

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 city skyline with a diagonal beam of light. The top-right quadrant depicts a stag's head with antlers. The bottom-left quadrant shows a three-masted sailing ship on wavy water. The bottom-right quadrant features a grizzly bear standing on its hind legs. Above the shield is a crown with four maple leaves. A banner at the bottom 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 Thursday 16 March 2017 at 9.30 a.m.**

**Present:**

Committee:-

Councillors Falkirk Council:-

Jim Blackwood

Steven Carleschi

Tom Coleman

Dr Craig R Martin

Depute Provost John Patrick (Convener)

Councillor Callum Campbell, Stirling Council

Andrew Douglas, Unison

Ian McLean, Pensioner Representative

Board:-

Susan Crook, Unison

Gordon Irvine, Unite

Sandy Harrower, UCATT

Simon Hunt, Scottish Autism

Ed Morrison, Scottish Children's Reporter

Administration (SCRA)

Jennifer Welsh, SEPA

**Attending:**

Alastair McGirr, Pensions Manager

Bryan Smail, Chief Finance Officer

Antonia Sobieraj, Committee Services Officer

Graham Templeton, Senior Auditor

**Also in  
Attendance:**

Julie Pine, Victoria Maclean and James Fearon,  
Aberdeen Asset Management

Rob Jones, Ernst and Young (External Audit)

Simon Jones, Hymans Robertson

Bruce Miller, Chief Investment Officer and Clare Scott,  
Chief Executive Officer, Lothian Pension Fund

**PE44. Apologies**

Apologies were intimated on behalf of Councillor Donald Balsillie, Clackmannanshire Council.

**PE45. Declarations of Interest**

No declarations were made.

**PE46. Minute**

**Decision**

**The minute of the joint meeting of the Pensions Committee and Board on 8 December 2016 was approved.**

**PE47. Pension Fund - External Audit Annual Audit Plan 2016/17**

The Committee and Board considered a report by the Director of Corporate and Housing Services on External Audit's Annual Audit Plan for the 2016/17 accounting year.

**Decision**

**The Committee and Board noted the Annual Audit Plan by Ernst and Young, consistent with the audit of the Fund's Annual Report and Accounts for 2016/17.**

**PE48. Pension Fund - Internal Audit Plan 2017/18**

The Committee and Board considered a report by the Internal Audit Manager outlining Internal Audit's Annual Audit Plan for 2017/18 accounting year.

**Decision**

**The Committee and Pension Board noted the report.**

**The Committee agreed the Fund's Internal Audit Plan 2017/18.**

**PE49. Pension Fund Budget 2017/18**

The Committee and Board considered a report by the Director of Corporate and Housing Services on the Fund's Budget for 2017/18.

**Decision**

**The Committee and Board noted the report.**

**The Committee approved the Fund's budget for 2017/18.**

## **PE50. 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 including the following:-

- The Risk Register;
- The Pensions for Unmarried Partners;
- The Actuarial Services Tender;
- The Scheme Closure for Fund Employers;
- The Government Actuary Section 13 Review;
- The State Pension Age; and
- The Corporate Governance Issues.

### **Decision**

**The Committee and Board noted the report.**

## **PE51. Environmental, Social and Governance (ESG) Policy Review**

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) Policy Review.

The areas covered within the report included the following:-

- The legal considerations surrounding Environmental, Social and Governance (ESG) policy;
- The Fund's existing ESG policy;
- The Scheme rules requiring Funds to maintain a Statement of Investment Principles (a "SIP") stating how ESG considerations would be taken into account in the investment process;
- The Fund's current approach to ESG as set out in the SIP having placed a particular emphasis on corporate environmental policy, human rights and employment standards including Executive pay;
- The considerations on the development of the Fund's approach to ESG;
- The legal purpose of the Fund being to provide benefits for members and minimise costs for employers and not be in pursuit of any purely ethical aim;

- The decisions at the meeting on 8 December 2016;
- The further discussions at the seminar on 10 March 2017; and
- The progress in the review of the Statement of Beliefs.

