

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest is a shield divided into four quadrants. The top-left quadrant shows a sailing ship on water. The top-right quadrant shows a stag's head with antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant shows a grizzly bear. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

AGENDA ITEM

3

MINUTE

DRAFT

FALKIRK COUNCIL

MINUTE of JOINT MEETING of the PENSIONS COMMITTEE/BOARD held in the MUNICIPAL BUILDINGS, FALKIRK on FRIDAY 11 MARCH 2016 at 9.30 A.M.

PRESENT:

Committee:-
Councillors Falkirk Council:-
Jim Blackwood
Tom Coleman
Steven Carleschi
Depute Provost John Patrick (Convener)

Councillor Colin Campbell, Stirling Council
Andrew Douglas, Unison
Ian McLean, Pensioner Representative

Board:-
Susan Crook, Unison
Sandy Harrower, UCATT
Gordon Laidlaw, Scottish Autism
Ed Morrison, Scottish Children's Reporter Administration's (SCRA)
Tommy Murphy, GMB
Jennifer Welsh, SEPA

ATTENDING:

Alastair McGirr, Pensions Manager
Bryan Smail, Chief Finance Officer
Antonia Sobieraj, Committee Services Officer

ALSO IN ATTENDANCE:

Bruce Miller, Investment Manager and Stephen Piotrowicz, Lothian Pension Fund
Jim Rundell and Louise Dodds, Audit Scotland
William Marshall and Simon Jones, Hymans Robertson
Julie Pine and Andrew Brown, Aberdeen Asset Management

PE37. APOLOGIES

Apologies were intimated on behalf of Councillor Archie Drummond, Clackmannanshire Council.

PE38. DECLARATIONS OF INTEREST

No declarations were made.

PE39. MINUTE

Decision

The minute of the joint meeting of the Pensions Committee and Board on 10 December 2015 was approved.

PE40. PENSION FUND - ANNUAL AUDIT PLAN

The Committee and Board considered a report by the Director of Corporate and Housing Services presenting Audit Scotland's Annual Audit Plan for 2015/2016.

The report detailed:-

- The consideration of the unaudited Financial Statements by the Committee and Board on 23 June 2016;
- The submission of the Internal Audit Plan for the Fund for 2016/2017 to the Committee and Board on 23 June 2016;
- The submission of the unaudited Financial Statements by 30 June 2016;
- The consideration of the audited Financial Statements by the Committee and Board on 22 September 2016;
- The submission of the audited Financial Statements by 30 September 2016;
- The anticipated submission of a report to the meeting of the Committee and Board on 22 September 2016 of the ISA260 ("Communication of audit matters to those charged with governance") and the Annual Audit Report;
- The issue of ISA 260 and Annual Audit Report by 30 September 2016;
- The matters identified in the Annual Audit Plan as being of potential risk to the Fund included Administration Performance, Member Training and Risk Management; and
- The fee for the 2015/16 audit was £23,010 and was unchanged from the financial year 2014/15.

Decision

The Committee and Panel noted the issuing of Audit Scotland's Annual Audit Plan for 2015/2016 consistent with the audit of the Falkirk Pension Fund Annual Report and Accounts for that year.

PE41. 2015/16 PROJECTED OUTTURN AND BUDGET 2016/17

The Committee and Board considered a report by the Director of Corporate and Housing Services on the Pension Fund Projected Outturn for 2015/16 and the Budget for 2016/2017.

Decision

The Committee and Board noted the draft Pension Fund budget for 2016/2017 and estimated outturn for 2015/2016.

The Committee agreed to approve the budget for 2016/2017.

PE42. PENSION FUND - RISK REGISTER

The Committee and Board considered a report by the Director of Corporate and Housing Services to approve a revised risk register for the Fund.

The report detailed:-

- The format of the current risk register was agreed by the Committee in June 2013;
- That a risk register could act as a basis through which Fund risk could be identified, analysed, evaluated and monitored;
- The development of a number of risk containment strategies;
- The recommendations of the internal audit review of Fund Governance arrangements that a risk register be updated to further incorporate investment risk; and
- That the need to update the central risk register should now be as recommended by External Audit in the 2015/2016 Audit Plan.

