

SCOTTISH BORDERS COUNCIL PENSION FUND COMMITTEE & PENSION BOARD

MINUTES of Meeting of the PENSION FUND
COMMITTEE AND PENSION BOARD held
in Council Chamber, Council Headquarters
on Thursday, 15 September, 2016 at 11.00
am

Present:- Councillors B White (Chairman), J Campbell, J G Mitchell, S Mountford;
S Aitchison, Mr E Barclay, Mr M Drysdale, Mr C Hogarth, Ms L Ross,
Mr P Smith and Ms C Stewart.

Apologies:- Councillors M Cook, G Edgar and G Logan.

In Attendance:- Chief Financial Officer, Capital & Investments Manager, HR Shared Services
Manager, Senior Finance Officer, Mr D O'Hara (KPMG), Mr F Ashraf
(KPMG) Democratic Services Officer (J Turnbull).

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting of 16 June 2016.

DECISION

NOTED for signature by the Chairman.

2. **STRATEGIC INVESTMENT REVIEW**

2.1 There had been circulated a report by Chief Financial Officer providing the Committee and Board with an update on the outcome of the Strategic Investment Review and presenting the resulting recommendations for the revised asset allocation. The investment strategy was key to ensuring assets continued to grow to meet the long term liabilities of the Fund and, as far as possible, that contribution rates from employers remained stable. A review of the current strategy had been undertaken by KPMG and the findings were detailed in Appendix 1 to the report. As part of the review, the currency hedge arrangement had also been assessed and the findings were detailed in Appendix 2 to the report.

2.2 Mr Robertson advised that the Fund had performed well over the last five years. However, it remained significantly exposed to equity markets which could be volatile and did not offset the Fund's exposure to inflation and interest rate rises. To align the Fund's asset performance, in line with increasing liabilities, a number of adjustments to the pattern of investment was proposed. KPMG's report set out the suggested changes which would evolve the strategy.

2.3 Mr O'Hara, Director – Investment Advisor and Mr Ashraf, KPMG, were present at the meeting. Mr O'Hara advised that the Pension Fund Investment & Performance Sub-Committee had discussed, at their meeting on 22 August, alternative strategies. Strategy 3(b) detailed in the report, was agreed as their preferred strategy. This strategy reduced UK and Overseas equities to 50%; Diversified Alternatives to 10% and Diversified Credit Opportunities to 10% (from 65%, 15% and 10.5% respectively), combined Corporate Bonds (2.25%) and Fixed Interest Gilts (2.25%) and replaced with Index Linked Gilts 5%. This strategy also introduced investment in Long Lease Property (10%) and Private Credit Opportunities (10%). Balanced Property remained at 5%. Mr O'Hara explained that this strategy would be stable and robust in a difficult market environment and gave a similar level of return to the existing portfolio. If the Committee and Board agreed to the alternative investment strategy, there would be a detailed discussion with the Fund's Actuary. Mr Robertson added that if the Actuary did not approve the alternative strategy then it would not be implemented and there would be further discussion with the Committee and Board.

- 2.4 Mr O'Hara went on to discuss the currency hedge and the underlying concern that the hedge did not serve the Fund's best interest and also had a significant cost. Mr O'Hara explained that investments in overseas markets came with a currency risk as exchange rates fluctuated. The rationale for hedging the currency exposure was to reduce volatility in the Fund's asset returns. In the short term, currency hedging worked well, particularly against the US Dollar and Japanese Yen. However, KPMG's perspective was that the Fund could manage volatility and that the hedge should be removed. Moreover, new legislation was being introduced which would make the management of the hedge more expensive and difficult. Mr O'Hara further advised that one caveat for reduction of the hedge was that it be gradually reduced over the next 12 months.
- 2.5 In answer to questions, Mr Robertson advised that a number of alternative strategies had been considered by the Sub-Committee. Following discussion, the Sub-Committee had concluded that strategy 3(b) was the preferred strategy. It has also been agreed that the strategy would be introduced in a phased manner which could be changed to reflect market conditions. The Fund's liquidity in respect of transfers out of the Pension Fund had been factored into the scale of the investment recommended. The Actuary would be consulted on the proposals and should be able to give a decision quickly. There would then be the need to procure a manager to implement the new strategy. It was agreed that the Actuary's views and timeline for implementation of the new strategy would be presented to the next meeting of the Pension Fund Committee and Pension Board.

**DECISION
AGREED:-**

- (a) **The investment strategy as detailed in paragraph 5.2 of the report;**
 - (b) **The removal of the Currency Hedge on a phased basis;**
 - (c) **To delegate authority to the Chief Financial Officer, in agreement with the Chair of the Pension Fund Committee and the Fund's Actuary, based on the advice of the Investment Advisor to implement the revised strategy;**
 - (d) **To delegate authority to the Chief Financial Officer, in agreement with the Chair of the Pension Fund Committee, and based on advice of the Investment Advisor the removal of the Currency Hedge at the most appropriate time; and**
 - (e) **That a further report be presented at the next meeting of the Pension Fund Committee and Pension Board.**
3. **ADMISSION AGREEMENT**
- 3.1 There had been circulated a report by Chief Officer Human Resources seeking approval for the admission of CGI into the Local Government Pension Scheme (LGPS) to provide access to the scheme for those members transferring from Scottish Borders Council to CGI. The current provision of Information Technology Services by the Council was scheduled to transfer to CGI on 1 October 2016. The Council had agreed, as part of the contract signed on 25 March 2016, that staff who were currently members of the Council's Pension Scheme would remain members following the TUPE transfer to CGI and they would apply for membership of the Local Government Pension Scheme (LGPS), entering into the appropriate admission agreement. The admission agreement reflected that those employees who were transferring and were not currently pension scheme members would retain the right to opt in to the LGPS at any point in the future. Included within the Admission Agreement was the requirement for CGI to provide a Bond to underwrite the risk of CGI membership of the Pension Fund should the company cease to trade. It was noted that CGI, under the terms of the service provision agreement, was precluded from varying the terms of the admission agreement without the approval of Council and the Pension Fund.

