

Public Document Pack



PENSION FUND COMMITTEE AND PENSION BOARD THURSDAY, 8 MARCH 2018

A MEETING of the PENSION FUND COMMITTEE AND PENSION BOARD will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on THURSDAY, 8 MARCH 2018 at 10.00 AM

J. J. WILKINSON,
Clerk to the Council,

1 March 2018

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute (Pages 3 - 6) Minute of Meeting held on 4 December 2017 to be noted and signed by the Chairman. (Copy attached).	2 mins
5.	Pension Fund Website Presentation by Pensions & Investments Manager.	20 mins
6.	Risk Register Update (Pages 7 - 14) Consider report by Chief Financial Officer. (Copy attached).	5 mins
7.	Budget Monitoring to 31 December 2017 (Pages 15 - 18) Consider report by Chief Financial Officer. (Copy attached).	5 mins
8.	Information Update (Pages 19 - 24) Consider briefing paper by Chief Financial Officer (Copy attached)	15 mins
9.	General Data Protection Regulations (GDPR) Consider report by Chief Officer HR (To Follow).	15 mins
10.	Environmental, Social and Governance (ESG) Considerations (Pages 25 - 44) Consider overview by KPMG. (Copy attached).	15 mins

11.	Any Other Items Previously Circulated	
12.	Any Other Items which the Chairman Decides are Urgent	
13.	<p>Items Likely To Be Taken In Private</p> <p>Before proceeding with the private business, the following motion should be approved:-</p> <p>“That und Section 50A(4) of the Local Government (Scotland) Act 1973 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A to the aforementioned Act.”</p>	
14.	<p>Minute (Pages 45 - 46)</p> <p>Private Section of Minute of Meeting held on 4 December 2017 to be noted and signed by the Chairman. (Copy attached).</p>	2 mins
15.	<p>Quarter Performance Update to 31 December 2017 (Pages 47 - 92)</p> <p>Consider private report by KPMG.. (Copy attached).</p>	30 mins

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, J. A. Fullarton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr E Barclay, Mr M Drysdale, Mr C Hogarth, Mrs K M Hughes, Ms L Ross, Mr P Smith and Ms C Stewart

Please direct any enquiries to Judith Turnbull Tel No. 01835 826556
Email: judith.turnbull@scotborders.gov.uk

**SCOTTISH BORDERS COUNCIL
PENSION FUND COMMITTEE AND PENSION BOARD**

MINUTES of Meeting of the PENSION FUND COMMITTEE AND PENSION BOARD held in COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on Monday, 4 December 2017 at 2.00 pm

Present:- Councillors D. Parker (Chairman), J. Brown, G. Edgar, J. A. Fullarton, D. Moffat, S. Mountford, S. Scott, S. Aitchison, Mr E Barclay, Mr M Drysdale, Mr C Hogarth and Ms K M Hughes.

Apologies:- Councillors Ms L Ross, Mr P Smith and Ms C Stewart

In Attendance:- Chief Financial Officer, Capital and Investment Manager, HR Shared Services Manager, Mr D O'Hara (KPMG), Mr Singh (KPMG), Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 14 September 2017.

DECISION

NOTED for signature by the Chairman.

2. **PRESENTATION - VALUATION UPDATE**

2.1 The Chairman welcomed to the meeting Alison Hamilton, a partner at Barnett Waddingham, to present the results of the Actuarial Valuation of the Scottish Borders Council Pension Fund, with a valuation date of 31 March 2017. Copies of presentation slides were circulated to Members which summarised how the valuation was carried out and the assumptions made in respect of investment returns, mortality of the Fund's membership and long term salary increases. Ms Hamilton highlighted the main results of the 2017 valuation: The Fund's assets at the end of the year totalled £653,955,000. The assets less the value of liabilities had determined a surplus of £80,642,000. This equated to a funding level at 31 March 2017 of 114%, which compared to 101% at the 2014 valuation. Ms Hamilton recommended that the employer's contribution pool rate from 1 April 2018 to 31 March 2021 remained at 18%. The final valuation for individual employers would be finalised shortly. Members received answers to their questions from Ms Hamilton who was thanked by the Chairman for her attendance. It was noted that the Actuary's assumptions had been agreed with the Chief Financial Officer and a final report would be presented to the joint meeting in June 2018.

2.2 The Pension Fund Committee and Pension Board noted that changes to the investment strategy had produced good returns for the Fund with less volatility. In answer to questions, Mr O'Hara, Investment Advisor, advised that in terms of peer group benchmarking, the Fund had performed above average. Changes to the investment strategy were still being implemented and would address further risk and maintain the strong position of the Fund.

DECISION

NOTED the 2017 Actuarial presentation.

3. **RISK REGISTER UPDATE**

With reference to paragraph 7 of the Minute of 14 September 2017, there had been circulated a report by the Chief Financial Officer which formed part of the risk review

requirements and provided the Pension Fund Committee and Pension Board with a full register and proposed management actions to mitigate risks. Identifying and managing risk was a corner stone of effective management and was required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It was further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA. A full risk review was undertaken on 10 May 2017 and the revised risk register was approved by the Joint Pension Fund Committee and Pension Board on 22 June 2017. Appendix 1 to the report detailed the risks within the approved risk register which have been identified as management actions and the progress of these actions to date. In summary Mrs Robb advised that no new quantifiable risks had been identified since approval of the risk review update on 14 September 2017. With regard to Risk 2.4, the Communication Strategy was being developed; in respect of Risk 1.4, training requirements were being actioned as part of the Training Plan and many members had already completed their Pension Regulator Trustee Toolkit.

DECISION

(a) AGREED to a key risk review being undertaken in March 2018 and reporting of progress on the risk management actions.

(b) NOTED:

(i) Management action progress as contained in Appendix 1 to the report; and

(ii) No new quantifiable risks had been identified since the last review.

4. BUSINESS PLAN PERFORMANCE UPDATE

There had been circulated a report by the Chief Financial Officer providing an update on delivery of the actions within the approved Business Plan. The 2017/18 – 2019/20 Business Plan for the Pension Fund was approved by the Pension Fund Committee and Pension Board on 22 June 2017. Included within the plan were key objectives and actions with target dates. As part of the approved risk register update, the Committee and Board agreed a mid-year progress report, on business plan actions, would be presented at the December 2017 meeting, with a further progress report and update at the June 2018 meeting. The report explained that there were 13 key tasks with target dates during 2017/18 contained within the business plan. Of these, four key tasks had been completed, seven remained on track to be completed and two were currently behind target. Due to the implementation of Enterprise Resource Planning (ERP) and the resulting resource constrains the actions for the Review of Additional Voluntary Contribution Scheme Provision would not meet the target dates. A revised target date of 30 June 2018 was therefore recommended.

DECISION

(a) NOTED the progress of the 2017/18 actions within the business plan.

(b) AGREED

(i) The revised target date of 30 June 2018 for procurement and implementation of an Additional Voluntary Contribution Scheme Provider; and

(ii) A further update be presented at the June 2018 meeting.

5. BUDGET MONITORING TO 30 SEPTEMBER 2017

There had been circulated a report by the Chief Financial Officer providing the Pension Fund Committee and Pension Board with an update position of the Pension Fund budget to 30 September 2017 including projections to 31 March 2018. The Local Government Pension Scheme (Scotland) Regulation 2014 required Administering Authorities to ensure strong governance arrangements and set out the standards they were to be measured

against. To ensure the Fund met the standards a budget was approved on 16 March 2017, following the recommendations within the CIPFA accounting guidelines headings. The report was the first quarterly monitoring report of the approved budgets and detailed the total expenditure to 30 September 2017 was £0.351m with a projected total expenditure of £3.928m. This was against an approved budget of £3.928m giving a negative projected variance of zero. The Chief Officer Audit & Risk advised that internal audit were reviewing management of the Pension Fund, including the administration of the Fund. The outcome of which would be reported back to the Pension Fund Committee and Pension Board.

