

Notice of meeting and agenda

Pensions Committee

2.00pm, Tuesday 12 December 2017

Dunedin Room, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

Contact

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1. Order of business

- 1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2. Declaration of interests

- 2.1 Members of the Committee and members of the Pensions Board should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3. Deputations

- 3.1 If any

4. Minute

- 4.1 Minute of the Pensions Committee of 27 September 2017 – Submitted for approval as a correct record (circulated)

5. Reports

- 5.1 Referrals/recommendations from Pensions Audit-Sub Committee
- 5.2 Agenda Planning – report by the Executive Director of Resources (circulated)
- 5.3 Stewardship and Engagement – report by the Executive Director of Resources (circulated)
- 5.4 Service Plan Update – report by the Executive Director of Resources (circulated)
- 5.5 Appointment of Providers – report by the Executive Director of Resources (circulated)
- 5.6 Risk Management Summary – report by the Executive Director of Resources (circulated)

6. Motions

- 6.1 By Councillor Miller – Webcast Pensions Committee

“Committee:

Recognises the benefits that have been realised through the webcast of public meetings, including improving transparency and engagement with citizens;

Notes its support in principle to hold future meetings of the Pensions Committee in a room that is equipped for webcasts and asks the Pension Fund to investigate arrangements for webcasting of the Pensions Committee to begin within 2 cycles or following the necessary training for committee members and staff from LPF.”

Laurence Rockey

Head of Strategy and Insight

Committee Members

Councillor Rankin (Convener), Councillor Child, Councillor McVey, Councillor Miller and Councillor Rose, John Anzani and Richard Lamont.

Information about the Pensions Committee

The Pensions Committee consists of 5 Councillors and 2 external members and is appointed by the City of Edinburgh Council. The Pensions Committee usually meets every twelve weeks.

The Pensions Committee usually meets in the City Chambers on the High Street in Edinburgh. The meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Hannah King, Committee Services, City of Edinburgh Council, City Chambers, High Street, Edinburgh EH1 1YJ, Tel 0131 529 4121, e-mail hannah.king@edinburgh.gov.uk.

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

The agenda, minutes and public reports for this meeting and all the main Council committees can be viewed online by going to www.edinburgh.gov.uk/cpol.

For remaining item of business, likely to be considered in private, see separate agenda.

Item 4.1 - Minutes

Pensions Committee

11.00am, Wednesday 27 September 2017

Present:

Councillors Rankin (Convener), Child, McVey, Miller and Rose; John Anzani and Richard Lamont.

Pension Board Members Present:

Jim Anderson, Sharon Dali, Diane Hogarth, Thomas Carr-Pollock, Darren May, Catrina Warren and Alan Williamson.

1. 'We call on the City of Edinburgh Council to do everything within its powers and remit to require that Lothian Pensions Trust divest from all investments concerning arms manufacture'

(a) Deputation – Edinburgh Peace and Justice Centre and Edinburgh Campaign Against Arms Trade

The Committee agreed to hear a deputation from Mark Bittel and Melanie Scott on behalf of Edinburgh Campaign Against Arms Trade and Helen Skulina who received a pension from Lothian Pension Fund.

The deputation requested that the Pensions Committee agree that a strategy be developed over the next two years to divest from companies involved in the arms trade, and that this strategy would explore alternative investments which would contribute to the social good such as affordable housing and renewable energy. They sought evidence that the strategy of engagement with companies that the Fund was invested in, produced corporate change particularly in the realm of companies that manufactured weapons and participated in the arms trade.

They asked for a commitment to be made within the next year to commission an independent survey of Lothian Pension Fund members concerning their consent or not of investment in the weapons trade. Finally, they requested that a full discussion be undertaken at a meeting of the City of Edinburgh Council within a year.

(b) Referral from the Petitions Committee

The Petitions Committee had considered the petition 'We call on the City of Edinburgh Council to do everything within its powers and remit to require that

Lothian Pensions Trust divest from all investments concerning arms manufacture'. The Committee had referred the petition to the Pensions Committee for consideration.

Decision

- 1) To thank the deputation for their presentation.
- 2) To write to the deputation to summarise the debate and the points that had been raised by the Committee.
- 3) To note that the Stewardship and Engagement report would be considered at the December Pensions Committee.

(References – Petitions Committee, 30 March 2017 (item 4(b)); report by the Petitions Committee, submitted.)

2. Minutes

Decision

To approve the minutes of the Pensions Committee of 20 March 2017 as a correct record.

3. Referrals/recommendations from Pensions Audit Sub-Committee

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee on 26 September 2017.

Decision

To note the update and that Councillor Rose would raise any specific issues as each agenda item was considered.

(Minute of Pensions Audit Sub-Committee Committee 26 September 2017)

4. Considerations and matters to be raised by the Pension Board regarding any items on the agenda

Decision

To agree to consider issues raised by the Pension Board as each agenda item was considered.

5. Agenda Planning

Details were provided of potential reports for future meetings of the Pensions Committee and Pensions Audit Sub-Committee including meetings in December 2017 and March 2018.

Decision.

To note the agenda planning document.

(Reference – report by the Executive Director of Resources, submitted.)

6. Statement of Investment Principles

The revised Statement of Investment Principles (SIP) for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund was presented. This replaced the SIP that had been agreed by the Pensions Committee in June 2016.

Decision

- 1) To adopt the revised Statement of Investment Principles.
- 2) To hold a training session to cover the issues raised by Committee members in relation to an introductory statement of beliefs and the wording of section 6 'Responsible Investment' with a view to possible inclusion in a future version of the statement.

(References – Pensions Committee, 27 June 2016 (item 7); report by the Executive Director of Resources, submitted.)

7. Investment Strategy Panel Activity

An update was provided on the activity of the Investment Strategy Panel which had focussed on the implementation of the investment strategies for the three pension funds. The Panel and the internal team had looked at restructuring and reducing the equity exposure, increasing the allocation to alternative investments, researching bond-related investments and making changes to Scottish Homes Pension Fund in line with its funding approach.

Decision

To note the activities of the Investment Strategy Panel during the financial year 2016/17.

(Reference – report by the Executive Director of Resources, submitted.)

8. Annual Investment Update – Lothian Pension Fund

An update was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2017. The Fund had produced a return of 21.7% over the year.

Decision

To note the performance, funding update and asset allocation of the Lothian Pension Fund.

(Reference – report by the Executive Director of Resources, submitted.)

9. Annual Investment Update – Lothian Buses Pension Fund

An update was provided on the investments and funding position of the Lothian Buses Pension Fund to 31 March 2017. The Fund had produced a return of 23.7% over the year.

Decision

To note the performance, funding update and asset allocation of the Lothian Buses Pension Fund.

(Reference – report by the Executive Director of Resources, submitted.)

10. Annual Investment Update – Scottish Homes Pension Fund

An update was provided on the investments and funding position of the Scottish Homes Pension Fund to 31 March 2017. The Fund had produced a return of 18.9% over the year.

Decision

To note the performance, funding update and asset allocation of the Scottish Homes Pension Fund.

(Reference – report by the Executive Director of Resources, submitted.)

11. Audited Annual Report 2017 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, including Annual Report by External Auditor

The Audited Annual Report for the year ended 31 March 2017 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund was provided. The unaudited Annual Report had been considered by the external auditor Scott-Moncrieff and their annual report to Members and the Controller of Audit was

presented. The audited financial statement for the wholly-owned companies LPFE Limited and LPFI Limited were also provided.

Councillor Rose reported that the Pensions Audit Sub-Committee had discussed the revised Chartered Institute of Finance and Accountancy guidance. The Sub-Committee had recommended that the Pensions Committee note that the Pension Funds meet CIPFA guidance and provided a level of transparency beyond what was required.

A representatives from Scott-Moncrieff was present for this item.

Decision

- 1) To note the report by Scott-Moncrieff “Lothian Pension Funds 2016/17 Annual Audit Report to Members and the Controller of Audit” as detailed in Appendix 1 to the report by the Executive Director of Resources.
- 2) To approve the audited Annual Report for the year ended 31 March 2017 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund as detailed in Appendix 2 to the report by the Executive Director of Resources.
- 3) To note that the audited financial statements, for the year ended 31 March 2017, of both the wholly-owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in June 2017 as detailed in Appendix 3 and Appendix 4 to the report by the Executive Director of Resources.
- 4) To note that Scott-Moncrieff had made no comment in respect of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance “Accounting for Local Government Pension Scheme Management Costs”, as revised in June 2016, and its failure to reflect full transparency of investment management fees, specifically through “fund of fund arrangements”.
- 5) To note that the Pension Funds meet CIPFA guidance providing a level of transparency beyond what was required.
- 6) To refer the report by the Executive Director of Resources, to the City of Edinburgh Council, in its role as administering authority of the Pension Funds.

(Reference – report by the Executive Director of Resources, submitted.)

12. Actuarial Valuation 2017

An update was provided on preparations for the actuarial valuation as at 31 March 2017. This included responses from employers to the consultation on proposed changes to the Funding Strategy Statement which was issued in July 2017.

Decision

- 1) To note the update on preparations for the actuarial valuation as at 31 March 2017.
- 2) To note the responses by employers to the consultation on proposed changes to the Funding Strategy Statement, which was issued in July 2017.
- 3) To adopt the proposed changes as the Fund progressed the 2017 actuarial valuations over the coming months.

(Reference – report by the Executive Director of Resources, submitted.)

