

FALKIRK COUNCIL

MINUTE of MEETING of the PENSIONS COMMITTEE held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 6 MARCH 2014 at 9.30 A.M.

PRESENT:

Councillors:
Jim Blackwood
Steven Carleschi
Tom Coleman
Depute Provost Patrick (Convener)
Dr Craig R Martin

Mary Keggan
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:

Bruce Miller, Investment Manager, Lothian Pension Fund
Jim Rundell and Neil Cartlidge, Audit Scotland
James Sparshott, Legal and General
Clare Watson, Anthony Doherty and Gordon Rutter, Schroders
Investment Management

PE79. APOLOGIES

Apologies were received from Councillor Campbell, Stirling Council and Councillor C Martin, Falkirk Council.

PE80. DECLARATIONS OF INTEREST

No declarations were made.

PE81. MINUTES

Decision

- (a) The minute of the Meeting of the Pensions Panel held on 28 November 2013 was noted; and

- (b) The minute of the Meeting of the Pensions Committee held on 12 December 2013 was approved..**

PE82. ANNUAL AUDIT PLAN - 2013/14

The Committee considered a report by the Chief Finance Officer presenting the Annual Audit Plan for 2013/14 as proposed by Audit Scotland in its capacity as Auditor of the Falkirk Council Pension Fund.

The Audit Plan included a summary of proposed audit activity and associated key milestones for unaudited final statements by 30 June 2014 and the audited annual report and accounts by 30 September 2014.

Decision

The Committee noted Annual Audit Plan for 2013/14, consistent with the audit of the Pension Fund Annual Report and Accounts for 2013/14.

PE83. LGPS (SCOTLAND) 2015

The Committee considered a report by the Chief Finance Officer summarising the major changes to the Local Government Pension Scheme, the common framework and implications of the Public Service Pensions Act 2013 with effect from 1 April 2015, and detailing the latest developments since the Panel's meeting in November 2013 in the implementation of the new scheme.

These changes included:-

- The scheme benefits based on the Career Average (CARE) rather than the Final Salary;
- The alignment of the Scheme Retirement Age with the State Pension Age as this increased from age 65 to 68; and
- The introduction of new governance arrangements.

The Public Service Pensions Act 2013 aimed to establish a common framework for public sector pensions in the UK and to ensure that the schemes were sustainable in the long term.

The report confirmed that negotiations in relation to the Local Government Pensions Scheme (LGPS) were the responsibility of the Scottish Local Government Pension Advisory Group (SLOGPAG), consisting of COSLA, Scottish Government and Trades Union representatives.

The finalised Heads of Agreement was published by the Scottish Public Pensions Agency (SPPA) in early January 2014 and was circulated to all Falkirk Fund employers for publicising to scheme members.

Consultation thereafter took place on the implementation of the new scheme as undernoted:-

- **Draft Scheme Regulations** - This 6 week consultation exercise, from 6 January to 16 February 2014, was designed to establish whether the regulations were generally fit for purpose and conformed to the terms of the Act and the Heads of Agreement. A joint response was submitted by Pensions Managers of the Scottish Funds;
- **Governance Arrangements** - This 6 week consultation exercise, from 23 December 2013 to 3 February 2014, aimed to stimulate debate relating to the various governance issues associated with the 2013 Act. The response, agreed by the Conveners of the Pensions Panel and Committee, was consistent with those submitted by the LGPS Fund Conveners' and the National Pension Fund Officers Groups. The key governance roles for the public service schemes included the Responsible Authority, the Scheme Manager, the Pension Board and the Scheme Advisory Board; and
- **Pension Regulator's Draft Code of Practice** - The Act extended the Pension Regulator's (TPR) role to provide regulatory oversight of public service pension schemes. To this end, a draft Code of Practice was issued for consultation on 10 December 2013. This reference document, for Scheme Managers and Pensions Boards, provided guidance on the Schemes appropriate management in key areas:- knowledge and understanding, conflicts of interest, management of risk, scheme administration and resolving member disputes.

The other pertinent responsibilities included communicating with scheme members, staff and employer training on the scheme's provisions and meeting ensuring the Regulator's Standards were met.

Decision

The Committee noted the latest developments in relation to the establishing of LGPS (Scotland) 2015.

PE84. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The Committee considered a report by the Chief Finance Officer on the Additional Voluntary Contributions (AVC's) and consideration of the appointment of Prudential as an additional AVC Provider to the Pension Fund.

Additional Voluntary Contributions (AVC's) were introduced as part of the Local Government Pension Scheme since 1987 and provided the opportunity for Pension Fund members to build up benefits on a money purchase basis receiving tax relief on their contributions, which were in turn invested with an external manager (AVC Provider). The Provider generally offered a spread of investment funds ranging from a low risk cash fund to more volatile equity linked funds. On retirement, the accumulated AVC pot converted into an annuity or could be realised as a tax free lump sum.