Decision

The Committee and Board noted the report.

The Committee agreed to approve the revised risk register and to request the Director of Housing and Corporate Services to report any changes to the register on a regular basis.

PE43. ORDER OF BUSINESS

In terms of Standing Order 14.2(i), Depute Provost Patrick advised of a variation to the order of business from that detailed on the agenda for the meeting. The following items have been recorded in the order that they were taken.

PE44. HEARTHSTONE SOCIAL AND AFFORDABLE HOUSING MANDATE

The Committee and Board considered a report by the Director of Corporate and Housing Services on the matters relating to the Fund's investment in social and affordable housing with Hearthstone Investments.

The Committee had agreed on 17 March 2014 to the investment of £30m Hearthstone Investments Housing Fund for Scotland to fund new social and affordable housing. The investment was made on the basis of £15m being allocated to social housing and £15m to affordable housing.

The areas covered in the update report included:-

- The investment of £15m in a Places for People Bond to back the social and affordable housing programme;
- The work in partnership with Castle Rock Edinvar, Edinburgh on the delivery of new property units;
- The £15m earmarked for social housing has, to date, been invested in successive short term debt instruments with the Places for People Group and the commitment to invest £15m in social housing in the Forth Valley area;
- The social housing programme involving the construction of 195 units across the area comprising:-
 - Clackmannanshire - Sauchie 39 units;
 - Falkirk - Bellsdyke 62 units and Overton 34 units;
 - Stirling - Durieshill 60 units; and
- The additional £10m from Scottish Government thereby increasing the total social housing programme to £25m;
- The timetable for completion of all social housing units;
- The affordable housing purchases totalling £7.9m (the balance of £7.1m still requiring to be deployed) as follows:-
 - Bo'ness 17 units - £1.8m;
 - Rutherglen 16 units - £1.6m; and
 - Aberdeen 18 units £4.5m; and
- The changes to the Government policy on social and affordable housing provision leading the Places for People Group to restructure its Medium Term Bond Issuance Programme;
- The Places for People Group's re-launched latest bond issuance programme and the option for the Fund to consider Hearthstone using the £15m to acquire further affordable housing assets and then leasing them back to the Places for People Group thus enabling an estimated yield of around 6% (net of fees) based on the rental stream and the capital growth of the properties over the term of the lease;
- The risk profile associated with the physical property; and
- The issues associated with the purchase and leaseback proposal.

Decision

The Committee and Board noted the developments surrounding the social and affordable housing mandate.

The Committee agreed to approve that the £15m investment earmarked for affordable housing should be used to acquire new affordable housing units with a view to these being leased back to the Places for People Group.

PE45. ABERDEEN ASSET MANAGEMENT

The Committee and Board received a presentation by Ms Julie Pine and Mr Andrew Brown, Aberdeen Asset Management.

The presentation covered the undernoted:-

- The benefit of being truly Active Managers;
- Portfolio Fundamentals;

- Shifting Market Dynamics; and
- Manager Fees.

The Convener thanked Ms Pine and Mr Brown for their comprehensive presentation.

PE46. GENERAL GOVERNANCE MATTERS

The Committee and Board considered a report by the Director of Corporate and Housing Services 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 Increase;
- The Proposed Scheme changes;
- The Local Government Pension Scheme Advisory Board;
- The Scottish Parliament Infrastructure Report;
- The Pensions and Lifetime Savings Association; and
- The Local Authority Pension Fund Forum (LAPFF) of 58 local authority Pension Funds including work relating to the Fund supporting LAPFF as it bids to file a resolution on carbon disclosure at the next AGM of Anglo American.

Decision

The Committee and Board noted the report.

PE47. PRIVATE EQUITY AND ALTERNATIVES UPDATE

The Committee and Board considered a report by the Director of Corporate and Housing Services on the progress of the Pension Fund's private equity and alternatives investment programme for SL Capital (Standard Life), Wilshire Associates, Grosvenor Capital, M&G, Hearststone and UK Infrastructure (in conjunction with Lothian Pension Fund) for the quarter ending 31 December 2015.