DECISION

NOTED the actual expenditure to 30 September 2017.

6. INFORMATION UPDATE

6.1 There had been circulated a briefing paper by the Chief Financial Officer providing members with an update on a number of areas which were being monitored and areas where work was progressing. Full reports on individual actions would be tabled as decisions and areas were required. In summary:-

6.2 Annual Benefit Statement

The HR Shared Services Manager advised that the not all annual benefit statements had been issued by 7 September 2017. The delay had been reported to the Pensions Regulator, who had advised that no enforcement action would be taken.

6.3 Progress on Investment Strategy Implementation

The revised Investment Strategy was approved in September 2016 and updated on 16 March 2017. The Strategy now included an allocation to infrastructure which had resulted in three new managers and the requirement to rebalance a number of investment categories. The briefing paper detailed the progress made including the reduction to Alternatives of 7.5%, 10% new allocations to Long Lease Property and Private Credit, with 5% to Index Linked Gilts. With regard to Infrastructure investment, officers continued to investigate opportunities and would report on progress.

6.4 Scheme Advisory Board Update

Councillor Mountford had attended the first meeting of the new Board on 11 October. He advised that items discussed at the meeting including: transparency of investment code, review of pooling arrangements, pension benefits for same sex partners, public sector pension governance and a proposal to have pensioner representatives as part of the Advisory Board.

6.5 Training Opportunities

To date 11 members had fully met their training requirement. Mrs Robb reminded members that the training policy required completion of the Pension Regulator Trustee Toolkit within six months. Mrs Robb further advised that the Pensions and Lifetimes Savings Association were hosting a three day conference from 7 to 9 March; details would be circulated when available.

MEMBER

Councillor Edgar left the meeting following consideration of the above item.

6.6 GMP Reconciliation

The HR Shares Services Manager, Mr Angus, advised that following a tendering exercise, ITM limited was the successful bidder and would support the Fund to progress Guaranteed Minimum Pension (GMP) Reconciliation.

6.7 Auto Enrolment

With regard to the Local Government Pension Scheme (LGPS), 104 employees had been enrolled into the Scottish Borders scheme and 52 into the SB Cares scheme, with 443

and 412 employees respectively, not meeting the criteria. However, these employees had been advised that they could still opt to join the scheme and this was being monitored

6.8 **MiFID Update**

The “professional” status documentation had been completed, with two fund managers still to confirm the fund meets the requirements to opt up as requested.

6.9 **Future Meeting Dates**

Joint Pension Fund Committee and Pension Fund Board	8 March 2018
Joint Pension Fund Committee and Pension Fund Board	14 June 2018
Performance & Investment Sub-Committee	26 February 2018.

DECISION

NOTED the information update.

7. **ITEMS LIKELY TO BE TAKEN IN PRIVATE**

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 ground that they involved the likely disclosure of exempt information as defined in paragraphs 6 and 8 of the part 1 of Schedule 7A to the Act.

SUMMARY OF PRIVATE BUSINESS

8. **MINUTE**

The Committee noted the Private Minute of the meeting of 14 September 2017.

9. **QUARTER PERFORMANCE UPDATE**

The Committee considered a Private report by KPMG.

10. **INFRASTRUCTURE INVESTMENT**

The Committee noted a private report by the Chief Financial Officer regarding an infrastructure investment made by the Fund under delegated authority.

The meeting concluded at 3.30 pm.

RISK REGISTER UPDATE

Report by Chief Financial Officer

JOINT MEETING OF PENSION FUND COMMITTEE AND PENSION BOARD

8 March 2018

1 PURPOSE AND SUMMARY

- 1.1 **This report forms part of the risk review requirements and provides the Members of the Pension Fund Committee and Pension Board with an update of the progress of the actions taken by management to mitigate these risks, a review of any new risks and highlights changes to any of the risks contained in the risk register.**
- 1.2 Identifying and managing risk is a corner stone of effective management and is required under the Council's Risk Management Policy and process guide and CIPFA's guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 1.3 A full risk review was undertaken on 10 May 2017 and the revised risk register was approved by the Joint Pension Fund Committee and Pension Fund Board on 22 June 2017. An update on the actions were provided to the Committee on 4 December 2017.
- 1.4 Appendix 1 details the risks within the approved risk register which have been identified management, actions and the progress of these actions to date.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Committee and Board:**
 - (a) **Note the management actions progress as contained in Appendix 1;**
 - (b) **Notes the website going live on 31 March 2018 will complete 5 of the agreed actions;**
 - (c) **Notes a report to committee on the cashflow actions will be presented to committee in June 2018.**
 - (d) **Notes no new quantifiable risks have been identified since the last review; and**
 - (e) **Agrees to a full risk review during June 2018**

3 BACKGROUND

- 3.1 Identifying and managing risk is a corner stone of effective management and is required under the CIPFA guidance "Delivering Governance in Local Government Framework 2007". It is further reflected and enhanced in the "Local Government Pension Scheme" published by CIPFA.
- 3.2 The Risk Register has been developed in line with the Council's approach to risk management as set out in the "Risk Management process guide" and assesses risks using a risk score based on likelihood and impact. It has been further refined to reflect best practice "Managing Risk in the Local Government Pension Scheme" published by CIPFA.
- 3.3 The Pension Fund's Business Plan 2017/18 – 2019/20 was approved on 22 June 2017, setting out the aims and objectives of the Pension Fund. These aims and objectives recognised in the formation and approval of the Pension Funds risk register.
- 3.4 The Council's revised Risk Management process guide uses the following risk scoring:

Level of risk	Risk score
RED	High – Risk Score Range 15-25
AMBER	Medium – Risk Score Range 6 – 12
GREEN	Low – Risk Score Range 1 - 5

- 3.5 To comply with the Council's revised policy of risk management and best practice, a Risk Management reporting cycle was developed around the performance and business plan reporting of the Pension Fund. As a result the following cycle of reporting was adopted:

- | | |
|-------------|---|
| Quarterly | <ul style="list-style-type: none">Quarterly Investment Performance Report;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Bi-Annually | <ul style="list-style-type: none">Mid-Year Progress report on Business Plan Actions;Key risks, escalation of any risks that are perceived to have changed adversely and any new risks need to be considered by the Committee;Update on progress of risk management action delivery. |
| Annually | <ul style="list-style-type: none">Annual Governance Meeting with Annual Report and Policy/Strategy Performance Reports;Annual reporting on progress with Business Plan and approval of updated Business Plan;Annual reporting on progress with Risk Management Actions and approval of fully reviewed Risk Register including consideration of any new risks. |

4 RISK REGISTER UPDATE

- 4.1 A full risk workshop was undertaken on 10 May 2017 by Officers in order to ensure that the risk register's contents were still relevant and up-to-date. The outcome of the workshop was then considered and approved at the

Committee/Board meeting on 22 June 2017, with an update of the actions provided to Committee on 4 December 2017. This report provides an update on all areas required for bi-annual review except for the mid-year progress of the Business Plan which is reported in a separate report.