13. Employers Participating in Lothian Pension Fund

An update was provided on current matters affecting employers participating in the Fund. The number of employers leaving the fund and efforts made to recover exit payment was highlighted.

Decision

- 1) To note the changes in the employers participating in Lothian Pension Fund.
- 2) To note the Fund's proposed action in relation to pensioners who were in receipt of compensation following an award of additional membership on retirement.

(Reference – report by the Executive Director of Resources, submitted.)

Declaration of Interests

Councillor McVey declared a non-financial interest in the above item as a member of the Management Committee of the Citadel Youth Centre.

14. Lothian Pension Fund Staffing Update

An update was provided on arrangements to transfer the remaining pension fund staff to LPFE Limited. Consultation with staff and trade unions was in progress with a proposed transfer date of 31 October 2017.

Decision

To note the report by the Executive Director of Resources.

(References – Pensions Committee, 20 March 2017 (item 7); report by the Executive Director of Resources, submitted.)

15. Service Plan Update

Progress against the 2016-2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives was detailed. Overall progress was being made against the service plan objectives with all but one of the performance indicators meeting the target so far for 2017/18. An underspend was projected for the financial year. An update was provided regarding the Additional Voluntary Contributions (AVC) administration service.

The Committee was asked to consider whether the services of an Independent Professional Observer would be required after February 2018.

Decision

- 1) To note the progress of the Fund against the 2016-18 Service Plan.
- 2) To note the update on the Additional Voluntary Contributions (AVCs) funds' administration service.
- 3) To agree that the services of an Independent Professional Observer would be required after February 2018 and to tender for this role.

(References – Pensions Committee, 20 March 2017 (item 9); report by the Executive Director of Resources, submitted.)

Declaration of Interests

Sarah Smart (Independent Professional Observer) declared a financial interest in the above item as the current Independent Professional Observer and left the room during consideration of the item.

16. Overpayment of Pension

Approval was sought not to pursue recovery of overpayment of pensions.

Decision

- 1) To note that the report by the Executive Director of Resources was considered by the Pensions Audit Sub-Committee on 26 September 2017.
- 2) To agree not to pursue recovery of overpayment of pension totally £34,563.21.

(References – Pensions Audit Sub-Committee, 26 September 2017 (item 6); report by the Executive Director of Resources, submitted.)

17. Risk Management Summary

An overview was provided of the Lothian Pension Fund's risk analysis and the material risks facing the Fund.

Decision

To note the Quarterly Risk Overview.

(Reference – report by the Executive Director of Resources, submitted.)

18. Resolution to consider in private

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following items of business on the grounds that they involved the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

19. Employers leaving Lothian Pension Fund and related issues

An update regarding attempts made to recover payment of cessation debt in respect of employers who had left the Fund and non-payment of strain on fund costs was provided.

Decision

To note the progress made by the Fund in engaging with employers to recover cessation debts and strain costs.

(Reference – report by the Executive Director of Resources, submitted.)

20. Fiduciary Duty and Procurement Policy

Approval was sought to deviate from the Council's standard procurement approach in respect of the tender process for services for the pension funds due to the fiduciary duty owed to its members and employers.

Decision

To deviate from the Council's standard procurement process as detailed in the report by the Executive Director of Resources in order to act in the best interests of its members and employers, and in accordance with its statutory fiduciary duty, provided always that both Community Benefits and Fair Working Practice considerations were borne in mind at the outset of any procurement process to the extent that they would not have an adverse impact on the Fund's stakeholders.

(Reference – report by the Executive Director of Resources, submitted.)

Pensions Committee

2.00pm, Tuesday, 12 December 2017

Agenda Planning

Item number	5.2
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

This document provides Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and Pensions Audit Sub Committee. It also provides a more general overview of the current cycle of papers for the Committees.

There will, of course, be specific matters and papers which need to be brought to the attention of the Pensions Committee and the Pensions Audit Sub Committee in addition to those set out herein.

Agenda Planning

1. Recommendations

Committee is requested to:

- 1.1 Note the agenda planning document; and
- 1.2 Note that the Pension Board are invited to comment on agenda items during Committee meetings.

2. Background

- 2.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, it was agreed that an agenda planning document be submitted each quarter and highlights any changes to the agenda over the last quarter.

3. Main report

- 3.1 In general, it is the Pension Board's preference to comment on each agenda item as it arises, rather than comment on all the papers at the start of Committee meeting. Therefore, following discussions with the Conveners of the Committees and the Chair of the Pension Board, the following changes have been made:
 - a. the agenda item 'Considerations and matters to be raised by the Pension Board regarding any items on the agenda' has been removed;
 - b. the agenda item 'Agenda Planning' will request Committee to note that the Pension Board are invited to comment on agenda items during Committee meetings; and
 - c. the Consultation & Engagement section within each paper now includes reference to the fact that the Pension Board are invited to comment on the relevant matters at Committee meetings.
- 3.2 Based on the Committee cycle and the current position, the proposed agendas for the next two meetings are set out below. The report on Cost Benchmarking which was due to be considered at the December meeting has been postponed to March 2018 due to delay in receipt of, and a number of outstanding queries on, the information received from the providers.

March 2018

Pensions Committee

- Audit plans and reports (internal and external) *
- Governance Update
- Actuarial Valuation: Lothian Pension Fund and Lothian Buses Pension Fund/Scottish Homes Pension
- Funding Strategy Statement
- Cost Benchmarking
- Revised Pension Administration Strategy (biennial from March 2016)
- Employers Participating in Lothian Pension Fund
- 2016 – 2018 Service Plan Update
- 2018 – 2021 Service Plan and Budget
- Risk management summary

*Draft audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee.

June 2018

Pensions Committee

- Referrals / recommendations from Pensions Audit-Sub Committee
- LPF Annual Report & Accounts Unaudited
- Statement of Investment Principles
- Investment Strategy Panel Activity
- Annual Investment Updates - Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund
- Risk management summary

Audit Sub Committee

- LPF Annual Report & Accounts Unaudited
- Risk Management summary

Future Pensions Committee and Audit Sub Committee dates:

Pensions Committee

- Monday, 26 March 2018, 2pm, Dunedin Room, City Chambers
- Wednesday 27 June 2018, 2pm, Dunedin Room, City Chambers

Pensions Audit Sub Committee

- Tuesday 26 June 2018, 2pm, Dunedin Room, City Chambers

4. Measures of success

- 4.1 The Committee and Pension Board have greater clarity regarding the content of the Committee cycle.

5. Financial impact

5.1 None.

6. Risk, policy, compliance and governance impact

6.1 There is no direct impact as a result of this report. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds

7. Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

8. Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 None

Stephen S. Moir

Executive Director of Resources

Contact: Struan Fairbairn, Chief Risk Officer, Lothian Pension Fund

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11. Appendices

Appendix 1 – Scheme of Committee Papers

Frequency	Pensions Committee	Audit Sub Committee	Month
Annually	Audit plans and reports (internal and external)	N/A - Draft audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee.	March
	Policies/Strategies/Training (including revised Pension Administration Strategy biennial from March 2016)	N/A	March
	Service Plan (every 2 years)	N/A	March
	Budget	N/A	March
	Governance Update (including Pension Audit Sub-Committee appointments)	N/A	March
	LPF Annual Report & Accounts Unaudited	LPF Annual Report & Accounts Unaudited	June
	Statement of Investment Principles	N/A	June
	Investment Strategy Panel Activity	N/A	June
	Annual Investment Updates - Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund	N/A	June
	LPFE limited and LPFI limited Annual Report	LPFE limited and LPFI limited Annual Report	September
	LPF Annual Report & Accounts Audited	LPF Annual Report & Accounts Audited	September
	ISA 260 Audit Report	ISA 260 Audit Report	September
	N/A	Pensions Data Quality	September
	N/A	Irrecoverable overpayment of pensions – decisions made under delegated authority	September
	N/A	Fraud Prevention	September
	Annual Report by External Auditor	Annual Report by External Auditor	December (or September if available)
	Benchmarking	N/A	December
	N/A	EU Tax Claims & Income Recovery	December
	N/A	Investment Income Review-Cross-Border withholding tax	December
	Stewardship and Engagement	N/A	December
N/A	Investment Controls & Compliance	December	
N/A	Global Custody Services Performance	December	
	Risk Management In-depth review	December	

Frequency	Pensions Committee	Audit Sub Committee	Month
Semi Annually	Employers Participating in Lothian Pension Fund	N/A	March & September
3 Times per year	Service Plan Update	N/A	March, September & December
	Referrals / recommendations from Pensions Audit-Sub	N/A	June, September & December
Quarterly	Risk management summary	Risk management summary	March, June, September and December
Every 3 years	Actuarial Valuation: LPF/LBPF/SHPF Funding Strategy Statement		December or March
As required	Delegated authorities (provider appointments)	N/A	
	Discretions (death grants etc.)	N/A	
	N/A	Internal Audit Reports	
	Regulatory Update	N/A	
	Investment Strategy Reviews (at least every 3 years)	N/A	
	N/A	Risk management (in depth review)	

Pensions Committee

2.00pm, Tuesday, 12 December 2017

Stewardship and Engagement

Item number	5.3
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

This report provides the annual update on the activity of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund (the Funds) in relation to the stewardship of the assets of the Funds, including the approach to environmental, social and governance (ESG) issues. The Funds pursue a policy of constructive engagement on such issues, which is consistent with fiduciary duties.

The Funds have been a signatory to the Principles for Responsible Investment (PRI) since 2008, and so participate in the PRI's Reporting Framework, an annual assessment of the Funds' responsible investment activities. This report summarises the PRI assessment and feedback for 2017.

