AGENDA ITEM 12

PENSION FUND – INVESTMENT SUB GROUP UPDATE

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FALKIRK COUNCIL

Subject: **PENSION FUND – INVESTMENT SUB GROUP UPDATE**
Meeting: **JOINT MEETING OF THE PENSIONS COMMITTEE & PENSION BOARD**
Date: **11 MARCH 2015**
Author: **DIRECTOR OF CORPORATE & HOUSING SERVICES**

1. INTRODUCTION

1.1 The purpose of this report is to provide the Pensions Committee and Pension Board with information regarding the Investment Sub Group.

2. INVESTMENT SUB GROUP

2.1 The sub group has met on 5 separate occasions.

2.2 Depending on how the Committee wishes to take forward the Fund's review of investment strategy, there may be no requirement for a further meeting of the sub group.

2.3 On that basis, the minutes of the sub group meeting of 28 January 2016 are attached as an appendix to this report.

2.4 A series of recommendations flowing from the work of the sub group is included in a separate report on the agenda under private business.

3. RECOMMENDATION

3.1 The Committee and Board are invited to note the report.

pp Director of Corporate & Housing Services

Date: 2 March 2016

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL

Appendix

FALKIRK COUNCIL

MINUTE of MEETING of the PENSIONS COMMITTEE INVESTMENT REVIEW SUB GROUP in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 28 JANUARY 2016 at 10.00 AM.

SUB GROUP MEMBERS:	Committee: Councillor Tom Coleman, Falkirk Council Councillor Callum Campbell, Stirling Council (Convener) Andrew Douglas, Unison Officers: Bruce Miller, Investment Manager, Lothian Pension Fund Alastair McGirr; Pensions Manager Bryan Smail, Chief Finance Officer
ATTENDING:	Pensions Board: Jennifer Welsh, SEPA
ALSO ATTENDING:	Simon Jones and William Marshall, Hymans Robertson Antonia Sobieraj, Committee Services Officer

INV36. CONVENERSHIP OF MEETING

The Clerk presided at the start of the meeting in the absence of the Convener and invited a member of the Committee to take the Chair for the duration of the meeting. Councillor Callum Campbell, Stirling Council thereafter took the Chair with the consent of members present.

INV37. APOLOGIES

Apologies were intimated on behalf of Depute Provost Patrick, Sandy Harrower, UCATT and Councillor Archie Drummond, Clackmannanshire Council.

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INV38. DECLARATIONS OF INTEREST

No declarations were made.

INV39. MINUTE

Decision

The minute of the meeting of the Pensions Committee Investment Review Sub Group on 2 October 2015 was approved.

INV40. REVIEW OF PROGRESS TO DATE

The Sub Group considered a report by Director of Corporate and Housing Services on the review of progress of the work of the Sub Group reviewing the Pension Fund's Investment Strategy.

The Sub Group had met on four occasions between August and October 2015. The report highlighted:-

- The Sub Group's Terms of Reference;
- The previously agreed short and long term funding objectives; and
- The key conclusions of the Group so far agreed as follows:-.
  - an initial reduction of 5% in Fund equities although how and from where was still to be determined;
  - to run down the existing private equity programme;
  - to progress a Smart Beta investment from cash resources;
  - to progress the allocation to global infrastructure (with Grosvenor Capital) and UK infrastructure (with the Lothian Pension Fund);
  - not to progress Currency Hedging; and
  - to potentially increase the property allocation but with regard to the Schroders position.

The Pensions Committee in December 2015 had agreed to progress the infrastructure proposal, committing $80m to the new Grosvenor Fund and a further £30m to UK infrastructure in collaboration with Lothian Pension Fund. It was anticipated that the fifth meeting of the Sub Group would draw together the strands from earlier meetings and make recommendations to the Pensions Committee in accordance with the terms of reference.

The key decisions/actions which were considered as outstanding were as undernoted:-

- The finalisation of the high level Fund Investment Strategy;
- The finalisation of the revised Asset Allocation;
- The determination of the extent and nature of a Smart Beta investment;
- The review of Manager deployment including opportunities for collaboration;
- The review of options for property;
- The agreement of a broad de-risking timetable; and
- The agreement of an approach to the social, environmental and governance issues (ESG).

A training session for the Committee and Board including a briefing on the technical aspects of the above issues would take place on 3 March 2016.

Decision

The Sub Group:-

(1) noted the report; and

(2) agreed, depending on the outcome of discussions at the meeting of the Pensions Committee and Board on 11 March 2016, to arrange a final meeting of the Group following the Conference on 14 April 2016.