- 4.2 The progress of the individual management actions identified in the current risk register is detailed in Appendix 1.
- 4.3 The implementation and launch of the Pension Fund website by 31 March 2018 will complete the proposed additional actions for 5 of the current risks being monitored. This will allow the current risks scores to be re-evaluated as part the full risk review for June 2018.
- 4.4 Work on cashflow projections is nearing completion. An update will be presented to the June 2018 meeting detailing the findings and recommendations for the future cashflow management.
- 4.5 No new quantifiable risks have been identified since the approval of the risk review update on 4 December 2017. The risks previously identified and scored remain unchanged.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report.

5.2 Risk and Mitigations

The purpose of providing the update to the Committee and Board is to improve the risk management framework for the Pension Fund and demonstrate that the Members of the Pension Fund Committee and the Pension Board understand the risks faced and how it is proposed to manage, mitigate or tolerate these risks. The Additional Proposed Actions as contained in Appendix 1 are designed to directly enhance the management of risks.

5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration of Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pensions & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Pension Fund Committee and Pension Board 4
December 2017

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Treasury & Capital Team can also give information on other language translations as well as providing additional copies.

Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/12/17
1.1	Asset & Investment	Failure to achieve the target investment returns set out in the Statement of Investment Principles over the longer term may lead to significant increased employer contribution rates and costs of implementing changes to the investment strategy.	Inappropriate strategic asset allocation for Fund's requirements; Inappropriate investment approaches within asset class; Underperformance/ negative investment returns from investments under management; Significant and sustained market and economic events creating adverse movements in valuations; Investment Strategy inconsistent with Funding Strategy.	Significant rises in the employer contributions; Costs involved in implementing changes to investment strategy; Funding Deficit for Fund.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Continual monitoring of investment performance; Engagement with Investment Adviser to update investment strategies and periodic review of strategic asset allocation; Scrutiny of Investment Manager performance by Investment & Performance Sub-Committee; Actuary reports included element of prudence. TREAT <u>Additional Actions Proposed:</u> Enhance officer role in monitoring of investment returns to enable more timely action to be taken. Encourage more thorough challenge of Advisers and Fund Managers.	Effective	4	3	12	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge. Members of Committee and Board completing Trustee Toolkit modules. Finalising performance monitoring and accounting information available from Custodian.
1.2	Asset & Investment	Failure of Fund's Custodian may lead to the Fund's assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	Inaccurate recording of asset transactions; Financial or internal controls fail to prevent fraud or misappropriation; Organisational failure resulting in closure of business/cessation of trading.	Financial or information loss in relation to investment assets.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Robust procurement processes around the custodian; Reconciliation of Custodian to Investment Manager Records; Monitor custodian performance and credit rating; Monitoring of financial media; Covered by legal contract; Regulated by FCA, assets not on custodian balance sheet; Receipt of annual controls reports from Custodian's External Auditors; Annual External Audit Process; Legal recourse within contracts. TREAT <u>Additional Actions Proposed:</u> Annual review of Custodian performance	Effective	3	2	6	Review meeting held with Custodian on 13 September
1.4	Asset & Investment	Failure to take expert advice or risk of poor investment/actuarial advice may lead to the Fund's assets not being properly managed resulting in inappropriate investment decisions and poor returns and/or insufficient funding levels	Committee ignores advice provided by expert adviser; External adviser provides inappropriate/inaccurate/ insufficient advice to Committee/Officers.	Wrong or inappropriate decisions resulting in inadequate investment returns and/or insufficient funding levels potentially increasing employers contribution rates.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Robust procurement processes around the recruitment and appointment process; Investment Adviser in place and performance reviewed annually Benchmark performance against other LAs; Regular benchmarking and cross verification of advice with other LAs through Local Govt. Pension Scheme(Scotland) Investment & Governance Group; Other info sources and discussions with non-Fund investment managers/advisers to validate advice and performance of Fund; Pension Fund Board provides scrutiny role TREAT Ongoing training for elected members of the Pension Board and Committee	Effective	4	2	8	Training requirements being actioned as part of Training plan to ensure have required skills and knowledge to enable challenge. Members of Committee and Board completing Trustee Toolkit modules.
1.9	Asset & Investment	Investment Strategy is inconsistent with Funding Strategy may lead to the fund not being managed properly through setting employer contribution rates incorrectly resulting in the future liabilities of the Fund not being able to be covered by its assets and requiring employers to increase contribution rates to address any funding gap.	Investment Strategy for Fund set without appropriate consideration of the requirements of the Funding Strategy	future liabilities of the Fund not being able to be covered by its assets; Employers increase contribution rates to address any funding gap.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Full actuarial valuation undertaken on Triennial basis. Funding Strategy Statement and Statement of Investment Principles updated and approved at the same time. As part of this assess requirement for Investment strategy to be reviewed and updated accordingly. TREAT <u>Additional Actions Proposed:</u> Undertake a full investment strategy review following 2017 valuation.	Effective	2	2	4	Initial findings presented at December meeting, Final report to be completed by 31 March. Review of investment strategy to follow finalisation of valuation

Page 11

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/12/17
2.2	Employer	Adoption of either an inappropriately slow or rapid pace of funding rates for different employers may result in improper management of the Fund and result in inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Failure by employer to notify the fund of significant changes of membership.	Improper management of the Fund; Inappropriate employer contribution rates and a possible shortfall in assets to cover the employer's liabilities.	Ongoing	Pension Fund Committee/ Chief Financial Officer	Full actuarial valuation undertaken on Triennial basis, 2014 valuation completed; Review Pooling arrangements at each Valuation and implement appropriate de-pooling e.g. Live Borders/SBHA to reflect employer situations; Ensure full reporting of options are presented to the Committee and Board when employer circumstances change to ensure decision making fully informed. TREAT Undertake final valuation for 2017	Effective	3	2	6	Initial findings presented at meeting, final findings to be completed by 31 March 2018
2.4	Employer	Failure to understand and be involved in proposed structural changes in employers' engagement in the Scheme may lead to failure to manage the transition to a different level/type of participation by the employer in the Fund resulting in inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer.	Failure by employer to notify the fund of significant changes of membership; Changes to composition of employees; Fund participation no longer affordable to an employer.	Failure to manage the transition to a different level/type of participation by the employer in the Fund; Inappropriate employer contribution rates and insufficient management of contributions to cover future liabilities of that employer. Fund reaches maturity more quickly; Adverse impact on cash flow and funding levels	Ongoing	Pension Fund Committee/ Service Director of HR	Annual Employers Liaison group established to improve two-way communication; Borders College and 2 Admitted Bodies representatives on Pension Board; Full actuarial valuation undertaken on Triennial basis; Active involvement of actuary in projects affecting membership structures; Low number of admitted and scheduled bodies and any new admitted bodies are carefully considered before admission. Annual Declaration to include changes of scheme membership for current and future year. TREAT <u>Additional Actions Proposed:</u> Full communications strategy being developed during 2017/18 to further improve Employer Engagement;	Effective	2	3	6	Communication strategy approved 14 September 2017, Agreement signed with Hyman Robertson to host web site. Web site to go live by 31 March 2018. Annual liaison meeting with Employers scheduled for 27th March 2018.
3.1	Resources & skills	Over reliance on key officers may lead to significant knowledge gaps resulting in failure to manage the Fund effectively.	Available resource; Requirement to maintain admin costs; Absence of succession management in relation to supporting crucial aspects of the operation of the Fund.	May lead to significant knowledge gaps resulting in failure to manage and operate the Fund effectively.	Ongoing	Chief Financial Officer/ Service Director of HR	Use of external advisers (investment/tax/SPPA) provides additional resilience and resources. Pension administration system implemented with help modules which can be enhanced to include details specific to SBC Pension Fund; Restructure of teams to reduce single points of failure and manage succession planning. TREAT <u>Additional Action Proposed:</u> Improvement in quality of procedure notes for officers.	Effective	2	3	6	Action plan for the development and updating of procedure notes currently being developed following implementation of Business World. Will prioritise for perceived high risk and possible quick wins.
3.5	Resources & skills	Failure of Officers to maintain sufficient level of competence to discharge their duties could lead to failure to manage the Fund effectively as a result of their inability to provide appropriate decision making support and advice.	Changes in legislation; New investment types and vehicles; Lack of documented procedures.	Failure to manage the Fund effectively.	Ongoing	Chief Financial Officer/ Service Director of HR	Use of External Advisers provides additional resilience and resources; PRD process implemented to identified training and development requirements; Active participation in Scottish Investments and Governance Group (IGG) and Scottish Pensions Liaison Group; Regular engagement with external Investment Managers to supplement knowledge. TREAT <u>Additional Action Proposed:</u> Improvement in quality of procedure notes for officers.	Partially Effective	2	3	6	Action plan for the development and updating of procedure notes currently being developed following implementation of Business World. Will prioritise for perceived high risk and possible quick wins.