- 3.2 Mr Angus, HR Shared Services Manager, advised that the bond would be £813k and the employee contribution 19.8%. In answer to a question Mr Angus advised that the Fund was a closed Fund, only open to employees who were eligible for the scheme. New CGI employees would not be permitted to join the scheme.

DECISION

AGREED to enter into an appropriate agreement with CGI to admit the body to membership of the Pension Fund on terms and conditions to the satisfaction of the Chief Executive and Chief Financial Officer.

4. **RISK REGISTER UPDATE**

With reference to paragraph 8 of the Minute of 16 June, there had been circulated a report by Chief Financial Officer which formed part of the risk review requirements. The report provided members with an update on the progress of management actions to mitigate risks, a review of new risks and highlighted changes to risks contained in the Risk Register. 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. Appendix 1, to the report, detailed the risks within the approved Risk Register identifying management actions and the progress of these actions to date. The recent vote to leave the European Union was highly likely to have an impact on the Pension Fund. While the actual timing and consequence of the change was unknown, it was evident that the Pension Fund investment strategy would have to adapt over time as the implications were quantified. Further reports and updates would therefore be provided as these implications became known. The Committee and Board highlighted that one of the risks to the Pension Fund was governance and the turnover of elected Members following an election. Mr Robertson advised this risk was mitigated by professional advisors, officers, succession planning and training.

MEMBER

Councillor Aitchison left the meeting during consideration of the above report.

DECISION :-

- (a) **AGREED to a key risk review being undertaken in December 2016 and reporting of progress on risk management actions.**
- (b) **NOTED:-**
 - (i) **The management actions progress as contained in Appendix 1 to the report; and**
 - (ii) **The emerging position with regard to 'Brexit' continued to create uncertainty; no new quantifiable risks have been identified since the last review.**

5. **ANNUAL ACCOUNTS UPDATE**

Mr Robertson advised that KPMG had concluded their audit of the annual accounts and these would now be presented to Audit Committee on 26 September. KPMG's audit had highlighted that the financial position of the Fund was 101%. The number of pensioners had increased in the year with a corresponding net withdrawal to the Fund. KPMG had also noted that the Fund continued to perform well and exceeded the benchmark return. They considered that governance arrangements and transparency were satisfactory.

DECISION

NOTED.

MEMBER

Councillor Aitchison returned to the meeting following consideration of the above report.

6. TRAINING UPDATE

With reference to paragraph 4 of the Minute of 16 June, Mrs Robb advised that there was an additional place, as a day attendee, at the training event in September. Any member interested should advise her by 16 September. There were eight places for the 'Generating Growth for your Fund' training event on the 27 and 28 October

DECISION NOTED.

7. SCHEME ADVISORY UPDATE

There had been circulated the Scottish Local Government Pension Scheme Advisory Board's first Annual Report 2015/16 and Bulletin (June 2016) for information. Councillor Mitchell was the Fund's representative on the Board and advised that the next meeting would be held on 29 September. The Board had begun to investigate investment fees and pooling. Mrs Robb added that she would forward the Board's website link to members following the meeting.

DECISION

AGREED to request the Scottish Local Government Pension Scheme Advisory Board's website link be forwarded to members.

8. PUBLIC SERVICE PENSION ACT 2013 - GOVERNANCE REVIEW CONSULTATION

There had been circulated correspondence from the Scottish Public Pension Agency (SPPA) regarding the forthcoming Review of the effectiveness of the operation of governance arrangements introduced under the Public Service Pensions Act 2013. The main objectives of the Review included good practice, clarity of Board purpose, role and responsibility; diversity of the Board and the frequency and location of meetings. Mrs Robb stated that a few LGPS Pension Funds had noted the difficulty with achieving a quorum at Pension Board meetings.

DECISION NOTED.

9. PRIVATE BUSINESS

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

10. MINUTE

The Committee noted the Private Minute of the meeting of 16 June 2016.

11. PENSION FUND APPOINTMENT SUB-GROUP

The Committee noted the Private Minute of the Meeting of the Pension Fund Sub-Committee of 16 June 2016.

12. PENSION FUND INVESTMENT PERFORMANCE SUB-COMMITTEE

The Committee noted and agreed the Private Minutes of the Meetings of the Pension Fund Investment Sub Committees on:-

- (a) 24 August 2015.

- (b) 22 February 2016.
- (c) 22 August 2016.

13. **INVESTMENT REPORT - QUARTER TO 31 JUNE 2016**

The Committee noted a report by KPMG.

14. **CUSTODIAN PROCUREMENT**

The Committee noted and agreed a report by Chief Financial Officer.

The meeting concluded at 1.00 pm.