The Funds are also involved in the activities of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group with combined assets of over £200bn. Councillor Rankin joined the LAPFF Executive Committee in January 2017 as a representative of Lothian Pension Fund. This report provides an update on developments.

Stewardship and Engagement

1. Recommendations

Committee is requested to:

- 1.1 Note the contents of this report;
- 1.2 Agree to nominate Councillor Rankin to the LAPFF Executive; and
- 1.3 Agree to continue to lobby for governance improvements at LAPFF.

2. Background

- 2.1 Founded in 2006, the PRI (Principles for Responsible Investment) is the world's leading proponent of responsible investment. It is an independent, not-for-profit organisation (supported by the United Nations) that encourages investors to use responsible investment to enhance returns and better manage risks. Where consistent with fiduciary responsibilities, signatories commit to six principles, which are detailed in the main report. Lothian Pension Fund made a significant commitment to being active and responsible share owners by becoming a signatory to the PRI in 2008.
- 2.2 The Funds allocate meaningful resources to fulfil this commitment. A third-party provider of voting and engagement services (currently Hermes EOS), membership of the Local Authority Pension Forum (LAPFF) and a third-party provider of environmental, social and governance (ESG) research (currently MSCI ESG Research) are all components of the Funds' responsible investment policy implementation, which support the Fund's officers.
- 2.3 The Funds pursue a policy of constructive engagement, which is consistent with fiduciary duties. The Scheme Advisory Board of the Scottish Local Government Pension Scheme issued the legal opinion it had commissioned on the fiduciary duty responsibilities of Scottish Pension Funds in June 2016. The opinion essentially reaffirms the position taken by Senior Counsel in England & Wales, confirming that the advice is also applicable in Scotland. This in turn reinforces the approach taken by the Funds to date.
- 2.4 The Funds also participate in class action lawsuits in which a group sues another party to recover a loss in share value. The Funds have recovered \$736,000 since 2012.

3. Main report

Principles for Responsible Investment (PRI)

- 3.1 The Principles for Responsible Investment were developed by an international group of institutional investors to address the increasing relevance of environmental, social and corporate governance issues to investment practices.
- 3.2 Signatories to the PRI commit to six principles. The principles and the Funds' compliance with each of them are laid out in sections 3.3 to 3.8 below. An excerpt from the PRI website (www.unpri.org) describes the commitment thus:

“In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.”

3.3 Principle 1: we will incorporate ESG issues into investment analysis and decision-making

The Funds believe strongly that environmental, social and governance (ESG) issues affect the financial performance of the companies in which they invest. They are essential ingredients in the estimation of investment risk and opportunity, and so the Funds' investments are assessed in a holistic manner with ESG issues as an important part of that evaluation. Empirical evidence indicates that the shares of companies with improving ESG ratings are better investments than those that are simply highly rated. This supports the Funds' approach of engaging with companies to improve environmental, social and governance practices as this can lead to better long-term outcomes for the Funds and society as a whole.

The internal team integrates ESG issues into its actively managed fundamental portfolios as part of the formal due diligence process before investments are made. The analysis of ESG factors is supported by the research of a specialist third party service (currently MSCI ESG Research), which provides ESG specific data, analysis and research to help identify the risks and opportunities that companies face. This ensures that consideration of ESG factors can be applied to the investment process using data that has been collated in a consistent manner.

As well as incorporating ESG issues into the analysis of internally managed portfolios, the internal team also monitors and engages with the Fund's external managers at least quarterly. Regardless of whether the managers vote and engage on behalf of the Fund or not, they are required to report on how ESG issues influenced their investment analysis and decision-making over the quarter.

The Fund has recently extended its access to MSCI ESG Research to include carbon emission data. At the time of writing, a carbon foot-printing exercise is being undertaken to better understand the potential risks and opportunities for the Funds' listed equities associated with the transition to a low carbon economy. This will be considered by the Investment Strategy Panel and an update will be provided to Committee in due course.

3.4 **Principle 2: we will be active owners and incorporate ESG issues into our ownership policies and practices**

The Funds' approach to Principle 2 is to vote all its shares and to engage with companies through its third-party provider and its portfolio managers, both internal and external. It also participates in class action lawsuits, in which groups of shareholders collectively sue a company to recover a loss in share value, or to exert influence on the company.

For the vast majority of holdings, Hermes Equity Ownership Services (EOS) votes and engages on behalf of the Fund, but Baillie Gifford also votes and engages in relation to the holdings in the long-standing equity mandate that it manages for Lothian Buses Pension Fund. State Street undertook these activities on behalf of the Scottish Homes Pension Fund until March 2017, but those assets are now managed internally.

Hermes EOS also engages at industry and country level, attempting to influence regulators, professional bodies etc by responding to relevant consultations, all with the aim of improving standards in the investment industry.

Voting

Details of the Fund's voting activity during the calendar year 2016 was reported in the Fund's 2016/17 annual report. For the first six months of calendar year 2017, Hermes EOS voted on behalf of Lothian Pension Fund at 422 meetings covering 6,223 resolutions. At 48% of meetings, all votes were cast in favour of management; at 2%, there were votes in favour of management by exception; and at 50% of meetings, at least one vote was cast in opposition to management. Hermes EOS voted against management on 499 occasions (8% of all voted resolutions). The points of opposition related to board structure (28%), remuneration (29%) and resolutions brought by other shareholders (24%). A complete summary of the voting statistics as well as a summary of voting disclosures, which explain the decisions to vote against management, are posted to the Fund's website quarterly and a link is provided at the end of this report.

Engagement

Details of the Fund's engagement activity during the calendar year 2016 was also reported in the Fund's 2016/17 annual report. For the first six months of calendar year 2017, Hermes EOS engaged on behalf of Lothian Pension Fund with 155 companies covering 398 issues. The engagements were allocated to the following categories: governance (47%), social and ethical (19%), environmental (mostly related to climate change) (17%) and overall strategy, risk and communications

(17%). Engagement activity is also undertaken by the Local Authority Pension Fund Forum, of which the Fund is a member (see later).

Class Actions

Following a court ruling in 2010, which narrowed the ability of investors to seek redress under US law, the Funds' class action activity and recovered compensation have fallen to a relatively low level. Recoveries over 2016/17 amounted to \$208,000, while recoveries this financial year to 30 October 2017 have been \$318,000. The latter figure represents 0.004% of the Funds' assets. Officers continue to monitor class action activity in relation to Fund shareholdings and collect compensation where it is economical to do so.

3.5 Principle 3: we will seek appropriate disclosure on ESG issues by the entities in which we invest

Engagement by Hermes EOS also seeks to enhance ESG disclosure by investee companies. One recent high-profile example of success in this area was its support for a shareholder proposal requesting that ExxonMobil "publish an annual assessment of the long-term portfolio impacts of technological advances and global climate change policies... This reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond and address the financial risks associated with such a scenario."

The resolution was supported by shareholders, including Lothian, marking a step-change in the requirements for disclosure by a major energy company as well as a notable success for proponents of company engagement. Chevron's shareholders also passed an identical resolution. Lothian's policy on voting and engagement contributed to this progress to greater transparency through cooperation with other responsible asset owners.

3.6 Principle 4: we will promote acceptance and implementation of the principles within the investment industry

Lothian promotes the fact that it is a PRI signatory in its communications and on its website. It reports publicly the results of the PRI's annual assessment.

Scrutiny of investment portfolios includes the consideration of the principles, including how ESG issues are incorporated into the investment process, voting, engagement and the level of reporting. This applies to both internal and external portfolios, both at inception and on an ongoing basis.

3.7 Principle 5: we will work together to enhance our effectiveness in implementing the principles

Lothian collaborates with other investors to enhance effectiveness of implementing the principles. It does this in two ways: 1) by employing a third-party service provider (currently Hermes EOS, which has a client base of £311 billion); and 2) through membership of the Local Authority Pension Fund Forum (LAPFF), which comprises approximately 70 local authority pension fund members in the UK with combined assets of over £200bn. LAPFF's mission is *"to protect the long-term investment interests of beneficiaries by promoting the highest standards of*

corporate governance and corporate responsibility amongst investee companies.”
(See later for a further update on LAPFF).

These organisations represent many asset owners and when their shares are aggregated, the holdings are often significant enough that they can influence company boards. These collaborative efforts are beneficial to the Funds as relatively small asset owners, but they are also beneficial in encouraging the implementation of the principles more widely.

On occasion, Lothian’s internal team also instigates collaborative engagements and at the time of writing is engaging with other shareholders in a listed private equity investment where it has corporate governance concerns.

3.8 Principle 6: we will each report our activities and progress towards implementing the principles

As a signatory, the Fund is obliged to report on its responsible investment activities annually through the PRI’s Reporting Framework. This ensures accountability of signatories through a standardised transparency tool and promotes future development of responsible investment through annual feedback provided by the PRI. The PRI annual assessment report for 2017 is summarised below.

In addition to PRI reporting, all the Fund’s voting and engagement activity is made available on the website every quarter. In these reports, Hermes EOS presents progress to their engagement milestones and Baillie Gifford describes the detail of its engagement activity.

The Pensions Committee also regularly considers reports stewardship and engagement and receives presentations from providers. The most recent presentation was from LAPFF at the internal investment seminar in October.

3.9 PRI Assessment Report 2017

The assessment report is designed to provide feedback to signatories to support ongoing learning and development. It measures progress against the PRI principles and allows comparison with peers.

