

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 sailing ship on wavy lines representing water. The top-right quadrant shows a stag's head with antlers. The bottom-left quadrant shows a beaver. The bottom-right quadrant shows a grizzly bear. Above the shield is a crown with four maple leaves. A banner at the bottom of the shield contains the motto "A NE FOR A".

## **Agenda Item 3**

### **Minute**

Draft

**FALKIRK COUNCIL**

**Minute of Joint Meeting of the Pensions Committee and Board held in the Municipal Buildings, Falkirk on Monday 13 January 2020 at 9.30 a.m.**

**Present:**

Committee:-

Councillors Falkirk Council:-

Provost William Buchanan;

Niall Coleman

John Patrick

Pat Reid

Councillor Donald Balsillie, Clackmannanshire Council

Andy Douglas, Unison

Douglas Macnaughtan, Pensioner Representative

Board:-

Susan Crook, Unison

Sandy Harrower, Unite.

Simon Hunt, Scottish Autism

Ed Morrison, SCRA

Jennifer Welsh, SEPA

**Attending:**

Justyna Korszen-Bennett, Senior Accountant

Alastair McGirr, Pensions Manager

Brian Pirie, Democratic Services Manager

Bryan Smail, Chief Finance Officer

Graham Templeton, Senior Auditor

**Also in**

**Attendance:**

Bruce Miller, Lothian Pension Fund

In the absence of the convener, Councillor Patrick took the chair.

**PE27. Apologies**

Apologies were intimated on behalf of Councillors Blackwood and McCue; Falkirk Council, and Councillor Brisley, Stirling Council.

**PE28. Declarations of Interest**

There were no declarations.

## **PE29. Minute**

### **Decision**

**The minute of the joint meeting of the Pension Committee and Board held on 26 September 2019 was approved.**

## **PE30. Pension Fund Risk Register and Assurance Map**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing details on an updated Fund Risk Register and Assurance Map.

The report detailed the significant risks faced by the Fund as detailed in the Risk Register and the associated scores in terms of their likely occurrence and impact and the mitigations. The greatest risks included:-

- succession planning and loss of staff;
- staff error or backlogs in service delivery;
- failure to adhere to regulatory standards (including issuing benefit statements);
- poor systems data;
- lack of skills and knowledge; and
- impact of climate change.

An Assurance Map had been developed for the Fund which focussed on the main areas of risk. It sought to provide those charged with Governance with independent assurance around the key risks of an organisation. Furthermore it provided assurance that internal controls were being audited in a systematic and cyclical manner.

### **Decision**

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

**The Committee approved the updated Risk Register and Assurance Map.**

## **PE31. Engagement Services**

The Committee and Board considered a report by the Director of Corporate and Housing Services requesting permission to tender for specialist engagement services and seeking the Committee's views on the priority areas which it would like to see addressed by the appointed provider.

A more proactive approach than in previous years was needed given recent changes to the UK Stewardship Code and the increased attention on

environmental, social and governance (ESG) issues, including climate change.

Key issues to consider included:-

- the Fund being unlikely to have the sufficient scale to engage directly or demand audiences with the investee companies, despite having assets of £2.6 billion;
- the lack of the necessary specialist skills in house;
- the alternative for the Fund to hire external engagement advisers as undertaken by Lothian and Fife Pension Funds; and
- the benefits of external advisers having global reach, specialist ESG knowledge and market presence to enable engagement with companies at a senior level.

The UK wide procurement framework for engagement services was maintained by Norfolk County Council. It represented an efficient way for the Fund to appoint an engagement provider detailed within the framework. Services were likely to be scalable. This meant that the Fund's involvement with the provider could be tailored within available resources. The fees for the engagement service were anticipated to be between £60k to £90k per annum.

