



# **Agenda Item**

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**General Governance Matters**

**Falkirk Council**

**Subject: General Governance Matters**

**Meeting: Joint Meeting of Pensions Committee and Pension Board**

**Date: 20 September 2018**

**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 This section highlights areas of heightened risk for the Fund currently:

<b>Identified Risk per Risk Register</b>	<b>Reason for Change in Risk Rating</b>
Failure of IT Systems	<p>The current 4 year contract for the Fund's computerised Pensions Administration System expires in December. This is the primary system used to administer member benefits and pay pensioners.</p> <p><i>Mitigation – Officers have been in discussions with the Council's procurement team with a view to the Fund awarding a new contract to the current provider. This is on the basis that the current provider has been awarded a similar contract – through a competitive process - with another local authority and that the Falkirk Fund has been named in the tender documentation as one of several local authorities who may wish to let a contract on the same terms and conditions.</i></p>

Investment Manager may not have appropriate controls in place	<p>An article appeared in the FT some weeks ago relating to a whistleblowers claim to the Financial Conduct Authority (FCA) that LGIM's active management arm had a poor risk culture which had become "toxic"</p> <p><i>Mitigation – The Fund's mandate with LGIM relate to passive rather than active management. In addition, LGIM has undertaken its own enquiry into the claims and is satisfied with its existing procedures. LGIM make clear that they have discussed these matters with the FCA and are not under any investigation. They have also commissioned an independent review into their culture by consultants Latham and Watkins. The report concludes that the culture was as good if not better than LGIMs peers and was positive, supportive, client focused and respectful. The Pensions Manager has also discussed the article in person with various LGIM officers and has been given access to the LGIM trading floor. This included having visibility of the trading limits on the Falkirk account and the separation of duties in place in relation to the placement and execution of trades. The Pensions Manager took reassurance from experiencing the working environment first hand and having the opportunity to speak directly with trading floor staff.</i></p>
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#### **4. Annual Benefit Statements for Members**

- 4.1 Under the Pension Scheme rules, annual benefit statements require to be issued to members by 31 August each year. Where a failure to issue statements by the due date is considered material, the matter must be reported to the Pensions Regulator. Where a breach is reported, the Regulator will expect relevant parties to take prompt action to remedy the breach.
- 4.2 A number of employers in the Fund failed to submit their year-end data by the required due date, thus shortening the period available to the Pensions team for validation. In addition, the quality of the data was not always of a good standard, resulting in amended data having to be provided by employers. Despite these issues, the vast majority of statements have been issued to active and deferred members on time.
- 4.3 At the time of writing, however, one employer has failed to make its year end data submission. Due to the number of scheme members affected, the breach has been deemed material and reported to the Regulator. Falkirk's Chief Finance Officer has raised the matter with the senior management of the employer in question. A message explaining the reason for the non-issue of statements has also been posted on the Fund website.
- 4.4 The Pensions team continue to monitor this situation.

## **5. Investment in Bank Hapoalim**

- 5.1 Following the decision of one of the Fund's investment managers to sell its holding in the Israeli Bank Hapoalim, a letter has subsequently been received from an organisation called UK Lawyers for Israel (UKLFI) concerned that the Fund may have acted illegally and improperly by divesting from the Israeli bank. This is on the basis - they argue - that the decision was politically motivated; that the Fund failed to engage with the company in contravention of its Statement of Investment Principles; and by ignoring the financial qualities of the company the Fund did not act in the best interests of its stakeholders.
- 5.2 A response has been issued directing the writer to a Press Release (attached at Appendix 1) issued by the Fund on 1 August. This explained the background to the sale of the holding, including the fact that the decision to sell was the manager's and had not been made on the instruction of the Fund and that the Manager had acted entirely within the terms of his Investment Management Agreement with the Fund.

## **6. Corporate Governance Issues**

- 6.1 The Fund discharges its obligations as a responsible investor:
- by voting its shares;
  - by monitoring the engagement efforts of its Managers; and
  - by being a member of the Local Authority Pension Funds Forum (LAPFF).
- 6.2 LAPFF is supported by PIRC Ltd, who are the Forum's research and engagement partner. PIRC are also the Fund's voting agents and advisers on ESG matters.
- 6.3 Recent activity has seen LAPFF engage with:
- Centrica on Employee engagement
  - US Securities and Exchange Commission on filing of shareholder resolutions
  - Chevron, Exxon Mobile, Shell and Rio Tinto on the companies' approach to climate risk
  - Tesla on governance and employment standards
  - WPP on executive pay
  - Unilever on plastics reduction
- 6.4 Copies of recent manager engagement reports have been uploaded to the Objective Connect portal.

## **7. Voting**

- 7.1 Details of how Fund votes have been cast across various categories during Quarter 2 are attached at Appendix 2.

## **8. Treasury Directions**

- 8.1 HM Treasury have issued draft directions regarding the operation of the Cost cap. The Cost Cap is the mechanism by which certain costs or savings are passed on to members if the cost of the Scheme (based on a limited number of parameters) changes.
- 8.2 Treasury have indicated that the cost of LGPS (Scotland) is likely to be less than when the Scheme was previously costed in 2014 – the main reasons being lower than expected salary growth and a slow down in longevity improvements. As a result, it is likely that either employee contributions will need to be reduced or the accrual rate (currently 1/49) improved.
- 8.3 This will be a slightly odd outcome at a time when most employers are being asked to increase their contribution rates.

## **9. Training Questionnaire**

- 9.1 Any Committee or Board members who have yet to return completed questionnaires are asked to do so as soon as possible. The responses are essential to helping shape future training events and pointing up gaps in knowledge.

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Date: 12 September 2018

## **Appendices**

Appendix 1 – Press Release Bank Hapoalim

Appendix 2 – Falkirk Council Pension Fund – Quarter 2 – Voting Record

## **List of Background Papers:**

None

*Falkirk Council Pension Fund*

*Press Release (as published on Fund website)*

## **Investment in Israeli Bank**

*"Until recently, the Fund had a holding of around £6m in the Israeli Bank Hapoalim."*

*"The Fund engages a number of external investment managers to make specialist investment decisions on its behalf. The investment manager holding the Bank Hapoalim recently re-evaluated the stock in terms of its risk and return characteristics and decided to sell the stock. There was no instruction to sell given to the manager by the Fund."*

*"In general terms, the Fund does not have a policy of divestment from companies. Where corporate governance matters are of a concern the Fund prefers to engage with and, if necessary, apply pressure to companies by being part of collaborative organisations such as the Local Authority Pension Funds Forum."*

*"The Fund does not invest to further ethical or political aims but in order to meet its fiduciary responsibilities to scheme members and sponsoring employers."*

*1 August, 2018*

## Falkirk Council Pension Fund - portfolio voting Q2 2018

Votes made in the portfolio per resolution category