Pension Fund - Full Risk Register

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/12/17
4.1	Liquidity	Changes in composition of Pension Fund membership, i.e. active/deferred/pensioners may lead to insufficient assets in the Fund to meet the future liabilities as they fall due, potentially increasing employers contribution levels and changes to the investment strategy.	Variance between CPI rates and pay increases; Fewer people joining; Other employers close funds; Economic drivers to reduce workforce.	Fund Matures more quickly than currently anticipated and may lead to there being insufficient assets in the Fund to meet the future liabilities as they fall due potentially increasing employers contribution levels and changes to the investment strategy.	Ongoing	Chief Financial Officer	Funding Strategy Statement, Statement of Investment Principles and Triennial Valuation all work together to identify funding requirements and how these are met; Use of an Investment Adviser and Actuarial services as and when required; Implementation of Auto-enrolment with final transition being completed by July 2017; Pension Administration Strategy in place and monitored and Employer Liaison Group; Annual Report includes analysis of membership changes. Close monitoring of early retiral decisions and quantification of impact on pension fund being included as part of the Council reports; TREAT <u>Additional Actions Proposed:</u> Continue review of cashflow scenarios to identify timelines and impact of changing legislation.	Partially Effective	4	4	16	Cash flow work complete and gaps identified. Work being undertaken by Investment Advisor to recommend how gap is covered in most cost effective way.
4.2	Liquidity	If employees can no longer afford to participate in the scheme then there may be reduced income into Fund resulting in a change being required to the Funding and Investments Strategy due to changes in participation levels.	Economic circumstances; Potential increases to employee contributions due to central Govt. decisions; Changes to tax relief on pensions.	Reduced income into Fund resulting in a change being required to the Funding and Investments Strategy	Ongoing	Chief Financial Officer	Limited measures in place. Nationally negotiated rates/benefits with employee representatives (i.e. Trade Unions) on minimising employee contribution increases; Pay awards now being given, economy now improving; LGPS changes implementation of 50/50 option; Trade Union involvement in the Pension Board and Scheme Advisory Board; Communication issued with annual benefits statements. TREAT <u>Additional Actions Proposed:</u> Ensure regular information is issued to employees setting out the continued benefits of scheme membership e.g. tax relief on contributions/employers contribution; Communication strategy being developed.	Partially Effective	4	3	12	Communication strategy approved 14 September 2017, Agreement signed with Hymans Robertson to host web site. Web site to go live by 31 March 2018
4.5	Liquidity	New pension access reforms ("freedom of choice") may lead to pension fund members electing to transfer all or part of their pension entitlement much earlier than projected resulting in the potential for a significant change in the liability profile for the Fund.	Changes in legislation and increase in awareness.	Requirement to release large amounts of cash to members; Disinvest current assets in a much more unplanned manner with the potential to disadvantage the Funding position; Scheme sanction charges for any transfer to unapproved scheme.	Ongoing	Chief Financial Officer/ Service Director of HR	Requests for transfers are currently mitigated by obtaining enhanced levels of indemnity for the members, the receiving scheme and written confirmation of the scheme approval from HMRC; Monitoring will be undertaken during the year and reported to Members as part of the annual report. With effect from 1 April 2015 members with funds in excess of £30k must receive professional advice from a Financial Conduct (FCA) regulated adviser, includes signed declaration by individual; Continue to monitor ongoing legislation around this area. TREAT <u>Additional Actions Proposed:</u> Development of communication strategy.	Effective	2	3	6	Communication strategy approved 14 September 2017, Agreement signed with Hymans Robertson to host web site. Web site to go live by 31 March 2018

Pension Fund - Full Risk Register

APPENDIX 1

No.	Category	Risk	Risk Factor/Cause	Effect/Consequences	Proximity	Risk Owner	Controls		Current Risk			Progress
							Current Controls	Control Assessment	Impact	Likelihood	Score	Actions as at 4/12/17
4.6	Liquidity	Failure to manage the liquidity required for the Fund's cashflows may lead to assets being sold at unattractive times or investment opportunities missed due to unavailability of cash, resulting in an adverse impact on the valuation of the Fund's assets.	Higher than anticipated levels of retirement; Higher levels of lump sums commutation taken on retirement.	Requirement to divest investment assets at an unattractive time or missing investment opportunities which result in an adverse impact on the value of the Fund's assets	Ongoing	Capital & Investments Manager	Daily and weekly monitoring of Pension Fund's Cashflows; TREAT <u>Additional Actions Proposed:</u> Improve quality of medium term cashflow forecasting for the Fund; Asset allocation review to review cash flow projections requirements; New Treasury Management system to improve cash flow projections.	Partially Effective	2	2	4	Cash flow work complete and gaps identified. Work being undertaken by Investment Advisor to recommend how gap is covered in most cost effective way.
5.6	Administrative	Failure to keep pension records up to date and accurate may lead to incorrect pensions information being issued or incorrect benefits calculations or payments	Lack of info from members and employers; Human error; IT systems failure.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.	Ongoing	HR Shared Services Manager	Pension administration system implemented; Business World used for pension payments; Staffing structure of HR Shared Services continues to be monitored to ensure adequate staffing and knowledge maintained; All HRSS staff fully trained mandatory Data Protection and fully compliant with SBC Info. Governance requirements; Annual Statements issued to active and deferred members, including list of beneficiaries. TREAT <u>Additional Action Proposed:</u> Communication plan to be put in place to ensure employees notify employers of any changes.	Partially Effective	2	3	6	Communication strategy approved 14 September 2017, Agreement signed with Hyman Robertson to host web site. Web site to go live by 31 March 2018
5.7	Administrative	Failure to communicate effectively with stakeholders in Pension Fund resulting in inability to provide high quality pensions service	Failure to issue information in a timely manner and in an easily understandable format.	Scheme members not aware of their rights resulting in bad decisions; Employers not aware of regulations, procedures, etc.	Ongoing	HR Shared Services Manager/ Capital & Investments Manager	Engagement in Scottish pension networks; Union and Admitted body representation on the Pension Fund Board; Publication of annual report via website and printed copies to all Scheduled and Admitted bodies; Annual reporting or performance of issuing Benefits Statements to Pension Fund Committee and Board. TREAT <u>Additional Action Proposed:</u> Implementation of Communications Strategy.	Effective	2	3	6	Communication strategy approved 14 September 2017, Agreement signed with Hyman Robertson to host web site. Web site to go live by 31 March 2018
6.2	Regulatory & Compliance	Changes in legislation and other regulatory frameworks may impact adversely on the Fund in terms of funding levels and governance structures	Central Govt. legislation changes.	Loss of independence in the management of the Fund; Impact on Fund value and benefits; Increased costs to the Fund, employer contributions; Potential loss of active scheme members.	Ongoing	Chief Financial Officer/ Service Director of HR	Participation in active CIPFA and Scottish Pension network allow changes and impacts to be identified quickly; Involvement with COSLA discussions on Pensions; Monitoring and highlighting actions and decisions from scheme advisory board; TREAT <u>Additional Actions Proposed:</u> Seek to input into any of the legislative change through active membership of COSLA;	Partially Effective	4	4	16	Responding to all consultations and participating in all national groups. Chief Financial Officer active member of Director of Finance group. Monitoring Scheme Advisory Board web site on monthly basis
7.3	Reputation	Failure to appoint relevant advisers and review their performance may lead to inappropriate management of the Fund resulting from poor advice to decision makers	Lack of capacity of Officers to monitor.	Failure to achieve Pension Fund objectives; Inappropriate management of the Fund resulting from poor advice to decision makers; Legal challenge	Ongoing	Chief Financial Officer/ Service Director of HR	Identify requirements of external advisers and appoint appropriately. TREAT <u>Additional Actions Required:</u> Implement annual review of Advisers;	Effective	2	2	4	Review meetings held with Investment Advisor and Custodian during September and October.



PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2017

Report by Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

8 March 2018

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 31 December 2017 including projections to 31 March 2018.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards, a budget was approved on 16 March 2017 following the standard presentation recommended by the CIPFA accounting guidelines. This report is the third quarterly monitoring report of the approved budget for 2017/18.
- 1.4 The total expenditure to 31 December 2017 is £0.623m with a projected total expenditure of £8.208m. This is against an approved budget of £3.928m giving a negative projected variance of £4.280m.
- 1.5 The negative variance is due to mainly the increased fees associated with the increased value of the fund and one off transaction costs associated with stamp duty incurred due to the rebalancing of the fund to the revised strategy.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Notes the actual expenditure to 31 December 2017 and the projected out-turn.**
 - (b) Agrees the budgets are amended to reflect the projected out-turn.**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 require Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report compliance with these standards within its Annual Report. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 The 2017/18 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 16 March 2017. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

Category	Costs included
Investment Management	All expenses incurred in relation to management of pension fund assets. Including costs invoiced direct and fees deducted from fund assets. Custody and performance fees also included
Administration	Costs incurred in administration of the fund including staff, IT costs and associated overheads, benefits consultants.
Oversight and governance	Costs incurred in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board.

- 3.3 There has been growing pressure to improve the level of transparency of fees for investors. The Scheme Advisory Board for England and Wales has also been working on this area and has produced a Code of Transparency which the Scheme Advisory Board Scotland has recommended funds adopt the code. Scottish Borders Pension Fund has, for the last few years, been reflecting both fees paid direct to managers and fees deducted at source. This code requires the Fund to also show the lower level transaction costs previously not shown, as this data has not previously been available from investment managers.

4 MONITORING TO 31 DECEMBER 2017

4.1 The table below shows the expenditure to 31 December 2017, projected out-turn to 31 March, full year budget

	Expenditure to 31 December 17 £000's	Projected to 31 March 18 £000's	2017/18 Budget £000's	2017/18 Variance £000's
Investment Management Fees	567	7,594	3,330	4,264
Administration	17	385	385	0
Oversight & Governance	39	229	213	16
Total	623	8,208	3,928	4,280

4.2 The Investment Management fees are directly related to the value of the investments held. The value the fund has increased from £653m on 31 March 2017 to £700m as at 31 December 2017, an increase of 7%. This has resulted in increased fees from the Managers.

4.3 The Pension Fund has also incurred additional costs due to the ongoing work to rebalance of the Fund to the revised investment strategy. The investments made in long lease property have incurred dealing charge for each investment made. This is a transaction cost which under the Transparency code, will be shown under Investment Management Fees. This is a one off charge of £3.6m, mainly due to the requirement to pay stamp duty on long leased property. The rebalancing has also increased the custodian fees due to the increased activity and number of accounts held.

4.4 Investment Management fees are charged on a quarterly basis in arrears or deducted directly based on the value of assets held on a quarterly basis. The second quarter charged investment management fees are not therefore included in the expenditure to 31 December totals. The fees deducted directly are not currently reflected for quarter 1, 2 or 3. Estimates of both fees are however reflected in projected costs to the year end.

4.5 The rebalancing of the fund to the investment strategy has also resulted in additional fees to the custodian for performance and accounting. This is due to the increased number of accounts and transactions as the fund restructures.

5 IMPLICATIONS

5.1 Financial

There are not costs attached to any of the recommendations contained in this report.

5.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects compliance with the best practice recommendations.

5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249

Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 12 December 2017

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Capital and Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at Contact us at: Treasury & Capital Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 OSA Tel: 01835 825016 Fax 01835 825166. email: treasuryteam@scotborders.gov.uk

INFORMATION UPDATE

Briefing Paper by Chief Financial Officer

PENSION FUND COMMITTEE & PENSION BOARD
8 March 2018

1 PURPOSE AND SUMMARY

- 1.1 **This briefing paper is to provide members of the Committee and the Board with an update on a number of areas which are being monitored and areas where work is progressing. Full reports on the individual areas will be tabled as decisions and actions are required.**

2 GMP Reconciliation

- 2.1 Stage 1 of the GMP Reconciliation has been completed by ITM Limited on behalf of Scottish Borders Council. Data extracts were produced from the Scottish Borders Council pensions system on 9 January 2018. ITM were granted access to the HMRC eroom on 19 January 2018.
- 2.2 Scottish Borders Council received the first project update report on 15 January 2018 and these are summarised below:-

%	Position
28	Percentage of fund members have been reconciled
31	Percentage of fund members who are out with the scope for reconciliation. Generally members who have no liability under the scheme having either pre 6 April 1978 service only or only post 5 April 2016 service.
41	Percentage of fund members who are still unreconciled. These are awaiting data from HMRC or further investigation is required by gathering historic payroll details

- 2.3 The table over the page outlines the baseline figures for Scottish Borders Council and will be used to report on progress throughout the duration of the

project

Status	Reconciled			Unreconciled			Other
	No GMP liability	Exact match	Within tolerance	Awaiting data from client	Awaiting data from HMRC	Further review	N/A record
Active	2,088	94	43	-	-	1,610	514
Deferred Post GMP Age	63	3	4	-	-	77	-
Deferred Pre GMP Age	1,228	302	77	-	-	928	-
Pensioner Post GMP Age	436	510	677	-	12	963	-
Pensioner Pre GMP Age	96	110	58	-	-	120	-
Widow(er)	24	17	56	-	105	207	-
Unlinked dependant	-	-	-	-	-	55	-
Total on admin	3,935	1,036	915	-	117	3,960	514
Other admin	-	-	-	-	7	1,701	5,500
HMRC only	-	-	-	-	46	2,753	458
Total reported cases	3,935	1,036	915	-	170	8,414	6,472

- 2.4 The next stage of the project is the reconciliation of discrepancies between HMRC and Scottish Borders Council pension records for Active or Deferred members and Pensioners. The initial file with queries was sent to HMRC on 14 February 2018. Scottish Borders Council will receive monthly updates on the progress of the GMP Reconciliation exercise from ITM Limited.