The Fund’s 2017 report and scores are available on its website and a link is provided at the end of this report. The results are summarised below.

Assets Under Management	Module Name	LPF 2016	LPF 2017	Change	Peer Median 2017
	Strategy & Governance	A	A+	Positive	A
Indirect - Manager Selection, Appointment & Monitoring					
<10%	Listed Equity	A	A	No Change	B
Direct & Active Ownership Modules					
>50%	Listed Equity - Incorporation	C	A	Positive	A
>50%	Listed Equity - Active Ownership	A	A	No change	B
10-50%	Fixed Income	Not reported	E	N/A	B

The Funds were scored “A” or “A+” in all modules with the exception of Fixed Income. These scores are at, or above, the median for the peer group.

The improvement to the score from “C” to “A” for Listed Equity – Incorporation follows efforts to improve communications with the approach to ESG integration within the internal equity management processes now being shared publicly on the Funds’ website.

A lower “E” rating was assigned to Fixed Income. This stemmed from a misunderstanding of the assessment criteria. The Fixed Income section was not previously assessed because it was not actively managed. The Funds mistakenly submitted the response to the PRI that it did not consider ESG issues for fixed income bonds. This was because the Funds own only government bonds, which have no voting or engagement possibilities. However involvement in public policy discussions relating to all its assets should have been disclosed. PRI has confirmed that this would be given a higher score for this module and this will be addressed in next year’s assessment.

The PRI also indicated that a rebasing of scores will occur in the 2018 assessment. The aim is to make the achievement of each grade more difficult, so median scores can be expected to fall. This should permit greater differentiation amongst higher scoring institutions.

Local Authority Pension Fund Forum (LAPFF)

- 3.10 Towards the end of 2016, the LAPFF reviewed its constitution and a revised version was put to the Annual General Meeting (AGM). It contained a number of improvements, but did not address some key governance issues. As an advocate for high standards in governance in the corporate world, the Funds believe that LAPFF’s governance should be of the highest standard. Accordingly, through Councillor Cameron Rose, who sat on the LAPFF Executive Committee, the Fund proposed the following amendments to the AGM:

- The introduction of a maximum tenure for members on the Executive. Best practice in the corporate world is to ensure the independence of board members and to limit the period that individuals serve on a board. The Fund believes that LAPFF should adopt an equivalent standard.
- The removal of the current two-tier membership of the Executive, which distinguishes between ‘trustees’ and ‘officers’. Such a system could impact on the performance of individual members and the Executive in its entirety. The Fund argued that individual local authority funds should decide on their nominees for the Executive Committee and for members of LAPFF to elect representatives, irrespective of their status.
- The appointment to the secretarial role of an individual who is independent from the Research and Engagement partner. The Fund argued that this would provide greater oversight and scrutiny of the research and engagement partner and would help to manage conflicts of interest.

- 3.11 The Executive Committee decided not to support the amendments and the proposals were not agreed. However the proposed amendments did receive 42%, 36% and 42% of members’ votes respectively. Such support at a corporate AGM would be seen by shareholders as very significant and changes by the company would be forthcoming. The Funds were encouraged by the Executive Committee’s commitment to consider further revisions to the LAPFF constitution.
- 3.12 During 2017, the LAPFF Executive have invited all members to provide comments on the constitution and the Funds responded asking that the above principles are considered. Amendments to the constitution are expected to be agreed at the AGM early in 2018.
- 3.13 Committee is asked to agree that the Funds should continue to lobby for enhanced the governance standards at the LAPFF.
- 3.14 Councillor Cameron Rose stepped down from, and Councillor Alasdair Rankin was appointed to, the LAPFF Executive Committee at the AGM in June 2017. The Committee is asked to nominate Councillor Rankin to the LAPFF Executive at the AGM in January 2018, as a representative of Lothian Pension Fund. If elected to the Executive, the appointment will need to be approved by the City of Edinburgh Council.

4. Measures of success

- 4.1 Success of engagement with companies is very difficult to measure. The Funds’ approach is essentially qualitative and is wide ranging. While the impact is very difficult to quantify, the California Public Employees’ Retirement System (CalPERS), the largest public pension fund in the US, states that the companies it targeted for engagement activity (approximately 188 of them since 1987) have outperformed an appropriate benchmark by a large amount over the five years after engagement was initiated. This has become known as the “CalPERS Effect”.

- 4.2 The Funds are signatories to PRI and complete the annual self-assessment process which compares the Funds' ESG activities with those of peers.

5. Financial impact

- 5.1 There is no financial impact as a result of this report. The costs of the Funds' stewardship activities are included in the pension funds' budget. US class actions are conducted on a "no win no fee" basis. The Funds are not involved in any non-US actions.

6. Risk, policy, compliance and governance impact

- 6.1 The stewardship activity of the Funds complies with the Statement of Investment Principles. The Funds' policy is to take environmental, social and governance issues seriously and where appropriate to act upon them in a manner which is consistent with the paramount fiduciary duty to provide the highest standards of stewardship on behalf of the members and employers. The Funds' policy of being responsible, informed and involved investors is expected to reduce risk.

7. Equalities impact

- 7.1 As much of the engagement activity is on equalities issues, it is expected to have a positive impact and also to contribute to the sustainability of the Funds' investments.

8. Sustainability impact

- 8.1 As much of the engagement activity is on sustainability issues, it is expected to contribute to the sustainability of the Funds' investments.

9. Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

- 10.1 The Funds' 2017 PRI assessment report is available at:
http://www.edinburgh.gov.uk/lpf1/downloads/file/820/pri_annual_assessment_2017
Hermes public engagement reports are available at:
<https://www.hermes-investment.com/uki/stewardship/eos-literature/>

Lothian Pension Fund's internal equity management ESG integration approach:
http://www.edinburgh.gov.uk/lpf1/downloads/file/801/internal_equity_management_esg_integration

The CalPERS Effect

<https://www.calpers.ca.gov/page/newsroom/calpers-news/2014/company-performance>

Lothian Pension Fund: http://www.lpf.org.uk/info/68/responsible_investment

United Nations Principles for Responsible Investment <http://www.unpri.org/>

Local Authority Pension Fund Forum <http://www.lapfforum.org/>

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11. Appendices

None

Pensions Committee

2.00pm, Tuesday, 12 December 2017

Service Plan Update

Item number	5.4
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

The purpose of this report is to provide an update on progress against the 2016– 2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:

- Customer First;
- Honest and Transparent;
- Working Together; and
- Forward Thinking.

Overall progress is being made against the service plan objectives with all but one of performance indicators meeting the target so far for 2017/18. An underspend is projected for the financial year.

Service Plan Update

1. Recommendations

Committee is requested to:

- 1.1 Note the progress of the Fund against the 2016-2018 Service Plan;
- 1.2 Approve that consultation is undertaken with employers on the “Voluntary Scheme Pays” taxation charge in respect of the “Annual Allowance”, including the stipulation that the Fund would only consent to apply such discretion with the prior agreement of the respective employer to accept all cost risks arising, e.g. member longevity; and
- 1.3 Note that officers, in consultation with the Convener, will respond to the Scottish Government’s consultation on the scheme regulations.

2. Background

- 2.1 The purpose of this report is to provide an update on the 2016–2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:
 - Customer First;
 - Honest and Transparent;
 - Working Together; and
 - Forward Thinking.

3. Main report

- 3.1 Progress is being made against the service plan. Progress of particular note since September 2017 is shown below. The following areas are covered elsewhere on the agenda:
 - Stewardship and engagement
 - Pension Administration data quality (for Audit Sub-Committee)
 - Investment controls and compliance
 - Collaboration.

LPFE staff transfer

- 3.2 Consultation with trades unions and the remaining Fund staff regarding transfer of employment to LPFE Limited has continued over recent months. The transfer was delayed and did not proceed on 31st October as planned. The delay was due to

operational issues. At the time of writing, matters are being considered as a matter of urgency and the transfer will go ahead as soon as appropriate arrangements are in place. A verbal update will be provided to Committee on this matter.

Actuarial Valuation update

- 3.3 Progress in being made on the 2017 actuarial valuations. Following a briefing for the Pensions Committee and Pension Board, the draft results for Lothian Pension Fund were shared with employers on 2 November. Individual employer results were then shared with employers, together with the draft Funding Strategy Statement. Individual meetings are currently being held with any employers who have further questions.
- 3.4 At the time of writing, the draft results for Lothian Buses Pension Fund and Scottish Homes Pension Fund are being discussed with the Actuary. Consultation with stakeholders will commence shortly. Consultation with stakeholders of the Lothian Buses Pension Fund will include consideration of the potential merger of the fund into the Lothian Pension Fund, as previously discussed and agreed by Committee. For the Scottish Homes Pension Fund, consultation with the Scottish Government will include consideration of changes to the funding agreement as previously agreed by Committee.
- 3.5 The final actuarial valuation results for all three funds will be reported to Committee in March, ahead of the regulatory deadline of 31 March 2018.

Pensions Regulator standards and compliance

- 3.6 Performance indicators (shown later in this report) show compliance with the regulatory requirements for timely issuance of members' annual benefit statements and the receipt of employer contributions. In addition, the Fund:
 - a. Has submitted the annual returns for Scottish Homes Pension Fund and Lothian Pension Fund (including Lothian Buses Pension Fund) to the Pensions Regulator in advance of the deadline of 9 November;
 - b. Is working with its Additional Voluntary Contribution (AVC) providers to improve monitoring of the timeliness of employers paying contributions;
 - c. Has provided those members with their annual pension savings statements (used for taxation purposes) via the on-line portal in advance of the regulatory deadline of 6 October. Letters have also been issued to those who have exceeded the annual allowance threshold. As the taxation thresholds have reduced over recent years, there is an increasing number of members (163 in 2017) whose savings have exceeded the threshold.

