

SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE

MINUTE of MEETING of the PENSION FUND COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St. Boswells on 5 March 2013 at 9.45 a.m.

Present:- Councillors B. White (Chairman), J. Campbell, G. Edgar, G. Logan, J. Mitchell, S. Mountford.
Apology:- Councillor M. Cook.
In Attendance:- Chief Financial Officer, Treasury and Capital Manager, Mr Kenneth Ettles – AON Hewitt Consulting, Mr Alexander Barclay (Unite the Union), Mrs Edith Moody (Unison), Mr John Wilkinson (LGT), Messrs Malcolm Gordon, Jonathon Gregory and Antony Sander (UBS), Democratic Services Officer (F. Walling).

MINUTE

1. There had been circulated copies of the Minute of the Meeting of 11 December 2012.

**DECISION
NOTED.**

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) SCHEME

2. There had been circulated copies of a briefing note providing the Committee with background information about the Council's AVC Scheme. The paper explained that AVCs were introduced in the mid 1980s as an additional means for individuals to save for retirement. AVCs offered an attractive, tax advantageous, savings mechanism which was relatively unique at that time. An active member may elect to pay AVCs into a scheme established under an arrangement made between the administering authority and a body approved for the purposes of the Finance Act 2004. An employer may contribute to the AVC scheme and where they do the AVC scheme is known as a shared cost additional voluntary contributions arrangement. As direct costs would be incurred by Scottish Borders Council, the policy of Scottish Borders Council was not to adopt this discretion. Historically (since 1989) the Council had two AVC providers, Halifax PLC and Standard Life, but when Halifax ceased to operate its AVC Deposit Account from 30 June 2002 all members with Halifax accounts were subject to compulsory transfer to Standard Life on 1 July 2002. At 31 March 2012 the fund comprised 140 members (both active and deferred) with a total fund value of £790,900. Standard Life currently applied an "Annual Management" charge of 1% to members' accounts. The Council had in place a discount of 0.375% - resulting in a net charge of 0.625%. With regard to possible alternative provision to Standard Life, the Pensions Administration Team had previously received presentations by Prudential who already provided the AVC facility for several other Scottish Authorities. Members of the Committee received answers to their questions about the scheme and agreed that it may be worthwhile looking at its expansion and to consider appointing a second provider.

**DECISION
NOTED**

ANNUAL RISK UPDATE

3. With reference to paragraph 2 of the Pension Fund Sub Committee Minute of 13 September 2012, there had been circulated copies of the current risk register for the Scottish Borders Council Pension Fund and an update was given by the Treasury and Capital Manager. Also circulated at the meeting were papers illustrating the risk matrix and tables providing interpretation of the scoring system used for the likelihood and impact of risk. It was stressed

that the Council's Pension Fund had a robust risk register and that, as well as being updated on an annual basis, risks could be added at any time. One of the areas that had been identified to be reflected in the risk register related to active member based changes being considered by the other employers, Scottish Borders Housing Association and Borders Sports and Leisure Trust, who were members of the Fund. Members were reminded that there would be a full review of the risk register at the Pension Fund Committee's workshop to be held on Tuesday 26 March 2013. As new guidance had been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the management of risk one of the tasks at the workshop would be to rationalise and re-align the risks on the Council's risk register with those key areas identified by CIPFA.

**DECISION
NOTED**

INVESTMENT STRATEGY REVIEW

4. With reference to paragraph 3 of the Pension Fund Sub Committee Minute of 13 September 2012, there had been circulated copies of a report on the Scottish Borders Council Investment Strategy Review prepared by Mr Ettles of AON Hewitt. Mr Ettles gave Members a summary of the main points. There was an understanding that the Fund continued to have strength of support. The maturity of the Fund had increase marginally with pensioner members representing 42% of the total liabilities at 31 March 2011 compared to 36% at 31 March 2008. The Fund remained cashflow positive (contribution income exceeded benefit outgo) but had become marginally less positive in recent years, whilst the Fund's actuarial deficit was broadly similar. A table within the report showed the asset allocation recommended after the full investment strategy review conducted in 2008/09 and the actual allocation of 31 December 2012. Given the strong rally in equity markets over the past few months which had brought equity markets to a five year high, Mr Ettles recommended that the Committee implemented the previously agreed further 5% reduction in the Fund's benchmark equity allocation now, reducing the equity allocation to 65% and to consider disinvesting a further 5% to reduce the allocation to 60%. It was also recommended that the current 2% underweight allocation to gilts and bonds was also disinvested from equities and reinvested in alternative assets. As the procurement of another manager would increase the total number of managers to five it was felt that as an initial step moving to 65% equities now by investing a further 7% in the multi asset fund managed by LGT partners, and further consideration given to reducing the equity allocation below 65% potentially by adding another manager over the course of 2013 may be the best approach.

**DECISION
AGREED:-**

- (a) **to implement the previously agreed strategy following the review in 2008/09 to reduce the equity allocation to 65% by transferring £28m proportionally from equities held by both fund managers UBS and Baillie Gifford to multi alternative assets managed by LGT.**
- (b) **that the Committee consider, in principle, a further reduction of the equity allocation to 60% during 2013/14.**

ADJOURNEMENT

The meeting was adjourned at 11.20 a.m. for a training session on Alternative Investments delivered by LGT Capital Partners. The meeting was re-convened at 11:40 a.m.

PRIVATE BUSINESS

DECISION

AGREED under Section 50A(4) of the Local Government (Scotland) Act 1973 to exclude the public from the meeting during consideration of the business contained in the following items on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 8 of part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

Minute

1. The Committee noted the Private Minute of the meeting of 11 December 2012.

Quarter 4 2012 Investment Monitoring Report

2. The Committee noted a report by AON Hewitt Consulting.

ADJOURNEMENT

The meeting was adjourned for lunch at 12.25 p.m. and was re-convened at 1.10 p.m.

Performance Update and Question Session - LGT

3. The Committee noted a Performance Update from LGT.

Performance Update and Question Session - UBS

4. The Committee noted a Performance Update from UBS.

MEMBER

Councillor Logan left the meeting during the above presentation.

Update on Currency Hedging

5. The Committee noted an update by the Chief Financial Officer on the Currency Hedging Programme and agreed the recommendations.

Proposals for Procurement of Managers

6. The Committee approved a report by the Chief Financial Officer on Proposals for Procurement of Managers.

The meeting concluded at 2.55 p.m.