3 PROGRESS ON INVESTMENT STRATEGY IMPLEMENTATION MANAGERS

- 3.1 The revised Investment Strategy approved in September 2016 and then updated on 16 March 2017 to include an allocation to infrastructure resulted in a 3 new managers and the requirement to rebalance a number of investment categories.

- 3.2 The table below details the progress to date on the movements up to 28 February 2018.

Category	Manager	Required move	Position
Long Lease Property	Blackrock	New allocation of 10%	Full original allocation of £60m now invested. Due to rise in equity 10% now £70M
Private Credit	Partners/Permira	New allocation of 10%	£31m invested, due to rise in equities 10% requires further £39m to be invested
Infrastructure	Collaboration with Lothian Pension Fund	New allocation of 5%	Initial allocation of £2.4m complete, balance of £33m to invest

4 SCHEME ADVISORY BOARD UPDATE

- 4.1 Meeting held on 24th January 2018 covering the following items

- Structure review – following as response from Scottish Ministers they are looking to take forward the review looking at 4 possible options.
- Audit Scotland overview of funds
- Governance Review
- Annual report
- Regulations
- Pensions developments

4.2 The bulletin of the meeting is attached for information. There is no date for the next meeting.

5 TRAINING OPPORTUNITIES

5.1 Training events held during the year have been well attended by both Board and Committee Members. The training policy requires Members to attend 2 training events per year. To date 6 Committee Members and 6 Board Members have attended 2 or more training events.

5.2 The Trustee Toolkit has now been completed by 5 Committee Members and 7 Board Members. The training policy requires all Members to have completed the Toolkit within 6 months of joining the Committee or Board. The monitoring of this target will be reported to the Committee in the Training report in June and will be included in the Pension Fund Annual Report.

6 FUTURE MEETING DATES

6.1 The next meeting is 14th June. The dates for future meetings are currently being finalised for formal approval at Council 29 March 2018. The table below provides the provisional dates of the future meetings.

Meeting	Date
Joint Pension Fund Committee and Pension Fund Board	14 June 2018
	13 August 2018
	6 December 2018
	7 March 2019
	13 June 2019
Performance & Investment Sub Committee	27 August 2018
	25 February 2019

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager, 01835 825249
Anthea Green	HR Shared Services Team Leader, 01835 826722

This page is intentionally left blank

February 2018

BULLETIN

Structure Review

The Cabinet Secretary for Finance has responded to the SAB's options paper on the structure review. He has asked the SAB to consult on the future structure of the scheme based on the options identified in the report:

- Status quo of eleven funds in Scotland.
- Retain the eleven funds, but with closer collaboration.
- One or more common investment pools.
- Merge the funds into one or more new funds.

SAB officers are drafting a consultation paper and timetable for the next SAB meeting in April.

Audit Scotland overview report

The SAB received a presentation from Audit Scotland on their overview report on local government pension funds. This is a high level look at funds based on their financial accounts. Audit Scotland highlighted the significant increase in asset value and liabilities as well as other challenges facing the scheme. These will be addressed in more detail when the scheme valuation is considered later this year.

http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_171128_local_government_finance_supp2.pdf

Governance Review

The SAB agreed an action plan on the implementation of governance review. The main actions for the SLGPS involved strengthening training and communications, particularly with pension boards at fund level.

Annual report

A revised draft report was agreed at the last SAB meeting. The final statistical analysis is being completed and the report should be published later this month.

Regulations

The SPPA reported on draft regulations that had been out for consultation. Some changes will be made and the final regulations will be presented to Parliament in April.

Pension Developments

The FCA's Investor Disclosure Working Group (IDWG) is working on templates for cost and fee disclosure by asset managers to institutional investors, including pension funds. Many of the biggest advisors have already signed up to the LGPS code. The working group has recently published an update of its work.

<https://www.fca.org.uk/publication/minutes/idwg-progress-december-2017.pdf>

The UK government has announced that it intends to lower the age for automatic enrolment in workplace pensions from 22 to 18. However, the change will not take place until the mid 2020s.

The UK government is consulting on rules that will make it easier for pension schemes to make investment decisions to fight climate change. Friends of the Earth Scotland has published a new analysis of fossil fuel investment in Scotland and UNISON has commissioned a guide on this issue from Share Action.

Further details on our website www.lgpsab.scot

This page is intentionally left blank

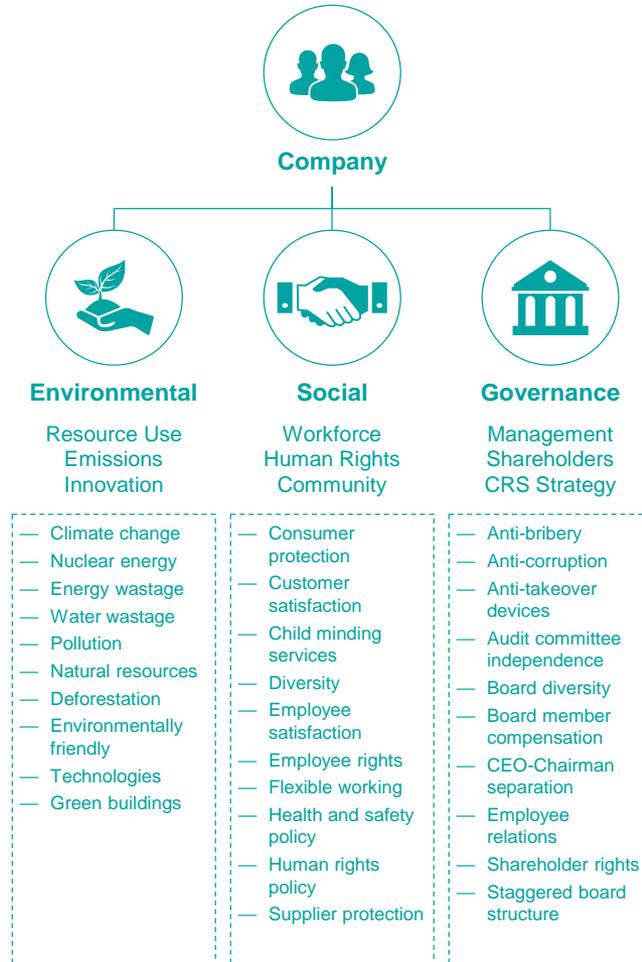


Scottish Borders Council Pension Fund

Environmental, Social and Governance (“ESG”) Considerations - Overview

March 2018

What is ESG?



Why consider ESG?

- It can have a significant financial impact:

Mark Carney, Governor of the Bank of England (2015 Lloyd's City Dinner):

"While a given physical manifestation of climate change – a flood or stream – may not directly affect a corporate bond's value, policy action to promote the transition towards a low-carbon economy could spark a fundamental assessment."

Page 27

JP Morgan (email on 23 November 2017):

"Within our US Investment Grade portfolios, we sold bonds issued by a utility generation issuer that is a large owner of coal-fired generation. We were concerned with evolving environmental regulations, the carbon intensity of the assets and potential for stranded asset risk. The bonds were downgraded to the CC rating category and the Company faces a restructuring or bankruptcy. The company recently wrote down over USD 9 billion in asset value associated with the assets."