Annual Allowance – Voluntary Scheme Pays: Employer consultation

- 3.7 Following the issuance of annual pension savings statements, the issue of tax payments has arisen. Should a member's pensions input Annual Allowance (currently £40,000) be exceeded, LGPS (Scotland) Regulations 2014 allows the Fund to pay the member's tax charge incurred in return for a debit to the member's annual pension in payment. This accords with the Finance Act 2004, which

stipulates joint liability for the tax charge and is known as the “mandatory scheme pays option”.

- 3.8 Such mandatory scheme pays, however, do not apply in circumstances, where, from 6 April 2016, members earning more than £110,000 per annum, may be impacted by HMRC rules which taper (reduce) the Annual Allowance. In such instances, there may be discretion for administering authorities to make available a “voluntary scheme pays” option to members. There are currently approximately 35 members in the Fund affected.
- 3.9 Guidance from the Local Government Pensions Committee in February 2017 concludes that funds in England have the authority and competence, that is “vires”, to accept a voluntary scheme pays request. For Scottish or Welsh funds, however, the position appears very much less clear and relies on favourable interpretation of Local Government Acts 1972, 2000 and 2003 in relation to general ‘well- being’ powers. Should a “voluntary scheme pays” option be made available, then discretion may be exercised by the fund on an individual case basis, or it may decide to set criteria around which requests would be accepted.
- 3.10 A number of members impacted by the tapering of the Annual Allowance have recently contacted the Fund to request that it should make available the voluntary scheme pays option. In an attempt to attain clarity, the Fund has sought guidance from Scottish Public Pensions Agency (SPPA).
- 3.11 One major employer has raised the matter with both the Fund and at least one other Scottish administering authority (the employer is a member of more than one LGPS Fund). It has also contacted SPPA directly. In response, the employer has stated that SPPA “is minded to issue an enablement type notice (not an instruction) to funds”.
- 3.12 It should be noted that the time limit for paying the taxation charge under the voluntary scheme pays option is more pressing than that pertaining to the mandatory scheme pays, namely payment is due by 31 January of the following tax year. Accordingly, there is urgency in addressing this matter.
- 3.13 Importantly, exercise of the voluntary scheme pays option would entail financial risk exposure by the fund and the employer. This simply reflects the fact that the tax payable is remitted in full by the fund to HMRC on the due date, whilst the annual pension debit is impacted by longevity of the member. Further work is ongoing to identify any potential additional risks and a verbal update will be provided to Committee.
- 3.14 At the time of writing, subject to guidance from SPPA, the Fund intends to consult with its employers on the Annual Allowance voluntary scheme pays option with the proposal that it would consent to apply such discretion only with the prior agreement of the respective employer to accept all cost risks arising, e.g. member longevity. Details will be added to the Funding Strategy Statement.

Scheme Regulation changes

3.15 The Scottish Government is consulting on changes to the current Local Government Pension Scheme 2014 regulations and is taking the opportunity to consolidate all amendments made since April 2015. The main changes to the scheme rules include:

- members of LGPS2015 scheme will be able to elect to take early payment of their pension from age 55, with an actuarial reduction, and will no longer need their employer's consent;
- provide additional flexibility for administering authorities to manage liabilities when employers leave the Scheme and to provide for an 'exit credit' to exiting employers if appropriate;
- changes to Additional Voluntary Contributions following the introduction of the UK Government's 'Freedom and Choice in Pensions, to allow payment from age 55 as a lump sum.

Other changes include Regulations being brought into line with recent legislation including the Finance Act, redefining the pensionable pay used for ill health and returning officers, and removing the requirement for a member to take all their benefits if made redundant.

Officers, in consultation with the Convener, will respond to the consultation before the deadline of 1 January 2018. The response will be circulated to Committee and Board members.

Business Process Review - year end processes

3.16 The opportunity has been taken to review the lengthy and complex processes undertaken at year-end including the issuance of Annual Benefit Statements. A focus group was held with employers to consider potential ways of improving the provision of information. Other process changes will be considered once the tender for the pension administration software is complete.

Performance Indicators

3.17 Performance indicators for the second quarter of the 2017/18 financial year are provided in the attached appendix.

3.18 Two indicators are highlighted as 'amber':

- 46% of staff have completed their pro-rata training target up to 30 September 2017. The Fund is comfortable that this is a relatively short period over which training has been measured and the target should be achieved by the end of the year.
- The proportion of annual benefit statements issues was 99.9%, missing the 100% target. 26 statements were not issued due to missing information from employers and we are working with those employers to ensure the statements are issued as soon as possible.

3.19 Since 30 September, the Fund has completed the annual pensioner survey and the results will be included customer satisfaction performance indicators in the next

report to Committee. Over 1,400 responded to the survey with some of the results shown below.

	2017	2016
How satisfied were you with how our staff dealt with your most recent query?	89% satisfied or very satisfied	91% satisfied or very satisfied
I find it easy to understand the information the Fund provides	87% agreed or strongly agreed	85% agreed or strongly agreed
Overall satisfaction with Penfriend newsletter	69% satisfied or very satisfied	59% satisfied or very satisfied
I found the website www.lpf.org.uk easy to use	90% agreed or strongly agreed	87% agreed or strongly agreed
Overall, I feel the service provided by the Fund is excellent	91% agreed or strongly agreed	85.2% agreed or strongly agreed

Penfriend newsletter continues to have lower satisfaction. Comments show that it continues to be associated with the Club Together magazine, previously issued with Penfriend, its associated offers and mailing which were perceived as junk mail.

Over 200 positive comments were received including: “The service I received was first class.” and “Extremely happy the fund contacted me as I was unaware that I was due a pension”. Not all comments were positive including: “I chose the option to participate in the survey afterwards. Unfortunately, each time I was unable to do so as I just received a continuous dialling tone after hanging on the line” and “I found getting information and even basic call backs extremely difficult at an already distressing time when approaching medical retirement.”

The survey results are being analysed and an improvement plan developed which will include a refresh of the Penfriend newsletter.

Membership and Cashflow monitoring

- 3.20 The Fund continues to monitor movements in membership numbers to assess potential implications upon cashflow. Early retirement initiatives could trigger significant and immediate outflows due to the payment of tax free lump sums and pensions and reductions in contributions received. However, payment of strain costs by the employer help to mitigate current cashflow pressures.
- 3.21 The table below details the cashflows as at the end of September and projections for the financial year. This has been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections).

Lothian Pension Fund	2017/18 YTD	2017/18 Projected
<u>Income</u>	£'000	£'000
Contributions from Employers	68,460	140,000
Contributions from Employees	21,231	42,100
Transfers from Other Schemes	2,018	4,700
	91,709	186,800
<u>Expenditure</u>		
Pension Payments	(74,100)	(150,000)
Lump Sum Retirement Payments	(26,610)	(54,000)
Refunds to Members Leaving Service	(303)	(630)
Transfers to Other Schemes	(5,533)	(11,000)
Administrative expenses	(1,100)	(2,221)
	(107,646)	(217,851)
Net Additions/(Deductions) From Dealings with Members	(15,937)	(31,051)

Lothian Buses Pension Fund	2017/18 YTD	2017/18 Projected
<u>Income</u>	£'000	£'000
Contributions from Employers	3,800	7,320
Contributions from Employees	1,000	1,860
Transfers from Other Schemes	-	-
	4,800	9,180
<u>Expenditure</u>		
Pension Payments	(4,346)	(8,740)
Lump Sum Retirement Payments	(1,470)	(3,000)
Refunds to Members Leaving Service	(3)	(18)
Transfers to Other Schemes	(265)	(500)
Administrative expenses	(45)	(85)
	(6,129)	(12,343)
Net Additions/(Deductions) From Dealings with Members	(1,329)	(3,163)

Scottish Homes Pension Fund	2017/18 YTD	2017/18 Projected
<u>Income</u>	£'000	£'000
Contributions from Employers	675	675
<u>Expenditure</u>		
Pension Payments	(3,354)	(7,000)
Lump Sum Retirement Payments	(430)	(910)
Transfers to Other Schemes	(47)	(75)
Administrative expenses	(30)	(60)
	(3,861)	(8,045)
Net Additions/(Deductions) From Dealings with Members	(3,186)	(7,370)

- 3.22 It is expected that the number of active members for Lothian and Lothian Buses Pension Funds will continue to decrease during the year, causing a fall in contributions and increase in pension and lump sum payments. Lothian Buses fall in active membership is likely to be at a higher rate than Lothian due to being closed to new members.
- 3.23 All three Funds' expenditure cashflows are anticipated to continue to exceed cashflow income.
- 3.24 In 2016/17 Lothian Pension Fund had a negative cash flow position, whereby pension payments exceed total contributions received. This is a trend that is likely to continue for the foreseeable future. Increased investment income has been targeted in recent years for this scenario, which is expected to exceed net cashflow for the long term. The Fund has revised its forecasted negative cashflow figure (increased by £3m), reflecting higher than expected outflows due to retirements.

4. Measures of success

- 4.1 Measures of success include meeting targets for performance indicators and progressing the actions set out in the Service Plan.