Decision

The Committee and Board noted the progress of the Pension Fund's private equity and alternatives investment programme for the quarter ending 31 December 2015.

PE48. PENSION FUND - INVESTMENT SUB GROUP UPDATE

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on the work of the Sub Group reviewing the Pension Fund's Investment Strategy.

The Pensions Committee had agreed on 26 June 2015 to the establishment of an Investment Strategy Sub Group, the purpose being to review the Fund's Investment Strategy and make appropriate recommendations to the Committee. The Group would take forward a de-risking plan within the context of a wider review of the Strategy.

The Sub Group had held five meetings and the report summarised the Sub Group's findings. The Group had now completed its work and the final minute was attached for information. Further consideration of the work of the Group was considered under agenda item 15 (minute PE52).

Decision

The Committee and Board noted the report.

PE49. INVESTMENT STRATEGY - ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG) UPDATE

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on the environmental, social and governance (ESG) considerations arising from the review of investment strategy.

The report highlighted:-

- The Fund's approach to environmental, social and governance (ESG) matters as set out in Section 9 of the Statement of Investment Principles (SIP);
- The Fund's obligations as a responsible investor and the commitment to ensuring companies meet acceptable standards of practice with a particular focus on human rights, environmental issues and employment standards;
- That engagement and influence took place through the Fund including having regular discussions with Asset Managers on their own specific ESG monitoring, the exercising of voting rights through proxy voting agents and membership of the Local Authority Pension Funds Forum (LAPFF);
- That in terms of Fund policy in general the non interference in the investment decisions of Managers and to allow them to base their decisions on the risk/return characteristics of each investment opportunity;
- The corporate governance matters of significance being reported quarterly to the Pensions Committee and Board;
- The monitoring of Managers to ensure the embedding of ESG considerations into their investment processes and the evaluation of risk and return; and
- The work of the investment Sub Group in relation to regulatory matters, fiduciary duty, legal consensus and divestment.

Decision

The Committee and Board noted the report.

The Committee agreed to approve that a dedicated training event be held in due course addressing the Fund's approach to environmental, social and ethical matters (ESG) in relation to investment decision making.

PE50. EXCLUSION OF PUBLIC

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

PE51. FUND MANAGER PERFORMANCE REVIEW

The Committee and Board considered a report by the Director of Corporate and Housing Services reviewing the overall performance of the Fund and of the undernoted Fund Managers:-

- Aberdeen Asset Management
- Baillie Gifford (Bond Mandate)
- Baillie Gifford (Diversified Growth)
- Legal and General Investment Management
- Newton Investment Management
- Schroder Investment Management (UK Equities)
- Schroder Investment Management (Property)

Decision

The Committee and Board noted the Fund Managers' performance and the action taken by them during the quarter to 31 December 2015, in accordance with their investment policies.

PE52. INVESTMENT STRATEGY CONSIDERATIONS

The Committee and Board considered a report by the Director of Corporate and Housing Services on the work of the Sub Group established to take forward a review of the Fund's Investment Strategy.

The Sub Group had held five meetings and the report summarised the Sub Group's findings and contained a number of recommendations for consideration.

Decision

The Committee and Board noted the report.

The Committee agreed:-

- (1) the revised strategic allocation as detailed in the report;
- (2) the Fund having a long term objective to increase the allocation to property to 15%;

- (3) to retain existing managers, subject to making a final decision at a future meeting on the global equity mandate and making alternative arrangements for the property mandate;
- (4) to progress an investment in the Smart Beta mandate and to consider at the next meeting the type of Smart Beta investment most appropriate for the Fund;
- (5) the existing private equity programme being run down;
- (6) that no new private equity investments be made;
- (7) that a report be submitted to a future meeting on the options for the property mandate; and
- (8) the continuation of consideration of the investment beliefs at a future meeting as set out in Appendix 1 to the report.