Source: "Stranded Assets: the transition to a low carbon economy, Emerging Risk Report 2017 Innovation Series, Lloyds.

How to incorporate ESG

Page 28

Do Nothing, understand the risks

Incorporating ESG into investment strategy requires additional time and resource. **Financial, reputational** and **regulatory** risk from doing nothing.



Ensure managers have ESG policies in place

The first and most basic consideration is to ensure that appointed asset managers have suitable ESG and monitoring policies in place.



What are the options?

Appoint managers that integrate ESG centrally

Appointing asset managers that directly incorporate ESG in their investment strategies and recognise it as central to the decision making process.



Develop a bespoke ESG policy

Once an investor has customised their own ESG policy, they can take an active ownership approach to actively engage directly with companies to encourage change.



Do nothing is not an option

1. Do Nothing

- ✘ **Financial risk:** Evidence that incorporating ESG improves risk-adjusted returns i.e. Statman (2006) analysis of Responsible Investment indices within the S&P 500.
- ✘ **Reputational risk:** Investment by Church of England in controversial payday lender, Wonga (2013).
- ✘ **Regulation:** Requires ESG to be considered.

Ensure managers have ESG policies in place

Page 30

2. Ensure managers have ESG policies in place

? **Financial risk:** Identifies managers' current approach and improves the understanding of the risks involved. Doesn't necessarily impact underlying portfolios.

✓ **Governance burden:** Marginal increase in governance to review and monitor managers' policies and approaches.

Appoint managers that integrate ESG centrally

3. Appoint managers that integrate ESG centrally

✓ **Financial risk:** Ensures risks arising from ESG considerations are managed in active portfolios. Passive portfolios will still simply track the index (consider which index to use).

? **Governance burden:** Increased governance time and cost to select and monitor managers' approach.

Develop a bespoke ESG policy

4. Develop a bespoke ESG policy

- ✓ **Financial risk:** Tailored approach to meet Fund's specific requirements & views of pensions committee. Comprehensive tracking of compliance with approach, voting etc.
- ✗ **Governance burden:** Requires significant investment of time to develop a comprehensive approach across the entire investment portfolio.

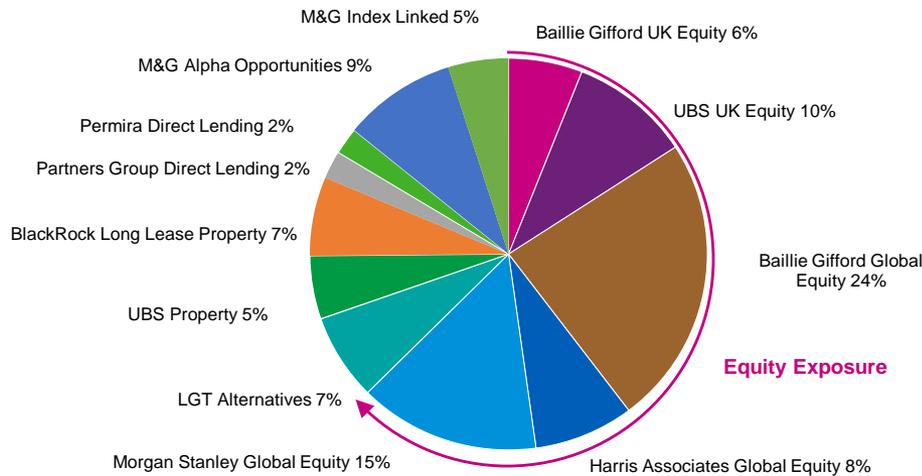


Your Investment Strategy and ESG

Your strategy

Fund Value (31 December 2017): £699.0m

Page 34



- The Fund's equity exposure is c. 63% of invested assets.
- A good starting point for ESG considerations.
- All of the global equity portfolios are actively managed.
- The UBS equity portfolio is passive and will track the agreed index.

Potential approaches

Active management:

- Utilising an investment manager which specifically accounts for ESG-related factors within the investment process. Managers include either qualitative or quantitative ESG criteria as key parts of the rating process for each stock. They may still invest having considered the risks. Also engage proactively to influence investee companies.

Passive management:

- There are a range of different global market indices that could be employed to create a diversified equity portfolio that can be accessed very cost effectively, e.g. indices based on lower carbon stocks, those that have high ESG scores, those that utilise resources efficiently etc.

Page 35

Positive bias:

- Invest in sustainability-themed investments addressing social and environmental change (low carbon, energy efficiency etc.)

Negative Screening:

- Remove/reduce exposure to specific risk factors or sectors.

Your equity managers and ESG

Approach to ESG			
Equity Manager	UNPRI	UK Stewardship Code	Additional Comments
Baillie Gifford	 Signatory to the UNPRI since 2007	 Agrees and complies with the UK Stewardship Code	<ul style="list-style-type: none"> Integral to their investment process. Have their own dedicated Corporate Governance team of 10 individuals, which is responsible for developing and coordinating their ESG-related research in conjunction with the investment teams. Have their own Global Corporate Governance Principles and Guidelines.
UBS	 Signatory to the UNPRI since 2009	 Agrees and complies with the UK Stewardship Code	<ul style="list-style-type: none"> Passive approach means ability to integrate ESG factors in decisions is limited Has its own Sustainable and Impact investing team, which works closely with teams across the business to integrate ESG into their investment processes. Established an ESG committee in January 2010, which meets quarterly.
Harris Associates	 Not currently a signatory, however, Harris are looking into the opportunity to become a signatory.	 Agrees and supports the UK Stewardship Code	<ul style="list-style-type: none"> Complies with the Japan Stewardship Code Member of the Asian Corporate Governance Association No UK or UN body affiliations
Morgan Stanley	 Signatory to the UNPRI since 2013	 Agrees and complies with the UK Stewardship Code	<ul style="list-style-type: none"> Takes approach to ESG seriously. A founding member and participant of the U.S Partnership for Renewable Energy Finance Signatory of the Carbon Disclosure Project Board member of International Emissions Trading Association Member of the Capital Markets for Climate Initiatives UK advisory panel

Page 36

What are others doing?

Recent Regulatory changes

- **2017/18** - UK's LGPS system transformed with new requirements to address ESG and Stewardship activity including "clearly address issues of responsible investment"
- **2018** – Expectation that the UK Government will change regulation relating to the fiduciary duties faced by corporate pension schemes allowing them to more easily disinvest from oil, coal and gas companies due to environmental concerns

Industry Trends

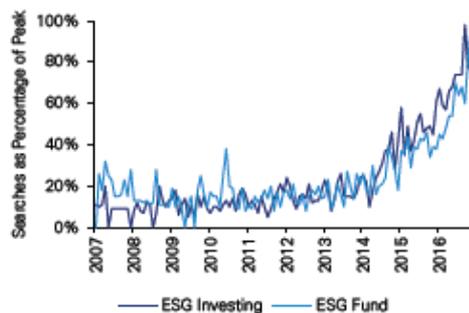
- General shift of census from "nice to have" to "must have"
- Asset management industry responding with expansion of product universe.
- Increasing evidence base to support thesis that companies with strong ESG characteristics/ efficient resource usage have outperformed
- Shift of focus on low carbon/stranded assets

Some anecdotes...