5. Financial impact

- 5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2017/18 is shown in the table below:

Category	Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	3,009	2,700	(309)	1,505	1,216	(289)
Transport & Premises	242	240	(2)	121	109	(12)
Supplies & Services	1,232	1,160	(72)	616	510	(106)
Investment Managers Fees	5,200	5,200	-	2,600	2,480	(120)
Other Third Party Payments	1,392	1,267	(125)	696	382	(314)
Central Support Costs	286	286	-	143	143	-
Depreciation	82	82	-	41	41	-
Direct Expenditure (Invoiced)	11,443	10,935	(508)	3,814	3,280	(534)
Income	(727)	(827)	(100)	(364)	(501)	(137)
Net Expenditure (Invoiced)	10,716	10,108	(608)	3,450	2,779	(671)
Indicative Expenditure (Uninvoiced)	17,100	17,100	-	8,550	8,550	-
Total Cost to the Funds	27,816	27,208	(608)	9,272	8,479	(671)

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of September 2017. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received. Uninvoiced expenditure (i.e. investment management costs deducted from capital) is assumed to be in-line with the budget.

5.3 The projection shows an underspend of approximately £608k. The key variances against budget are:

- **Employees - £309k underspend.** This is mainly due to unfilled posts across the division during the period from April to September 2017. Within the Investment team there is a vacant Portfolio Manager post, following a resignation earlier in 2017, and two new Investment Analysts posts. It has been assumed that these posts will not be filled until January 2018.
- **Other Third Party Payments - £125k underspend.** This is primarily due to delays in splitting out research costs from brokers' fees. Progress has been made in splitting out these fees prior to MiFID regulations come into force which makes this a requirement.
- **Income - £100k above budget.** Stock lending commission income has been higher than originally projected. The Fund's custodian had highlighted that securities lending could become less profitable with tighter regulations coming into fruition but this has yet to impact income.

5.4 An outline business case on the Fund's ongoing collaboration work with other LGPS administering authorities was approved by Committee in March 2017, an

update on which will be provided elsewhere in the agenda. The requisite adjustments to the service plan budget are shown below:

Category	Approved Budget £'000	Business Case adjustments £'000	Description
Employees	3,009	201	Increased staffing resources including a Service Development Manager and an additional Investment Analyst and Administrator
Supplies & Services	1,232	222	Includes costs associated with the procurement of an Investment Front Office System and the transfer of remaining staff into LPFE Ltd.
Other Third Party Payments	1,392	152	Includes £110k of one off revenue costs for services/advisers for due diligence on the legal collaboration structure.
Income	(727)	(583)	Increased revenue from the expansion of services to other Funds.

5.5 The above changes have not yet been integrated into the budget. The following progress has been made during the year with actual year to date spending being below £20k –

- **Employees** – An Investment Administrator has been hired on a 6 months contract to assist with additional workloads. Recruitment of permanent staff will commence once LPF current staff are transferred to LPFE Ltd.
- **Supplies and Services** – with the transfer of remaining staff to LPFE Ltd a payroll and time recording system will be implemented. Procurement for an Investment Front Office System is underway.

5.6 **Income** – Northern Ireland and Scottish Borders Pension Fund are working with the Fund on collaborative infrastructure investments. Further a shared Investment Panel has been established with Falkirk Pension Fund. A more detailed update on collaboration is provided elsewhere on the agenda.

6. Risk, policy, compliance and governance impact

6.1 The pension funds' service plan aims to manage risk, improve compliance and governance. There are no direct implications on these issues as a result of this report.

7. Equalities impact

7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

8.1 There are no sustainability implications as a result of this report.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 [LPF Service Plan 2016-2018](#)

Stephen S. Moir

Executive Director of Resources










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11. Appendices

Appendix 1 – Service Plan Performance Indicators

Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Customer First					
Maintain Customer Service Excellence Standard	Annual assessment will be carried out in February 2018			Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance is 91.7% to end September 2017			89%	
Proportion of active members receiving a benefit statement and time of year statement is issued	99.9% issued by 31 August 2017			100%	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 10.4%pa, Benchmark 8.4%pa. Exceeding benchmark with lower risk.			Meet benchmark over rolling 5 year periods with lower risk with risk/return measures including performance in rising and falling markets	
Proportion of critical pensions administration work completed within standards	95.1%	94.8%		Greater than 90%	
Honest & Transparent					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	99.74%	99.60%		99%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end			Fully compliant	Not yet known
Monthly Pension Payroll paid on time	Yes	Yes		Yes	
Working Together					
Level of sickness absence	0.45%	1.24%		4%	
Annual staff survey question to determine satisfaction with present job	Staff survey will be undertaken later in the year			77%	Not yet known
Percentage of staff that have completed two days training per year.	35.63%	46.26%		100%	

Pensions Committee

2.00pm, Tuesday, 12 December 2017

Appointment of Providers

Item number	5.5
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

This report provides an update on the appointment of providers for services to the pension funds covering the period since the last report in March 2016 to date.

Appointment of Providers

1. Recommendations

Committee is requested to:

- 1.1 Note the appointments of the providers for the pension funds.

2. Background

- 2.1 Service providers to the pension fund are reviewed, and tendered, on a regular basis. The way in which services are procured, and the process and resource involved in the process, depends on the expected costs of the service. The more significant contracts are typically procured via advertising in the Official Journal of the European Union (OJEU), with a number of officers involved in assessing potential providers. Each provider is required to evidence their ability to provide the service, for example by providing references and via interviews.
- 2.2 Collective procurement by the Local Government Pension Scheme (LGPS) has increased over recent years, particularly using the National LGPS Framework which is coordinated by Norfolk County Council. Frameworks are available for all LGPS funds to use, enabling the LGPS to optimise combined buying power to deliver greater value for money and offering all funds fast and efficient access to services via a fully OJEU compliant route.

3. Main report

Stewardship Services

- 3.1 Hermes' contract to provide stewardship (i.e. engagement and voting) services originally expired in June 2016. In March 2016, Committee agreed to extend the contract to March 2017. In March 2017, Committee approved a further extension to June 2018 to allow for time for implementation of the Joint Investment Strategy Panel and for consideration of a collaborative tender processes.

Investment Management Services

- 3.2 On 22 March 2017, the Fund terminated its agreement with State Street to manage equity and bond investments on behalf of the Scottish Homes Pension Fund. The mandate is now managed in-house.

3.3 Standard Life's contract to provide property management services for the direct property holdings of Lothian Pension Fund was due to expire in June 2017. In March 2017, Committee approved an extension to June 2018 to allow for time for a review of property investment by the newly established Joint Investment Strategy Panel. The review concluded that:

3.3.1 there could be opportunities for FCPF and LPF to collaborate to invest in new properties at a measured pace, subject to availability of opportunities and an appropriate legal/tax structure being in place;

3.3.2 the Funds investigate the possibility of hiring a new property portfolio manager to oversee property fund investments;

and a more detailed plan on options will be prepared with the benefit of additional specialist resource.

Custody Services

3.4 As reported to the Committee in September 2016, the contract with the Fund custodian, Northern Trust, was due to expire 28 February 2017. After conducting a benchmarking exercise to ensure that value for money was being obtained, the Fund took up the option of extending the contract by 3 years (taking the contract up to 29 February 2020).

Performance Measurement Services

3.5 The Fund completed a tender for investment performance and risk analysis in late 2016. The new contract was awarded to Portfolio Evaluation (the previous provider) and runs for 5 years from 1st January 2017 with an option to extend by 3 years.

Pension Administration Software System

3.6 The pension administration software system Invitation to Tender was initially issued in June 2017, but was reissued in July owing to the need to provide further clarity to bidders. Specifically, although pre-market engagement meetings with potential providers had highlighted that the successful contractor would be solely responsible for the design specification of calculations, responses indicated that this had not been explicit enough in the original documentation. The opportunity was also taken to affirm certain other mandatory requirements. At the time of writing, evaluation of the bids is ongoing and it is hoped that an appointment will be made soon. There is not expected to be any implementation delay, in that the original timetable to align with the expiry of the current contract for core supply, of October 2018, should be met.

Actuarial Services

3.7 The actuarial services contract is due to expire in March 2018 and is being tendered with an appointment to be made by April 2018. It is intended to utilise the existing LGPS Framework Contract for such supply and a mini-competition will determine the provider from those companies already identified through the framework. It is anticipated that this will commence very shortly.

Mortality Screening and Tracing Services

- 3.8 There is a requirement to procure mortality screening and tracing services (member addresses). The contract will be for one year with the option of a one year extension. Norfolk Pension Fund is currently developing a national LGPS Framework Contract for these services and it is intended that the Fund should drawdown from this provision once established.

Front Office Service System

- 3.9 An invitation to tender has been issued for provision of an investment front office software system, which will further strengthen the risk management and controls for the Fund's internal investments. Tender responses are due on 23 November 2017, with tender assessment due for completion thereafter. Presentations from short-listed candidates will then be scheduled in January 2018, with conclusion expected by end February.

Investment Broker Research

- 3.10 Committee will recall the requirement under MiFID II regulations to unbundle research and execution fees paid to investment brokers by January 2018. This is a major change for the industry and providers are having to reassess their business models. Accordingly, a budget of £500K for research costs has been included in the Funds' budget in the last two years. Although the budget has not yet been used to any great extent, a similar scale of costs will have been incurred in the past but incorporated within trading costs.
- 3.11 The Fund's investment team has reviewed its needs, covering both macro economic and company specific research, and has selected its preferred brokers for the unbundled research. Contracts are currently being put in place.
- 3.12 Similar to the existing review of providers of bundled services, an annual review is planned to ensure that research services and costs are justifiable and remain appropriate to the Funds' needs.