The current AVC arrangement enabled member investment in three Standard Life Funds. These were Cash, Profits and Managed Funds. Members had the opportunity to spread investment across the Funds and switch between them. The local authority AVC market was specialised and Standard Life and Prudential were considered to be the only two credible providers.

The report highlighted that whilst Standard Life was a well-known institution with a strong financial rating and its approach to marketing AVC arrangements had been low key. Despite this it was considered that Standard Life could be retained as one of the Fund's AVC Providers.

Prudential was recognised as a leading provider in the AVC field. Hymans Robertson, the Fund's Investment Adviser, was therefore requested to comment on the proposed appointment of Prudential as joint AVC Provider to the Falkirk Fund. Feedback was positive and indicated their leading status player in the LGPS AVC market and their long term stability.

The appointment of Prudential was considered to offer Fund members greater AVC investment choice. This was supported by Hymans Robertson. In addition, the appointment would assist in refreshing the AVC facility and provide members a greater retirement saving opportunity.

Decision

The Committee noted the proposal to appoint Prudential as an additional AVC Provider.

PE85. ATTENDANCE AND TRAINING MATTERS

The Committee considered a report by the Chief Finance Officer on the Pension panel and Committee member attendance at Pension Fund related meetings/training events and to share the findings of the recent survey on training needs.

The Pension Fund's Training Policy recognised that those persons involved in the governance of the Fund should have the necessary level of skills and knowledge to carry out the necessary duties. This included detailing the expected number of Fund related meetings and training events to attend and reporting attendance information periodically to the Panel and the Committee as well as assessing training needs.

The report highlighted attendance at meetings between August 2012 and December 2013 together with training events during the same period. In addition, an online Panel and Committee member anonymized questionnaire prior to Christmas 2013 sought feedback on areas for further training. 66% of members completed the questionnaire providing valuable information.

Decision

The Committee noted the report and that further training would be provided as appropriate.

PE86. 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 Autumn Statement State Pension Review;
- The Pension Fund's Risk Register;
- The UK Infrastructure Investment;
- The Local Authority Pension Fund Forum (LAPFF) of 58 local authority Pension Funds and the workplan for 2014;
- The Fiduciary Duty of Trustees; and
- The Annual Pension and Investment Fund conference In Falkirk on 17 April 2014.

Decision

The Committee noted the report.

PE87. 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 Bonds;
- Baillie Gifford Diversified Growth;
- Legal and General;
- Newton Investment Management;
- Schroder Investment Management UK Equities; and
- Schroder Investment Management Property.

Decision

The Committee noted the Fund Managers' performance and the action taken by them during the quarter to 31 December 2013, in accordance with their investment policies.

PE88. 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 31 December 2013.

Decision

The Committee noted the progress of the Pension Fund's private equity, infrastructure and credit markets programme for the quarter ending 31 December 2013.

PE89. 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.

PE90. 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 provided an update on the Manager search initiated in November 2013 with proposals being invited through the Official Journal of the European Union (OJEU). Tender responses were received from the following Fund Managers:

- Aviva;
- Catalyst for Homes;
- Hearthstone;
- Horizon;
- Legal and General;

- Threadneedle Investments; and
- Invesco.

The tender submissions were now being evaluated by Hymans Robertson, the Pension Fund's investment advisers and further details formed an appendix to the report. The shortlist would include only those submissions meeting the minimum criteria. A maximum of four Fund Managers would be invited for interview. The interviews would be undertaken by Committee members at a special meeting of the Pensions Committee on 17 March 2014. The Committee agreed that the tender information and the suggested shortlist contained exempt information as defined in Paragraph 9 of Part 1 of Schedule 7 of the Local Government (Scotland) Act 1973 and resolved that, to the extent that there required to be discussion on the detail contained therein, it would be taken in private, and the document would not be available to the press or public.

Decision

The Committee noted the actions taken in relation to investment in social and affordable housing.

PE91. 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.

PE92. INVESTMENT MANAGEMENT FEES

The Committee considered a report by the Chief Finance Officer on the remuneration terms of the Fund's investment managers and the fees paid during the calendar years 2012 and 2013.

Decision

The Committee:-

- (1) noted the report; and**
- (2) agreed that the Strategic Asset Allocation should, as far as possible, run in conjunction with the Fund Valuation process.**

The Convener agreed an adjournment at 10.55 a.m. prior to consideration of the following item of business. The meeting reconvened at 11.05 a.m. with all Members present as per the sederunt.

The following subsequent items were then taken in public as detailed on the agenda.

PE93. FUND MANAGER REVIEW

The Committee received a presentation by James Sparshott of Legal and General.

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 Sparshott for his comprehensive presentation.

Decision

The Committee noted the presentation.

PE94. FUND MANAGER REVIEW

The Committee received a presentation by Clare Watson, Anthony Doherty and Gordon Rutter of Schroders.

The areas covered within the presentation included:-

- Global Equities;
- Stock Attribution; and
- Portfolio Review.

The Convener thanked Ms Watson, Mr Doherty and Mr Rutter for their comprehensive presentation.

Decision

The Committee noted the presentation.