

The background of the slide features a large, light blue outline of the Coat of Arms of the Government of Nunavut. The crest is a shield divided into four quadrants. The top-left quadrant shows a stylized yellow sun with rays. The top-right quadrant shows a white caribou head with antlers. The bottom-left quadrant shows a white sailing ship on wavy lines representing water. The bottom-right quadrant shows a white eagle with spread wings. Above the shield is a crown with four white maple leaves. A banner at the bottom of the shield contains the text "ANE FOR A'" data-bbox="78 25 921 975"/>

Agenda Item 7

General Governance Matters

FALKIRK COUNCIL

Subject: General Governance Matters

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 7 December 2017

Submitted by: Director of Corporate and Housing Services

1. Purpose of Report

- 1.1 This report updates the Board and Committee on miscellaneous matters associated with the business of Falkirk Council Pension Fund.

2. Recommendation

- 2.1 **The Pensions Committee and Board are invited to note the contents of this report.**

3. Risk Register

- 3.1 No new significant areas of risk have been identified during the quarter, although asset values remain volatile given rising uncertainty over the outcome of Brexit negotiations.

Identified Risk per Risk Register	Reason for Change in Risk Rating
Investment Strategy is inappropriate	<p>Under the terms of the MiFID II directive, failure to be accepted as a Professional Investor could prevent the Fund implementing its investment strategy.</p> <p><i>Mitigation – Applications have been submitted to all managers. All those who have responded so far have indicated that they will accept Falkirk’s application to opt up to Professional Investor status.</i></p>

4. Local Government Pension Scheme - Consultation

- 4.1 The Scottish Government is consulting on a consolidated set of draft regulations which incorporate the 2014 Regulations and several new amendments.

4.2 The most significant of these amendments are:

- giving members a statutory right to “cash in” their AVC once they attain age 55
- giving members the right to take their benefits on retirement at age 55 **without** requiring employer consent
- giving administering authorities more flexibility in managing the liabilities of employers who leave the Scheme.

4.3 Comments on the technical aspects of the draft regulations will be fed back to the Scottish Public Pensions Agency.

5. MIFID 2

5.1 As mentioned in Section 3 of the report, the Markets in Financial Instrument Directive 2014/65 (MiFID II) - is being applied to UK law from 3 January, 2018. This means that in order to have access to the types of asset classes and structures that are needed to deliver its investment strategy, the Fund – as agreed by the Pensions Committee at the meeting of 24 August - has had to apply to its asset managers for professional investor status.

5.2 The table below sets out the list of managers to whom applications have been submitted and the status of any reply:

Organisation	Submission date	Acceptance date
Northern Trust	30/10/2017	01/11/2017
Hymans Robertson	03/11/2017	06/11/2017
Legal and General Investment Mgmt.	30/10/2017	Reply awaited
Aberdeen Standard Investments	30/10/2017	08/11/2017
Newton Investment Management Ltd	30/10/2017	10/11/2017
Baillie Gifford	30/10/2017	31/10/2017
Schroders Investment Management	30/10/2017	27/11/2017
Dalmore Capital Limited	30/10/2017	31/10/2017
FIM Services Ltd	30/10/2017	02/11/2017
InfraRed Capital Partners	30/10/2017	Reply awaited
Ancala Partners	30/10/2017	09/11/2017
Equitix Investment Management Limited	30/10/2017	30/10/2017
GCM Grosvenor	30/10/2017	27/11/2017
M&G	30/10/2017	13/11/2017
Wilshire Associates Incorporated	31/10/2017	31/10/2017
UBS	30/10/2017	Reply awaited

5.3 The application process involved submitting detailed information about:

- Fund Governance including the Scheme of Delegation
- Committee and Board Knowledge, Experience and Hours of Training

- Investment History and Strategy
- Risk Management
- Officer Support

6. Pension Fund Budget

- 6.1 The Pension Fund budget for 2017/18 was agreed at the Committee meeting of 16 March 2017.
- 6.2 The table below shows the differences between the expected outturn and the budget.

	Budget 17-18	Forecast 17-18	Variance 17-18
Administration			
Employee costs	435,710	380,990	(54,720)
GMP reconciliation	50,000	50,000	0
IT Expenditure	213,830	213,830	0
Payslip printing and postage	54,830	55,420	590
Central Support Recharges	44,630	44,630	0
Other	17,250	16,530	(720)
Rechargeable income	(16,250)	(16,120)	130
Total Administration	£800,000	£745,280	-£54,720
Oversight & Governance			
Employee costs	130,420	108,670	(21,750)
Shared Services	168,000	161,240	(6,760)
Actuarial fees	100,000	100,000	0
Investment Advice	70,000	69,800	(200)
Legal fees	53,830	53,390	(440)
Tax Advice	50,000	16,730	(33,270)
Performance Measurement	20,000	17,410	(2,590)
Central Support Recharges	52,390	52,390	0
Other	41,120	34,470	(6,650)
Rechargeable Actuarial fees	(30,000)	(28,340)	1,660
Total Oversight & Governance	£655,760	£585,760	-£70,000
Total Investment Management	£6,364,000	£5,416,400	-£947,600
Pension Fund Total	£7,819,760	£6,747,440	-£1,072,320

- 6.3 Overall, the Pension Fund's costs are projected to have an underspend of circa £1m. The main contributor to this relates to lower than budgeted fees for one of the Fund Managers. A breakdown of the manager fees against budget is contained in the manager update report under private business.

