

FALKIRK COUNCIL

MINUTE of MEETING of the PENSIONS COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 12 DECEMBER 2013 at 9.30 A.M.

PRESENT:

Councillors:
Jim Blackwood
Steven Carleschi
Tom Coleman
Depute Provost Patrick (Convener)
Alistair Redpath

ATTENDING:

Jason Koumides, Pensions Accountant
Alastair McGirr; Pensions Manager
Bruce Miller, Investment Manager, Lothian Pension Fund
Bryan Smail, Chief Finance Officer
Antonia Sobieraj, Committee Services Officer

ALSO IN
ATTENDANCE:

Anne Marie Gillon and Chris Murphy, Baillie Gifford
Simon Jones, Hymans Robertson
Andrew Imrie, Portfolio Manager and Clare Scott, Head of Investments, Lothian Pension Fund
Jim Rundell and Neil Cartlidge, Audit Scotland
Clare Watson and Kevin Murphy, Schroders Investment Management

PE63. APOLOGIES

Apologies were received from Mary Keggan, Unison.

PE64. DECLARATIONS OF INTEREST

No declarations were made.

PE65. MINUTES

Decision

- (a) The minute of the Joint Meeting of the Pensions Committee and Pensions Panel held on 5 September 2013 was approved;
- (b) The minute of the Special Joint Meeting of the Pensions Committee and Pensions Panel held on 10 September 2013 was approved; and

- (c) **The minute of Meeting of the Pensions Panel held on 28 November 2013 was noted.**

PE66. INVESTMENT IN SOCIAL/AFFORDABLE HOUSING

The Committee considered a report by the Chief Finance Officer presenting an update on the latest developments regarding the possibility of the Fund making an investment in social and affordable housing.

At the Special Joint Meeting of the Committee and Panel on 10 September 2013 it was agreed as undernoted:-

- (1) That an investment in social housing should be progressed;
- (2) That a manager search be undertaken, consistent with procurement rules;
- (3) That the final decision to invest remain dependent on identifying a suitable manager and fund;
- (4) That whilst examining the market within the UK as a whole, any mandate to a suitably appointed manager should require that consideration is given to both the Scottish and local (pension fund area) dimensions;
- (5) That any investment should be made gradually and limited to not more than £30m; and
- (6) That the Chief Finance Officer would report on progress to the next round of Panel/Committee meetings.

The updated report highlighted measures taken to ensure the mandate received the widest possible exposure to potential investment managers. This included the placing of a notice within the Official Journal of the European Union on 18 November 2013. The report also indicated that the final interview with managers was likely to be held in mid March 2014.

Decision

The Committee:-

- (1) **noted the actions taken in relation to investment in social and affordable housing; and**
- (2) **agreed that the interviewing of the Fund Managers in March 2014 would be undertaken at a Special meeting of the Committee only.**

PE67. INVESTMENT IN UK INFRASTRUCTURE

The Committee considered a report by the Chief Finance Officer on the latest developments in identifying options for investing in UK infrastructure projects.

At the Special Joint Meeting of the Committee and Panel on 10 September 2013 it was agreed as undernoted:-

- (1) That investment in local infrastructure (to include Central Scotland, Scotland and the UK as a whole) should be further progressed;
- (2) That an assessment of the following 3 options should be undertaken in determining the best way to proceed:-
 - to invest in one or more of the available UK Infrastructure Funds;
 - to collaborate with other LGPS funds (or other investor) to establish a segregated account run by an external investment manager and focusing on UK/Scottish Infrastructure; and
 - to invest in individual projects, relying on larger fund advisers to undertake due diligence.
- (3) The final decision to invest remains dependent on identifying a suitable Fund or manager;
- (4) Any investment is limited to not more than £30m;
- (5) If direct investment is to be pursued, a protocol governing such investments be established, and
- (6) The Chief Finance Officer report on progress to the next round of Panel/Committee meetings.

The updated report provided options for progressing investment in UK infrastructure including:-

- The establishment of collaborative arrangements with the Lothian Pension Fund;
- The setting up of a Segregated Fund for Falkirk Council; and
- The tendering for an Investment Manager to manage the Pension Funds.

The report indicated that the proposed collaborative arrangement with the Lothian Pensions Fund, which involved seconding staff to the Falkirk Council Pensions Team from the Lothian Investment Team, would require appropriate approval by the Falkirk Council Legal and Human Resources sections. It was noted that the views of investment advisers Hymans Robertson would be required on the collaborative arrangements before any final investment decision could be made.

Prior to the Committee taking a decision in relation to this item of business the Convener asked Bruce Miller, Clare Scott and Andrew Imrie, Lothian Pension Fund to leave the meeting during deliberations. Bruce Miller later re-entered the meeting following consideration of the matter.

