

FALKIRK COUNCIL

MINUTE of JOINT MEETING of the PENSIONS COMMITTEE/BOARD held in the MUNICIPAL BUILDINGS, FALKIRK on THURSDAY 23 JUNE 2016 at 9.30 A.M.

PRESENT:

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

Councillor Colin Campbell, Stirling Council
Ian McLean, Pensioner Representative

Board:-
Susan Crook, Unison
Ed Morrison, Scottish Children's Reporter
Administration's (SCRA)
Tommy Murphy, GMB

ATTENDING:

Justyna Korszen-Bennett, Senior Accountant
Alastair McGirr, Pensions Manager
Gordon O'Connor, Audit Manager (for items 5 and 6)
(minute
PE5 and PE5)
Bryan Smail, Chief Finance Officer
Antonia Sobieraj, Committee Services Officer

**ALSO IN
ATTENDANCE:**

Lyndon Bolton and Kevin Murphy, Schroder Investment
Management
Christopher Down, Hearthstone Investments
Louise Dodds, Audit Scotland
Simon Jones and William Marshall, Hymans Robertson
Bruce Miller, Investment Manager, Lothian Pension
Fund
Alister Steele, Castle Rock Edinvar

PE1. APOLOGIES

Apologies were intimated on behalf of Councillor Craig Martin, Falkirk Council; Donald Balsillie, Clackmannanshire Council; Jennifer Welsh, SEPA; Sandy Harrower, UCATT; Andrew Douglas, Unison and Gordon Irvine, UNITE.

PE2. DECLARATIONS OF INTEREST

No declarations were made.

PE3. MINUTE

Decision

The minute of the joint meeting of the Pensions Committee and Board on 11 March 2016 was approved.

PE4. PENSION BOARD MEMBERSHIP

The Committee and Board considered a report by the Director of Corporate and Housing Services intimating changes to the membership of the Board.

The report detailed:-

- The resignations from the Board from Councillor Archie Drummond, Clackmannanshire Council and Herbie Schroder, UNITE;
- That Councillor Donald Balsillie, Clackmannanshire Council had been nominated to replace Councillor Drummond on the Board;
- The legislation requiring that the Employer and Trades Union sides on the Board each nominate one of its number to serve as Convener annually on a rotational basis;
- That Councillor Drummond from the Employer side served as Chair for one year from June 2015 and that Susan Crook, Unison had been nominated to serve as Chair of the Board from June 2016 for one year; and
- That the Employer Side would be invited nominate a Chair for the year from June 2017.

Decision

The Committee and Panel noted the report and the subsequent information from UNITE that Gordon Irvine had been nominated to serve as a replacement to Herbie Schroder on the Board.

The Committee agreed:-

- (1) that Susan Crook, Unison serve as Chair of the Board for the coming year; and**
- (2) to invite the Employers side to replace Councillor Drummond as Chair of the Board from June 2017.**

PE5. INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2015/16

The Committee and Board considered a report by the Director of Corporate and Housing Services on the Internal Audit Annual Assurance Report 2015/16.

The report detailed:-

- The work undertaken by Internal Audit during 2015/16, and provided an assurance on arrangements for risk management, governance, and control based on that work;
- The provision of substantial assurance for the year to 31 March 2016;
- The operational activity to provide [the](#) overall assurance; and
- The compliance with Public Sector Internal Audit Standards (PSIAS) 2013;

Decision

The Committee and Board noted:-

- (1) **the Internal Audit Annual Assurance Report 2015/16 and the sufficient Internal Audit activity undertaken to allow a balanced assurance; and**
- (2) **that Internal Audit was able to provide substantial assurance in respect of the Fund's overall arrangements for risk management, governance and control for the year to 31 March 2016.**

PE6. FALKIRK COUNCIL PENSION FUND - UNAUDITED ANNUAL REPORT AND ACCOUNTS – 2015/16

The Committee and Board considered a report by the Director of Corporate and Housing Services on the Falkirk Pension Fund's Unaudited Annual Report and Accounts for 2015/2016 and (a) referring to the Local Government Pension Scheme (Scotland) Regulations 2014, which required administering authorities to publish a Pension Fund annual report including a Fund account and a net assets statement; (b) the various additional requirements of the Local Authority Accounts (Scotland) Regulations 2014 requiring unaudited accounts; and (c) attaching as an appendix for inspection, a copy of the Fund's Unaudited Annual Report and Accounts for 2015/16.

Decision

The Committee and Board noted the publication of the Unaudited Falkirk Council Pension Fund Annual Report and Accounts 2015/16 detailed in the Appendix to the report.

PE7. INTERNAL AUDIT PLAN 2016/17

The Committee and Board considered a report by the Internal Audit Manager on the Internal Audit Plan 2016/17.

The report included:-

- The planned Internal Audit work on Fund transactions, pension investments and the migration of data to the Altair Pension system;
- The reporting of Internal Audit work through draft audit reports providing a statement on the level of assurance on risk management, governance and control and an action plan setting out any specific audit recommendations; and
- The overall assurance as detailed in the definitions in Appendix 1 to the report.

Decision

The Committee and Board noted the report and that that an Annual Assurance Report would be provided in due course.