- 6.4 The main underspend in the Administration category relates to employee costs arising from the vacant Pensions Officer post. This will be advertised in early 2018. The main underspends in Oversight and Governance relate to an Accountancy Assistant vacancy and less than expected external tax advice being required in relation to the recovery of foreign tax.

7. Training for Committee and Board Members

- 7.1 Various agencies including Audit Scotland, CIPFA and the Pensions Regulator continue to emphasise the importance of those responsible for Fund governance having the necessary skills and knowledge to carry out their duties.
- 7.2 It is a key tenet of the Pension Regulator's Code of Practice 14 that members of the Pension Board are conversant with the rules of the scheme and the key strategic documents relating to the Fund's operations. Whilst the Regulator's requirements relate purely to Board members, the same standards are deemed to be equally relevant to the Pension Committee as decision makers.
- 7.3 Since the local authority elections in May, the undernoted training sessions have been made available to Committee and Board members. Attendance at these events has been as follows:

Event	Date	Committee Attendees	Board Attendees
Induction Training	17/08/2017	6	4
Joint Investment Seminar with LPF	31/10/2017	3	5
IGG Pension Training	21/11/2017	2	3

- 7.4 Prior to the next round of training expected to be in early 2018, it is proposed to ask Committee and Board members to complete a knowledge and skills assessment paper. This will consist of a series of LGPS related multiple choice questions with the responses helping to shape the content of further training.
- 7.5 The requirement to undergo training is consistent with Fund's Training Policy and ensuring that the Fund meets its governance obligations such as those deemed necessary under the MiFID II directive.
- 7.6 The slides from the training event on 21 November 2017 can be accessed in the folder for this quarter on the Objective Connect portal at <https://secure.objectiveconnect.co.uk>.

8. Corporate Governance Issues

- 8.1 The Fund discharges its obligations as a responsible investor by monitoring the engagement efforts of its Managers and by being a member of the Local Authority Pension Funds Forum (LAPFF).

- 8.2 LAPFF is supported by PIRC Ltd, who are the Forum's research and engagement partner. PIRC are also the Falkirk Fund's voting agents and advisers on ESG matters.
- 8.3 Recent engagement has seen LAPFF:
- raise the issue of Executive Pay with the **Ashtead Group**
 - lobby **Lonmin** over working conditions in their platinum mines
 - discuss with **Tesco** its merger with Booker
 - meet with **SSE** on cybersecurity and write to **HSBC**, **WPP** and **Aviva** on the same matter
 - raise concerns with **Sports Direct** around the appointment process of a worker representative on its Board
 - comment on the slow response by the 50 largest UK companies in embracing new Government guidance on tax transparency
- 8.4 An increasing number of managers are producing a quarterly Responsible Investment (RI) Report to demonstrate their engagement activity. These reports from Schroders, Newton and Legal and General, along with the LAPFF report, can be accessed on the Objective Connect portal at <https://secure.objectiveconnect.co.uk>.
- 8.5 The Schroder report comments on the risk to companies should carbon pricing – a tax on polluters – escalate. They highlight their Climate Progress Dashboard which uses a range of indicators, such as the impact of technology, political commitments and energy production to estimate global temperatures over the coming years.

9. Voting

- 9.1 During Q3, PIRC voted at the following 16 company meetings and cast 241 votes.

Company Name	Type of meeting	Date
BRITISH AMERICAN TOBACCO PLC	EGM	19/07/2017
MARKS & SPENCER GROUP PLC	AGM	11/07/2017
NEX GROUP PLC	AGM	12/07/2017
QINETIQ GROUP PLC	AGM	19/07/2017
SAINSBURY (J) PLC	AGM	05/07/2017
SPORTS DIRECT INTERNATIONAL PLC	AGM	06/09/2017
VODAFONE GROUP PLC	AGM	28/07/2017
CA TECHNOLOGIES	AGM	09/08/2017
DIAGEO PLC	AGM	20/09/2017
RALPH LAUREN CORPORATION	AGM	10/08/2017
RELX NV	EGM	26/09/2017
STRATASYS LTD	AGM	18/07/2017
TEVA PHARMACEUTICAL INDUSTRIES LIMITED	AGM	13/07/2017
EXPERIAN PLC	AGM	20/07/2017
PERRIGO COMPANY PLC	AGM	20/07/2017
PRAXAIR INC.	EGM	27/09/2017
VODAFONE GROUP PLC	AGM	28/07/2017

9.2 Details of how these Fund votes were cast are attached at Appendix 1.

10. Future Meetings

10.1 The 2018 meetings of the Committee and Board are scheduled for:

- 15 March
- 21 June
- 23 August
- 20 September
- 6 December

pp **Director of Corporate & Housing Services**

Author: Alastair McGirr, Pensions Manager
01324 506333 alastair.mcgirr@falkirk.gov.uk

Date: 29 November 2017

Appendices

Appendix – Q3 Voting Analysis

List of Background Papers:

Draft Local Government Pension Scheme (Scotland) Regulations 2018

Falkirk Council Pension Fund - Voting Q3 2017

Votes made in the portfolio per resolution category