Decision

The Committee agreed:-

- (1) that a more structured dialogue take place with Lothian Pension Fund (the preferred option); and
- (2) that the Chief Finance Officer provide an update at the meeting on 6 March 2014.

PE68. PENSION FUND ACCOUNTS 2012/13 – AUDIT REPORT

The Committee considered a report by the Chief Finance Officer presenting Audit Scotland's Annual Report on the 2012/2013 Falkirk Council Pension Fund Audit.

Decision

The Committee noted Audit Scotland's Annual Report on the 2012/2013 Local Government Pension Funds Audit.

PE69. PENSION FUND – FUNDING UPDATE

The Committee considered a report by the Chief Finance Officer on the latest funding position in relation to the Falkirk Council Pension Fund as at 31 October 2013.

Decision

The Committee noted the latest funding position in relation to the Falkirk Council Pension Fund as at 31 October 2013.

PE70. LONGEVITY ANALYSIS – CLUB VITA

The Committee considered a report by the Chief Finance Officer on the proposal by the Pension Fund Actuary, Hymans Robertson to carry out an in depth analysis of the Pension Fund's membership data, the compilation a bespoke model of life expectancy for the Fund and the founding of the limited partnership "Club Vita" in 2007 with approximately 160 participants and data for over 1.8 million pensioners.

Decision

The Committee approved the proposal from Hymans Robertson for the Fund to participate in Club Vita to enable a detailed analysis of the Fund's longevity experience to be undertaken.

PE71. LGPS 2015 - HEADS OF AGREEMENT

The Committee considered a report by the Chief Finance Officer on the Local Government Pension Scheme 2015 - Heads of Agreement setting out the terms of the agreement reached by the Scottish Local Government Pensions Advisory Group

(SLOGPAG) and related content and operation of a new Local Government Pension Scheme (LGPS) 2015 for Scotland.

The report outlined the benefits package and governance arrangements proposed under the Heads of Agreement and detailed that further consideration would require to be given to governance matters including:-

- The role of the four governance bodies identified by the Act;
- The membership and constitution of the Scheme Advisory Board;
- The operation of the cost control mechanism; and
- The requirements of the Pensions Regulator.

Decision

The Committee noted the developments relating to the establishment of the Local Government Pension Scheme (LGPS) 2015.

The Convener agreed an adjournment at 11.40 a.m. prior to full consideration of the remainder of the business. The meeting reconvened at 11.45 a.m. with all Members present as per the sederunt, with the exception of Councillor Coleman.

PE72. 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.

PE73. FUND MANAGER REVIEW

The Committee received a presentation by Anne Marie Gillon and Chris Murphy of Baillie Gifford.

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 Ms Gillon and Mr Murphy for their comprehensive presentation.

Decision

The Committee noted the presentation.

PE74. FUND MANAGER REVIEW

The Committee received a presentation by Clare Watson and Kevin Murphy of Schroder Investment Management.

The areas covered within the presentation included:-

- Stock Attribution;
- Portfolio Review; and
- Equity Performance.

The Convener thanked Ms Watson and Mr Murphy for their comprehensive presentation.

Decision

The Committee noted the presentation.

The Convener agreed a further adjournment prior to consideration of the following item of business. The meeting reconvened with all Members present as per the sederunt, with the exception of Councillor Coleman.

PE75. PENSIONS ADMINISTRATION SYSTEM

The Committee considered a report by the Chief Finance Officer on the proposals for the procurement of a replacement computerised system for the administration of the Falkirk Local Government Pension Scheme.

Discussion took place on the following issues:-

- The importance of a robust administrative system and the compatibility of computer systems;
- The possibility of sharing a system with another body;
- The imperatives of sound financial management and data security; and
- The tight timescales for implementation.

Decision

The Committee approved the procurement of a replacement computerised system for the administration of the Falkirk Local Government Pension Scheme.

PE76. PENSION FUND - GENERAL GOVERNANCE MATTERS

The Committee 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 issues associated with Auto Enrolment;
- The Pension Fund's Risk Register; and
- The transfer to the Scottish Public Pensions Agency from 1 April 2015 of responsibility for the pensions of uniformed officers within Police Scotland and the Scottish Fire and Rescue Service.

Decision

The Committee noted the report.

PE77. FUND MANAGER PERFORMANCE REVIEW

The Committee 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 (Bond Mandate)
- Baillie Gifford (Diversified Growth)
- Legal and General Investment Management
- Newton Investment Management
- Schroder Investment Management (UK Equities)
- Schroder Investment Management Report (Property)

Decision

The Committee noted the Fund Managers' performance and the action taken by them during the quarter to 30 September 2013, in accordance with their investment policies.

PE78. PRIVATE EQUITY AND ALTERNATIVES UPDATE

The Committee 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 30 September 2013.

Decision

The Committee noted the progress of the Pension Fund's Private Equity, Infrastructure and Credit Markets Programmes for the quarter ending 30 September 2013.