The services provided within the framework included:-

- undertaking engagement on behalf of clients;
- identifying and prioritising fund engagement activities;
- identifying key engagement risks;
- identifying collaboration opportunities for clients;
- supporting the client's external fund manager monitoring efforts;
- supporting the integration of engagement best practice into decision making;
- providing ongoing training for clients in relation to engagement;
- providing regular monitoring reports;
- analysing the effectiveness of engagement activity; and
- supporting clients with stewardship-related compliance, for example, the UK Stewardship Code.

The Committee and Board considered its priority areas and after a lengthy discussion determined there to be climate change, sustainability and public health.

## **Decision**

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

**The Committee agreed:-**

- (1) that the Chief Finance Officer undertake a tender for an engagement specialist;**
- (2) the priority issues it would wish an engagement provider to address as climate change, sustainability and public health; and**
- (3) that the Chief Finance Officer report on progress to a future meeting.**

### **PE32. General Governance Matters**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on a number of miscellaneous matters associated with the business of the Falkirk Council Pension Fund, including:-

- review of scheme structure;
- pensions regulator annual return and data quality scores;
- additional voluntary contributions (AVC's);
- visitscotland;
- investment cost transparency;
- fund valuation 2020;
- McCloud judgement;
- section 13 scheme wide valuation; and
- pension fund vacancies.

#### **Decision**

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

### **PE33. Engagement and Voting Activity**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on recent fund engagement and voting activity. These included:-

- Responsible Investment - managing assets ensuring investors take account of environmental, social and governance (ESG) issues in making investment decisions and being consistent with the Fund's fiduciary duty to act in the best interests of stakeholders;
- Local Authority Pension Funds Forum (LAPFF):-
  - engagement with defence companies in their role in supplying weapons to Middle Eastern countries and working with companies on corruption allegations, executive pay and climate factors, the 2050 target on low-to-no carbon emissions, carbon neutrality,

- hydrogen in industrial processes and the relaxation in US Federal emissions rules;
  - signing up as partner to the 'Powering Past Coal Alliance', part of the UK Government's new Green Finance Strategy;
  - company engagement on exiting fracking operations and making customers more energy efficient; and
  - voting against the company boards, as appropriate, on policy practice and staff relations; and
- Institutional Investors Group on Climate Change (IIGCC) – co-signatory calling for EU Leaders to support a net zero emissions target for the EU by 2050 and to align all relevant legislation to the temperature reduction goals within the Paris Agreement as well as urging decisive action by world government on the Agreement's goals; and
  - Climate Action 100+

#### **Decision**

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

### **PE34. Market Review and Fund Manager Performance**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on recent investment market developments; the Fund's strategic allocation and performance; and on the monitoring activity of the Fund's investment mandates during the most recently completed quarter.

#### **Decision**

**The Committee and Board noted:-**

- (1) the recent investment market developments;**
- (2) the Fund's strategic allocation;**
- (3) the Fund's performance for the period ending 30 September 2019; and**
- (4) the investment monitoring activity of the Joint Investment Strategy Panel (JISP).**

**PE35. 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 grounds 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.**

**PE36. Commentary on Fund Manager Performance**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing details on individual manager mandates, including current developments and issues identified through the wider monitoring process for the period to 30 September 2019.

**Decision**

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

Councillor Reid joined the meeting during discussion of the following item of business.

**PE37. Pension Fund - Projected Outturn**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing details of the projected outturn for the Pension Fund in relation to the current financial year 2019/2020.

**Decision**

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

**PE38. Property Portfolio**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on developments surrounding the Fund's Property Investments.

**Decision**

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

**PE39. The Investment Consultancy and Fiduciary Management Market Investigation Order 2019**

The Committee and Board considered a report by the Director of Corporate and Housing Services providing an update on the requirements of the

Investment Consultancy and Fiduciary Management Markets Investigative Order 2019.

**Decision**

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

**The Committee agreed the strategic objectives proposed for each of the fund's investment consultants.**

**PE40. Joint Investment Strategy Panel Update**

The Committee and Board considered a report by the Director of Corporate and Housing Services summarising the key matters discussed at the meeting of the Joint Investment Strategy Panel (JISP) on 2 December 2019.

**Decision**

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