INV41. FURTHER CONSIDERATION OF STATUS OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MATTERS

The Sub Group considered a report by the Director of Corporate and Housing Services on responsible investment, Fiduciary Duty and the environmental, social and governance (ESG) content of the Fund's Statement of Investment Principles (SIP).

The report highlighted the Fund's investment being governed by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 including the undernoted requirements:-

- The written statement of investment principles (the "SIP") specifying the extent to which social, environmental or ethical considerations were taken into account in the selection and retention of investments;
- The need to take proper advice in determining investment policy and the formulation of policy with a view to the advisability of investing in a "wide variety of investments" and the suitability of particular investments and types of investments; and
- The fiduciary duty to Fund stakeholders to ensure that those who make decisions regarding other persons' monies acted selflessly, responsibly and with prudence in the interests of stakeholders and thereby putting aside their own personal views and interests.

The Fund's present legal and fiduciary obligations were noted and formal comment on Scottish Government responsibilities would be forthcoming in late 2016. Should Pensions Funds be given greater scope to disinvest at that time it would be possible at that stage to amend investment mandates. The revision to the Fund's approach to ESG matters could then be reflected in an update to the SIP.

Further consideration of the issue would take place at the Pension and Board Training event on 3 March and at the Annual Conference on 14 April 2016.

Decision

The Sub Group noted the report.

Bryan Smail left the meeting during consideration of the following item of business.

INV42. INVESTMENT STRATEGY REVIEW SUMMARY

The Sub Group considered a report by Hymans Robertson summarising the considerations during recent meetings in the development of a suitable long-term investment strategy for the Fund.

The report detailed:-

- The long and short terms investment objectives;
- The long term investment strategy including the Fund's long-term "Steady State" strategy target;
- The de-risking to the "Steady State" strategy
- The investment strategies - current, proposed and "Steady State";
- The potential for a de-risking framework",
- The investment issues reviewed to date;
- The equity structure;
- The bond/debt investment;
- The property and Infrastructure considerations;
- The currency hedging;
- The statement of investment beliefs; and
- The next steps forward.

Decision

The Sub Group noted the report.

INV43. EQUITY STRUCTURE

The Sub Group considered a report by Hymans Robertson on the development of the Fund's equity structure.

The report highlighted:-

- The appropriate "smart-beta" strategy or strategies;
- The issues for consideration relating to different approaches;
- The selection of a suitable manager in line with the chosen strategy;
- The merits of utilising existing relationships, including both the Legal and General Investment Management (LGIM) and the Shared Services arrangement with Lothian Pension Fund;
- The potential changes to the regional equity allocation within the LGIM mandate; and
- The equity allocation within the investment strategy.

The report indicated that further consideration of an appropriate "smart-beta" strategy or strategies would take place at the training session on 3 March 2016. Thereafter consideration would follow in relation to the selection of a suitable manager.

Decision

The Sub Group noted the report.

INV44. PROPERTY UPDATE

The Sub Group considered a report by Hymans Robertson on the potential evolution of the property allocation.

The Fund currently had a target allocation of 10% of assets to property. The Fund at 30 September 2015 had £139m, equivalent to around 8% of assets, invested in a mandate managed by Schroder Investment Management.

The report highlighted:-

- The current portfolio including the structure/risk profile, the manager conflict of interest and the illiquidity of the asset;
- The update on the staffing structure at Schroder Investment Management;
- The strategic allocation to property in line with its long-term target allocation of 15% to property;
- The appropriateness of continuing to pursue outperformance within the core balanced portfolio;
- The immediate short terms options to be considered to maintain the management of the current portfolio including:-
  - Retaining Schroder Investment Management;
  - Appointing different Multi Manager; and
  - Managing the existing indirect allocation in house through the Shared Services Agreement with Lothian.

The report recommended the following measures subject to undertaking due diligence:-

- the short term consideration take place to extending the current Shared Services agreement with Lothian Pension Fund to provide oversight of the current property allocation; and
- that in the long-term consideration taker place on further collaboration opportunities to facilitate the migration of the current property allocation towards direct investment.

Decision

The Sub Group:-

(1) noted the report; and

(2) agreed:-

(a) that in the short term consideration take place on extending the current Shared Services agreement with Lothian Pension Fund to provide oversight of the current property allocation; and

(b) that in the long-term consideration take place on further collaboration opportunities to facilitate the migration of the current property allocation towards direct investment.

INV45. DATES OF NEXT MEETING

The date for the next meeting of the Sub Group would if required be confirmed in due course and take place following the Conference in April 2016.