The Committee agreed the planned Internal Audit coverage for 2016/17 and that a further report on progress be submitted to a future meeting.

PE8. 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 Risk Register;
- The Public Sector Exit Payments;
- The Pooling Arrangements with England and Wales;
- The Local Authority Pension Fund Forum (LAPFF) of 58 local authority Pension Funds; and
- The Local Government Pension Scheme Training and Investment Seminar on 5 and 6 October 2016 in Edinburgh.

Decision

The Committee and Board noted the report.

PE9. INVESTMENT BELIEFS

The Committee and Board considered a report by the Director of Corporate and Housing Services inviting consideration of the adoption the Fund's core

investment beliefs for inclusion in the Fund's Statement of Investment Principles.

The report detailed:-

- The investment beliefs as a valuable tool for the justification of investment decisions;
- That documented investment beliefs was evidence of good governance and principled decision making;
- The support of the Investment Strategy Sub Group for the incorporation of key beliefs into the Fund's revised strategy;
- The a published set of investment beliefs would:-
 - provide clarity over the role and objectives of the various mandates,
 - assist in prioritising competing investment demands,
 - enable the long term view to be taken; and
 - provide a consistent framework for decision making and an ongoing record of the decision making rationale; and
- The various beliefs for consideration including:-
 - the importance of having clear and well defined strategic objectives;
 - that strategic asset allocation was a key determinant of risk and return;
 - that being a long term investor provided opportunities for enhanced returns;
 - that both active and passive management had a role to play; and
 - the significance of fees and costs.

Decision

The Committee and Board noted the report.

The Committee agreed to adopt the core investment beliefs as detailed in Appendix 1 to the report and their inclusion in the Fund's Statement of Investment Principles.

PE10. INVESTMENT STRATEGY – SMART BETA OPTIONS

The Committee and Board considered a report by the Director of Corporate and Housing Services on progress of the investment in smart beta following work of the Investment Sub Group and setting out alternative strategies.

The areas covered in the update report included:-

- The smart beta investment being made as part of the revised asset allocation adopted by the Fund;
- The revised allocation reflecting a desire to reduce the risk of poor funding outcomes whilst maintaining the chances of attaining fully funded status in the longer term;

- The revised allocation together with the longer term aspirational allocation;
- That the smart beta investment would form part of the allocation to listed equities of 55%;
- That the smart beta option would improve the diversity of the Fund's equity structure and offering a solution with lower costs and lower volatility than would result from another active mandate;
- The various smart beta strategies including fundamental weighting, low volatility, equal weighting, high quality, momentum weighting and multi factor;
- The focus on fundamental weighting, low volatility and equal weighting approaches in line with the Fund's aim of reducing risk;
- The exploration of implementation through existing relationships with Legal and General or the secondment arrangement with Lothian Pension Fund;
- The Fund's equity investments being rebalanced with a view to assets being split equally between the various managers; and
- The smart beta investment based on the low volatility and fundamental approaches and their consistency with the Fund's investment strategy.

Decision

The Committee and Board noted the report.

The Committee agreed:-

- (1) the pursuance of a smart beta strategy based on the fundamental weighting and low volatility approaches in equal measure; and**
- (2) the investment funded from the rebalancing of existing mandates so that an equal split of assets was achieved between the four existing equity managers and the smart beta investment;**
- (3) that an implementation plan would be submitted for consideration to the next meeting in September 2016.**

The Convener agreed an adjournment at 10.45 a.m. The meeting reconvened at 11 a.m., with all Members present as per the sederunt.

PE11. HEARTHSTONE INVESTMENTS PLC

The Committee and Board received a presentation by Christopher Down, Hearthstone Investments and Alister Steele, Castle Rock Edinvar in relation 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 presentation included:-

- The completion of 62 social housing units at Bellsdyke, Larbert totalling £7.5 m;
- The completion of the 17 affordable housing apartments in Bo'ness totalling £1.49m; and
- The planned 34 social housing units within the Falkirk Council area during 2017 totalling £3.4m.

The Convener thanked Mr Down and Mr Steele for their comprehensive presentation.

Councillor Dr C R Martin left the meeting during consideration of the following item of business.

PE12. PRESENTATION - SCHRODER INVESTMENT MANAGEMENT

The Committee and Board received a presentation by Lyndon Bolton and Kevin Murphy, Schroder Investment Management.

The presentation covered the undernoted:-

- The value investing basics;
- The areas of the market and compelling value;
- The banking and mining sectors; and
- The Falkirk UK portfolio, equity and performance.

The Convener thanked Mr Bolton and Mr Murphy for their comprehensive presentation.

PE13. 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.

PE14. 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); and
- 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 March 2016, in accordance with their investment policies.

PE15. 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, Hearthstone and UK Infrastructure (in conjunction with Lothian Pension Fund) for the quarter ending 31 March 2016.

Decision

The Committee and Board noted the progress of the Pension Fund's private equity and alternatives investment programme for the quarter ending 31 March 2016.

The Committee agreed to align the in house collaboration with the Lothian Fund, leaving discretion in approving projects to the Chief Finance Officer.

NOTE: The Committee expressed a wish that, where appropriate, due consideration be given to UK projects or projects with a UK, Scottish or local dimension.