- Norway's \$1 trillion wealth fund is looking to drop all oil and gas companies from its benchmark index. These holdings currently represent c. 6 percent of total assets, or \$37 billion.
- At the One Planet Summit on 12 December 2017, AXA announced it is both dropping investments, and ending insurance for controversial US oil pipelines, as well as quadrupling its disinvestment from coal businesses.
- New York City is looking to disinvest \$5bn of its pension fund's holdings, from fossil fuel companies over the next 5 years.
- We have observed some LGPS funds in England & Wales making allocations to Low Carbon indices to reduce exposure to these risks.

Page 37

Google Searches for ESG Terms



Source: Google trends

UN PRI signatories and Assets Under Management



Source:UNPRI



Transition to a Low Carbon Economy

Carbon emissions – 3 key sectors

Exhibit 1: Current and Future Carbon Emissions

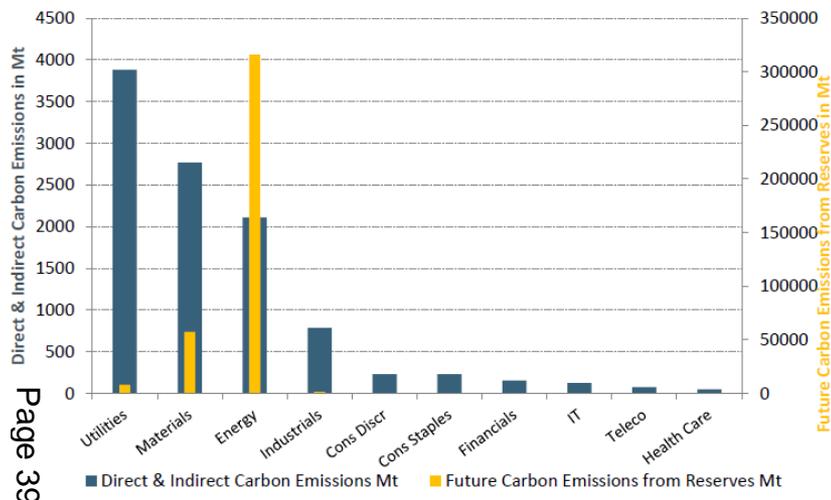
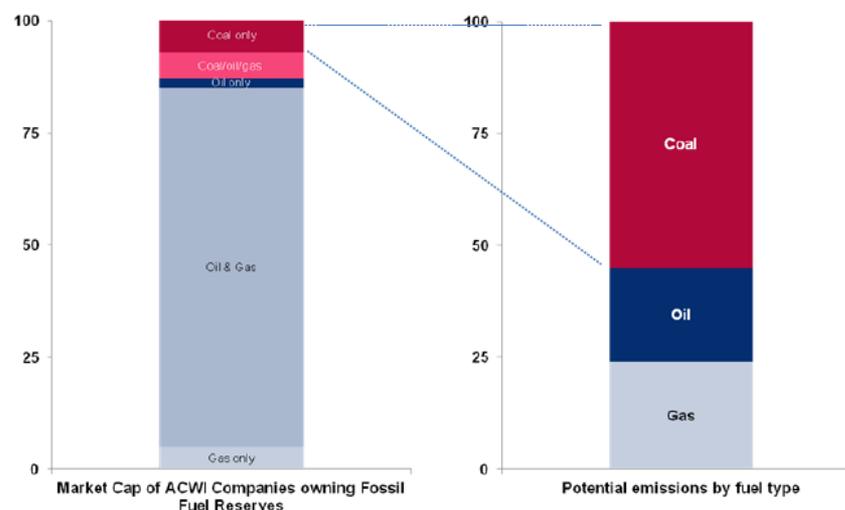


Exhibit 3: Fossil Fuel Reserves Held by ACWI Constituents



- 3 sectors account for majority of carbon emissions & reserves
- It is not clear how long it will take for risks to impact asset prices
- Important to consider both shorter term potential performance against longer term risk

Source: MSCI ESG research as of January & February 2015

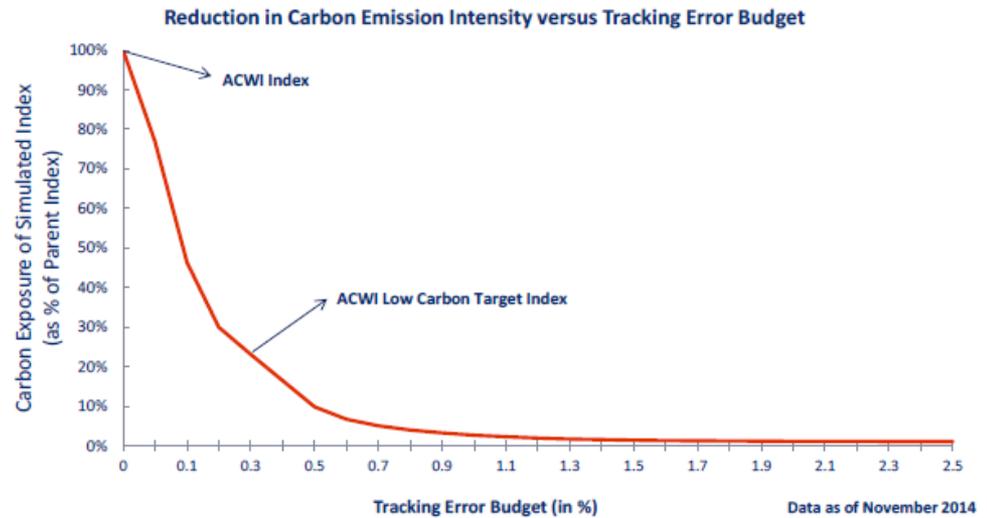
Some example indices

Exhibit 10: Comparison of Global Low Carbon and Global Fossil Fuels Exclusions Indexes

	MSCI Global Fossil Fuels Exclusion Index	MSCI Global Low Carbon Target Index	MSCI Global Low Carbon Leaders Index
Approach used in index design	Selection	Re-Weighting	Selection + Re-Weighting
Short term risk	Not considered	Uses optimization to reduce tracking error to parent index	Uses optimization to reduce tracking error to parent index
Long term thesis	Exposure reduction based solely on selecting companies with low fossil fuel reserves	Uses optimization to reduce exposure to stranded assets (i.e., exposed to current and future emissions) while retaining complete opportunity set	Exposure reduction based on selecting companies with low current carbon emission and low fossil fuel reserves

Page 40

Exhibit 7: Increasing Tracking Error Budget Yields Diminishing Results



Source: MSCI



Points for Discussion

Points for discussion

Potential Next Steps

- Review of investment manager ESG policies
 - Undertake a more detailed review of each manager's approach and capabilities on ESG to document the approach employed when selecting stocks, engaging with investee companies and voting.
- Review and update of ongoing monitoring
 - Review the current ESG reporting from each manager to determine whether there are any gaps and consider how this can be improved or altered to best fit the Council's requirements
- Annual review of underlying managers
 - To review each managers approach over the year and highlight any changes and trends.
- Specific financial risk
 - Is the Committee concerned about any risk in particular?
 - Should there be further exploration of different passive indices (e.g. low carbon, resource efficiency, ESG scoring)?

Page 42



© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.



The contacts at KPMG in connection with this report are:

David O’Hara

Partner

Investment Advisory

KPMG LLP (UK)

Tel: 0141 300 5533

david.o’hara@kpmg.co.uk

Andrew Singh

Executive Consultant

Investment Advisory

KPMG LLP (UK)

Tel: 0131 451 7749

andrew.singh@kpmg.co.uk

Tony Hodgson

Consultant

Investment Advisory

KPMG LLP (UK)

Tel: 0131 527 6932

tony.hodgson@kpmg.co.uk

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank