ending 31 March 2014.

### **Decision**

#### **The Panel:-**

- (1) **noted the progress of the Pension Fund's private equity, infrastructure and credit markets programme for the quarter ending 31 March 2014; and**
- (2) **agreed that consideration on whether a commitment should be made to the new Fund being launched by Grosvenor CM would take place following consideration of agenda item 12 (minute item 13).**

## **10. FUND MANAGER REVIEW - PRESENTATION BY NEWTON INVESTMENT MANAGEMENT**

The Panel received a presentation by David Moylett and Rob Hay of Newton Investment Management.

The areas covered by the presentation included:-

- Fund Valuation and Distribution;
- Investment Views, Corporate Bonds, Rates and Currency Positions;
- Diversified Growth; and

- Portfolio Review.

The Convener thanked Mr Moylett and Mr Hay for their comprehensive presentation.

### **Decision**

**The Panel noted the presentation.**

## **11. FUND MANAGER REVIEW - PRESENTATION BY SL CAPITAL**

The Panel received a presentation by Cameron Graham and Mark Nicolson of SL Capital.

The areas covered by the presentation included:-

- SL Capital Overview;
- Overview of the Council's Commitments to products including European Strategic partners 204, 2006 and 2008 and European Small Funds;
- Current Product Offerings; and
- Differentiating Features.

The Convener thanked Mr Graham and Mr Nicolson for their comprehensive presentation.

### **Decision**

**The Panel noted the presentation.**

## **12. EXCLUSION OF PUBLIC**

**RESOLVED** in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude from the meeting the press and public for the following item of business on the ground that it would involve the likely disclosure of exempt information as defined in Paragraph 9 of Part 1 of Schedule 7A to the said Act.

## **13. INVESTMENT IN UK/SCOTTISH INFRASTRUCTURE**

The Committee considered a report by the Chief Finance Officer providing updated information in relation to the possible investment in UK and Scottish infrastructure projects.

At the meetings of the Panel on 28 November 2013 and the Committee on 12 December 2013 it was agreed, in furtherance of the decisions taken at the September 2013 Panel and Committee meetings, that investment in local infrastructure (to include Central Scotland, Scotland and the UK as a whole) should be further progressed, that a more structured dialogue take place with Lothian Pension Fund as the preferred option.

The updated report detailed various matters in relation to the operation of the Lothian Fund.

### **Decision**

**The Panel agreed:-**

- (1) to support the proposal to collaborate with Lothian Pension Fund in making infrastructure investments within the UK and Europe; and**
- (2) agreed that in relation to consideration on whether a commitment should be made to the new Fund being launched by Grosvenor CM (agenda item 8) (minute item 9), this to take place as part of discussions surrounding the potential collaboration with Lothian Pension Fund.**