#### **Decision**

**The Committee and Board noted the report.**

**The Committee agreed:-**

- (1) the adoption of the additional belief statements as set out in paragraph 4.2 of the report;**
- (2) that a carbon footprinting exercise be carried out by Trucost as set out in paragraph 4.6 of the report; and**
- (3) that the Statement of Investment Principles be updated in line with the decisions at this meeting and in December 2016.**

#### **PE52. 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.

#### **PE53. 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, Heathstone and UK Infrastructure (in conjunction with Lothian Pension Fund) for the quarter ending 31 December 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 December 2016.**

#### **PE54. Market Review and Fund Manager Performance**

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 (L&G);
- 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 actions taken by them during the quarter to 31 December 2016, in accordance with their investment policies.**

The Convener agreed a short adjournment at 10.55 a.m. The meeting reconvened at 11.10 a.m. with all Members present as per the sederunt.

#### **PE55. Fund Manager Presentation – Aberdeen Asset Management**

The Committee and Board received a presentation by Julie Pine, Victoria Maclean and James Fearon, Aberdeen Asset Management.

The presentation covered the undernoted issues:-

- The global equity team;
- The long term performance and delivery;
- The investment process overview;
- The company engagement;
- The research process;
- The investment portfolio; and
- The proposed merger with Standard Life.

The Convener thanked Ms Pine, Ms Maclean and Mr Fearon for their comprehensive presentation.

#### **PE56. Exclusion of Public**

**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.**

#### **PE57. Commentary on Fund Manager Performance**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing commentary and 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).

Discussions also included the offer from Aberdeen Asset Management for a further six months waiving of management fees.

#### **Decision**

**The Committee and Board noted the Fund Managers' performance and the action taken by them during the quarter to 31 December 2016, in accordance with their investment policies.**

#### **PE58. Pension Fund Governance Arrangements**

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 following matters were discussed:-

- that investment strategy would remain the responsibility of the Pensions Committee;
- that implementation of investment strategy (including the selection and deselection of Investment Managers) would be delegated to the Chief Finance Officer on the basis of advice being provided by the Joint Investment Strategy Panel. The Joint Investment Strategy Panel would include FCA authorised officers from the Lothian Fund and specialist

independent advisers as well as Falkirk Council's Chief Finance Officer and Pensions Manager;

- the potential for lower costs through utilising Lothian's internal investment facilities; and
- the potential for cost savings from shared procurement in areas such as investment advice.

### **Decision**

**The Committee and Board noted the report.**

**The Committee agreed:-**

- (1) the entering into of a Memorandum of Understanding between the Lothian and Falkirk Pension Funds as set out in the draft document detailed in Appendix 1 to the report and subject to any final adjustments agreed by the Chief Finance Officer;**
- (2) the structure and terms of reference of the Joint Investment Strategy Panel, subject to any final adjustments agreed by the Chief Finance Officer; and**
- (3) requested that the Chief Finance Officer provide an update on the revised governance arrangements to the next meeting of the Committee and Board.**

Councillor Carleschi left and re-entered the meeting during consideration of the following item of business.

### **PE59. Investment Strategy Considerations**

The Committee and Board considered a report by the Director of Corporate and Housing Services on the Investment Strategy considerations.

### **Decision**

**The Committee and Board noted the report.**

**The Committee agreed the undernoted rebalancing proposals:-**

- (1) to make a new investment in property in order to return the asset class to its strategic allocation of 10% of the Fund;**
- (2) to introduce a strategic allocation to private debt equivalent to 5% of the Fund value;**



- (3) to reduce the equity exposure with Aberdeen Asset Management by approximately £60m and hold the realised funds in the form of cash pending re-investment in other asset classes;**
- (4) in view of the decision to adopt the new governance model that the Chief Finance Officer make arrangements to implement the above property and private debt allocations in line with the new model (in which case advice will be taken from the Joint Investment Strategy Panel with the aim of collaborative solutions being taken forward in relation to the property and private debt investments);**
- (5) to approve the recommendation at paragraph 3.4 of the report.**