Other providers

- 3.13 As result of Quick Quote procurements, the following providers have been appointed to provide services:
- 3.13.1 Ernst & Young for the preparation of a benchmarking report on custodian tax services covering the 12 months to 31 July 2017.
- 3.13.2 New Change Currency Consultants Limited for the preparation of the benchmarking report on foreign exchange transactions covering a 12 month period ending in 2017.
- 3.13.3 Ernst & Young for the preparation of Fokus Bank type claims in respect of Germany for calendar years 2015 and 2016. However, Officers have decided that, based on an assessment of the cost and the perceived likelihood of the claims ultimately being paid, these additional claims should not be made.

3.13.4 BSR for the provision of tax accountancy services in India for the 12 months ending 30 September 2018.

3.13.5 KPMG for the provision of US federal and state tax return filing services for calendar year 2016.

3.13.6 Payescape for the provision of payroll, HR and time recording systems for LPFE Limited for 3 years to 31 July 2020.

4. Measures of success

4.1 Providers are set objectives against which performance is assessed. Regular tendering of providers ensures service is reviewed.

5. Financial impact

5.1 Appropriate provision for costs has been provided within the approved budget 2016/17, the proposed budget for 2017/18 and indicative budget for 2018/19.

6. Risk, policy, compliance and governance impact

6.1 Management of service providers and appropriate procurement reduces risk to the pension funds.

7. Equalities impact

7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

8.1 The provider of stewardship services will include consideration of environmental implications in its engagement with companies.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 None.

Stephen S. Moir

Executive Director of Resources

Contact: Esmond Hamilton, Financial Controller, Lothian Pension Fund

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11. Appendices

None

Pensions Committee

2.00pm, Tuesday, 12 December 2017

Risk Management Summary

Item number	5.6
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

In line with the pension funds' ongoing risk management procedures, this paper provides an overview of the Fund's risk analysis for consideration by the Committee.

Risk Management Summary

1. Recommendations

Committee is requested to:

- 1.1 Note the Quarterly Risk Overview.

2. Background

- 2.1 The pension funds' risk management procedures require the Fund to:
 - 2.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis, the degree of risk associated in each case and our action to mitigate these risks (the "Operational Risk Register"); and
 - 2.1.2 produce a summary report of the risk register for the Pensions Committee and the Pensions Audit Sub-Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the "Quarterly Risk Overview").

3. Main report

- 3.1 The Operational Risk Register is issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee and the Independent Professional Observer on a quarterly basis.
- 3.2 The Quarterly Risk Overview, as at 7 November 2017, is set out in the appendix to this report for consideration.

4. Measures of success

- 4.1 Improved visibility of the risks facing the pension funds and progress in analysing/mitigating these risks. Regular, focused and relevant risk updates to the Committee should increase general awareness and allow productive analysis/feedback by the Committee members on these fundamental issues.
- 4.2 Ultimately, risk management should lead to less third-party exposure, an improved financial position and have a positive impact on the reputation of the pension funds.

5. Financial impact

5.1 There are no direct financial implications as a result of this report.

6. Risk, policy, compliance and governance impact

6.1 Please see the Quarterly Risk Overview appended to this report.

7. Equalities impact

7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

8.1 There are no sustainability implications as a result of this report.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 None

Stephen S. Moir

Executive Director of Resources

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11. Appendices




Appendix 1 – Quarterly Risk Summary, as at 7 November 2017








QUARTERLY RISK OVERVIEW

7 November 2017

UPDATE ON MOST NOTABLE RISKS

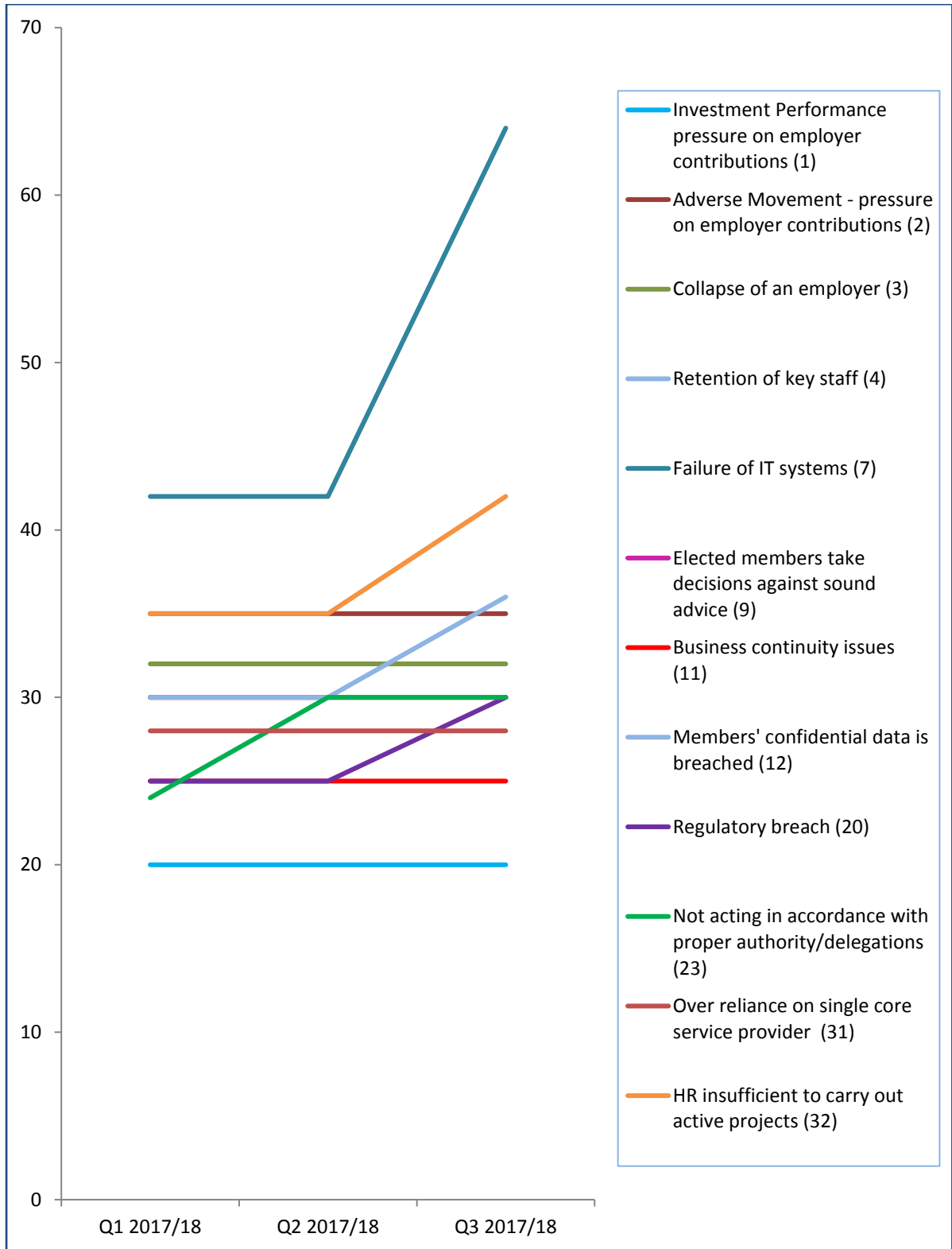
Risk & Reference Number	Update	Trend / RAG
Adverse Investment performance leading to pressure on employer contribution (1)	<p>Implementation of the Lothian Buses Pension Fund strategy is being planned with the Investment Strategy Panel, together with the review of the merger of the Fund with Lothian Buses Pension Fund.</p> <p>Consultation with Employers on the Funding Strategy Statement is underway and the third Investment Strategy will be implemented on 1 April 2018.</p>	<p>Static</p> 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	<p>The 2017 actuarial valuation is in progress with the results of the LPF valuation being presented to employers on 2 November 2017. LBPF and SHPF results are awaited and employer consultation will follow.</p> <p>The contribution stability mechanism will be reviewed again in advance of the 2020 valuation.</p>	<p>Static</p> 
Collapse/restructuring of an employer body leading to pressure on other employers (3)	<p>The funding approach introduced in the 2014 actuarial valuation for employers close to exiting reduces the overall risk to the Fund and the other employers. The Fund continues to engage with a number of smaller employers regarding the potentially adverse financial impact of the revised funding strategy and to implement the outcomes from the appeals process and the Pensions Committee decision in this regard. Funding Agreements for payment of cessation debt are now in place with most of the appellants, and the few remaining are in the process of being finalised. Where appropriate, the Fund will be pursuing guarantees and securities from the employers and updated admission agreements in order to further mitigate this risk.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Recruitment and retention of key staff (4)</p>	<p>The Fund continues to assess resourcing in light of future collaborative initiatives and the increasingly complex nature of the its business. The Fund is also continuing to closely monitor, in the shorter term, the impact on senior management resource during the negotiation and implementation of these wider collaborative initiatives in addition to increasing levels of business as usual.</p> <p>The Bond Portfolio Manager post has been vacant since March 2017. The management team continues to engage with the LPFE Limited (LPFE) board on this specifically and as part of the wider review. A Human Resource consultant has been appointed to support LPFE to more effectively recruit and generally to build the Fund’s profile in the market.</p> <p>The Fund’s management team are also engaging with the LPFE board as part of the HR relaunch to coincide with all LPF’s staff being employed within LPFE following the phase 2 transfer. Unfortunately, due to operational issues, the Fund has required to delay the transfer of Phase 2 staff until these have been sufficiently addressed. Phase 2 staff will therefore continue to be employed by, and paid by, the City of Edinburgh Council until such time as the transfer is completed. The intention is to do so as soon as possible.</p> <p>The Fund continues to be aware of external interest in its team from LGPS investment pools setting up south of the border, external managers and consultants.</p> <p>Leslie Robb, the non-executive director of LPFI Limited (LPFI) is also to be appointed as a non-executive director of LPFE in order to support the work of that body, provide best practice governance and act as an independent link between LPFI and LPFE’s activities and separate responsibilities within the group.</p>	<p>Increase</p> 
<p>Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications (7)</p>	<p>The Fund continues to experience delays and service disruption. It continues to liaise directly with CGI to ascertain options around it having a separate service arrangement to allow for it to have an IT service provision tailored to the Fund’s requirements, as well as continuing to notify CGI on delays and disruptions experienced. An improvement plan is being discussed with CEC’s Head of ICT as the senior contract owner for the service.</p> <p>Due to the issues described, the Fund continues to experience problems with the Redbox call recording system, which also continues to be pursued as a priority.</p> <p>More specific details of the IT systems will be presented to the Audit Sub Committee as part of its more detailed review of the risk review this quarter. Due to the potential impact of these issues and the lack of progress in addressing them this risk has been raised.</p> <p>As described above, an alternative HR & Payroll system for LPFE staff payroll is being sought as a matter of urgency.</p>	<p>Increase</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Elected member take decisions against sound advice (9)</p>	<p>The Fund continues to receive an increasing number of queries or approaches regarding both its investments and on other socio-economic and environmental matters, most recently including a petition to the wider Council. The risk therefore remains on warning given the extent of these approaches and their converging with the introduction of several new members to the Pensions Committee and Pension Board.</p> <p>The Fund will also commence the procurement process for a new Independent Professional Observer, as the current Observer, Sarah Smart's contract will cease at the end of February 2018.</p>	<p>Static</p> 
<p>Business continuity issues (11)</p>	<p>The Fund's business continuity plan has been updated and testing of the plan took place in October 2017 with the help of the City of Edinburgh Council's resilience team. The Fund is also ensuring that home-working and relevant health and safety procedures are adhered to across the board and, where necessary, continue to be enhanced in line with current practice.</p> <p>Internal Audit is finalising a report on the business continuity measures in place with the suppliers of key services, for example the pension administration system and investment custody, and the results are in the process of being implemented by the Fund.</p> <p>As above, the position around LPF's IT systems and services is being progressed as a priority.</p>	<p>Static</p> 
<p>Members' confidential data is lost or made public. Breach of Data Protection Act (12)</p>	<p>The Fund continues to prepare for the introduction of new Data Protection legislation (the General Data Protection Regulations – GDPR) coming into force in May 2018. The project is targeting the completion of its impact analysis and development of a project plan by the end of the calendar year, with implementation of any actions or improvements to be done during January and February 2018. The Fund is already implementing certain improvements in this area as part of its ongoing compliance processes, for instance putting in place up to date document retention policies and procedures.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
Regulatory breach (20)	<p>The implementation of MiFID II within the UK raises the spectre of LGPS funds stepping down to Retail Investor status. The Fund has now contacted all its external counterparties to “opt-up” to Professional Investor status. It has, to date, received confirmations of its treatment as an Elective Professional Client from a significant portion of those contacted and will continue to chase those who have not yet provided this. The Fund believes that it is well placed to obtain the remaining opt-up confirmations by the 3 January 2018 deadline. The Fund, through LPFI, is also liaising with its collaborative partners to obtain all relevant information to allow LPFI to opt them up to Elective Professional Client status (where appropriate).</p> <p>Moore Stephens continues to be instructed to carry out on-site regulatory compliance audits of LPFI in order to ensure that it is geared up for best practice compliance at this early stage in its trading. More detailed feedback on the compliance audits is included in the Pensions Controls and Compliance paper this quarter.</p> <p>The Fund is dedicating material amounts of resource to its compliance at present, with the convergence of the implementation of new investment, money laundering, data protection, derivatives and financial services senior management regulations coming into force from 2018. As above, the Fund’s IT platform is a critical aspect of its ongoing compliance with existing and enhanced data protection (GDPR) and financial services (MiFID II, new management permissions) regulations and so this risk has been raised until such time as the Fund has sufficiently addressed this risk to its satisfaction, including that of the board of LPFI.</p>	<p>Increase</p> 
Acting out-with proper authority/delegations (23)	<p>Regular updates of the Fund’s delegations are required to take into account the staffing changes occurring within the Fund’s governance. The most recent of which was the arrival of Stephen Moir as the Executive Director of Resources for CEC. The Fund is liaising with Committee Services to put in place revised delegations to reflect this new appointment.</p> <p>Further, the Fund is liaising with CEC’s governance team in relation to an update to the scheme of delegation to ensure that the reserved powers relating to CEC subsidiaries does not cut across the otherwise overarching delegation of authority for pension fund matters (including those in relation to LPFE and LPFI Limited) to the Pensions Committee.</p>	<p>Static</p> 
Human Resource within the Division not sufficient to carry out core tasks in conjunction with active or anticipated projects (32)	<p>In light of the significant collaborative, employer and other national initiatives that the Fund is currently involved in, we are closely monitoring the risk that senior management time and other resource is stretched to the point where this adversely impacts on the ‘business as usual’ processes within the Fund.</p> <p>The delay of the phase 2 transfer and the retendering of the HR and Payroll system, alongside the significant time spent trying to resolve the issues with the IT provider and procurement teams, is placing a further strain on the Fund’s human resources. To reflect this the risk has been increased accordingly.</p>	<p>Increase</p> 

