

**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 4 March 2014 at 10.00 pm

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Present:- Councillors B. White (Chairman), M. Cook, G. Edgar (from Item 5 of the Appendix), G. Logan, J. Mitchell.  
Apologies:- Councillor S. Mountford. Mr A. Barclay, Mr P. Smith, J. Terras.  
In Attendance:- Chief Financial Officer, Mr Kenneth Ettles – AON Hewitt Consulting, Treasury and Capital Manager, Mr A. Jones – SBHA, Democratic Services Officer (P. Bolson).

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**MINUTE**

1. There had been circulated copies of the Minute of the Meeting of 4 December 2013. It was noted that, in respect of paragraph 3(b) (i), that the next Red Risk review be undertaken in March 2014, and not in December 2014, as stated.

**DECISION**

**NOTED, subject to the above amendment.**

2. **PRESENTATION FROM BARNETT WADDINGHAM – ACTUARY TO SCOTTISH BORDERS COUNCIL**

The Chairman welcomed Alison Hamilton from Barnett Waddingham who was present to deliver the triennial Funding Valuation on the Council's Pension Fund performance. Ms Hamilton explained that this valuation was required under the LGPS Regulations to certify levels of employer contributions to secure the solvency of the Fund. The Actuary also considered the Funding Strategy Statement and should have "regard to desirability of maintaining as stable a contribution rate as possible." Ms Hamilton noted that the Valuation date for Scottish Borders Council was 31 March 2014 and went on to explain the three main steps taken throughout the Valuation process, namely the projection of all possible benefit payments for each member of the Pension Fund; to attach probabilities to each possible payment to get "expected" payments; and to discount "expected" payments to obtain "value". Ms Hamilton then explained that certain assumptions with respect to RPI (price inflation), salary increases, and discount rates had to be made to derive the valuation. Members noted that the inflation rate premium had not change greatly from three years ago and was approximately 3.8%. Ms Hamilton described how events such as the Commonwealth Games could affect inflation rates and that national statistics were normally used to establish a baseline figure. She went on to explain that yields were calculated over a six month average using figures for the three months before and three months after the Valuation date. With reference to changes in funding levels, Members were informed that the current funding level was 96% and Mr Robertson intimated that the fund had a 12 year deficit recovery plan in place to return to 100% funding and it was hoped that the valuation at 31<sup>st</sup> March 2014 would demonstrate progress against this plan. In terms of employer contributions, Ms Hamilton noted that it was expected that the rate would be retained at 18%. Ms Hamilton detailed the timetable for completion of the Valuation for the Fund and confirmed that a final report would be presented to the Pensions Fund Committee in December 2014. The Chairman thanked Ms Hamilton for her report.

**DECISION**

**NOTED.**

### **CURRENCY HEDGE PROCUREMENT**

3. There had been circulated copies of a report by the Chief Financial Officer detailing the timescales and process for the procurement of a new Currency Hedge Manager. It was explained that following the withdrawal by the previous Hedge Fund provider, a temporary provider was appointed in March 2013. This contract for 50% passive currency hedge was due to expire on 30 November 2014. Mrs Robb went on to explain that the Pension Fund Committee decided, in March 2013, to change the basis of the hedge to 25% passive and 25% active approach but that this action had been overridden by the requirement to appoint a new fund manager at short notice. The proposed procurement of a new Hedge Fund Manager would implement the previous committee decision. It was noted that the number of suppliers able to provide an active currency management service was limited therefore a restricted procurement process was recommended and that this would include presentations from bidders. The whole process would be overseen by an Appointment Sub-Group to be nominated by the Pension Fund Committee. Mrs Robb detailed the timetable for this procurement, explaining that it would begin with the development of the Pre-Qualification Questionnaire (PQQ) in mid-April 2014 and the commencement of the new contract in December 2014.

### **DECISION**

#### **(a) NOTED**

- (i) the procurement process and timetable as detailed in the report; and**
- (ii) that further reports would be presented to Committee at key stages of the procurement process.**

#### **(b) APPROVED the appointment of Councillors White and Logan as Members of the Appointment Sub-Group.**

#### **(c) AGREED to delegate authority to the Appointment Sub-Group to oversee the procurement process.**

### **RISK REGISTER UPDATE**

4. With reference to paragraph 2 of the Pension Fund Committee Minute of 4 December 2013, there had been circulated copies of a report by the Chief Financial Officer, giving Members the opportunity to review the risks previously categorised as “red” under the Council’s approach to managing risk, and updating members on progress made to mitigate the effect of those risks on the Pension Fund. The red risks related to changes in the composition of Pension Fund membership, currently scored at 16 and legislation changes, also scored at 16 and Members noted the action being taken. Members also noted that further updates would be presented to Committee as Auto-Enrolment progressed. Appendix 2 referred to a new risk relating to changes to national jurisdictions following the Referendum in September 2014 and discussion followed relating to the impact of such events as Scottish independence and withdrawal from Europe. In response to a question on whether there was a policy in place to enable the Council to reclaim the maximum tax possible, given the amount of overseas investment from the Pension Fund, Mr Robertson confirmed that such a policy would be developed in the future.

### **DECISION**

#### **(a) NOTED the progress on the Red risk items as detailed in Appendix 1 to the report;**

#### **(b) AGREED**

- (i) that the scorings for “Changes in national jurisdictions following referendum affecting the cross border flow of investments” (6.5) be 2 (likelihood) and 1 (impact), resulting in the risk being green;**

- (ii) that a Full Risk Review be undertaken in June 2014; and
- (iii) that a policy on maximising tax be developed in the future.

## **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 paragraphs 6 and 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 4 December 2013

### **Minute**

2. The Committee noted the Private Minute of the Pension Fund Appointment Sub-Group meeting of 30 January 2014.

### **Quarter Performance Update**

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

### **Performance Update and Question Session – Baillie Gifford**

4. The Committee noted a Performance Update from Baillie Gifford.

## **ADJOURNMENT**

The meeting was adjourned for lunch at 12.40pm and was re-convened at 1.20pm.

### **Performance Update and Question Session - UBS**

5. The Committee noted a Performance Update from UBS.

### **Performance Update and Question Session – Morgan Stanley**

6. The Committee noted a Performance Update from Morgan Stanley.

### **Update on Cash Investment Decision**

7. The Committee noted an update on the cash investment decision.

### **Update on Investment Manager Procurement**

8. The Committee noted an update on the Investment Manager procurement.

*The meeting concluded at 3.10pm*