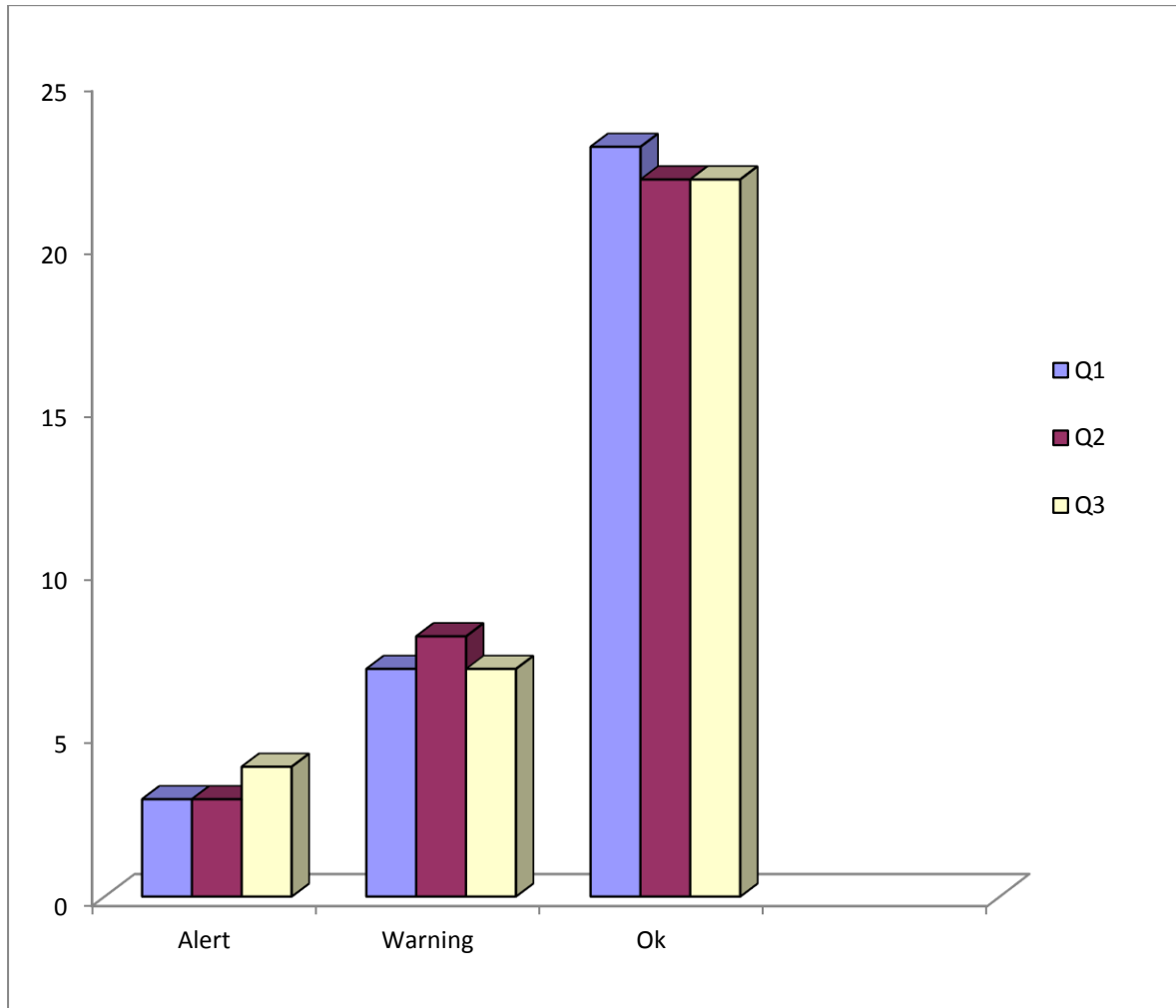
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



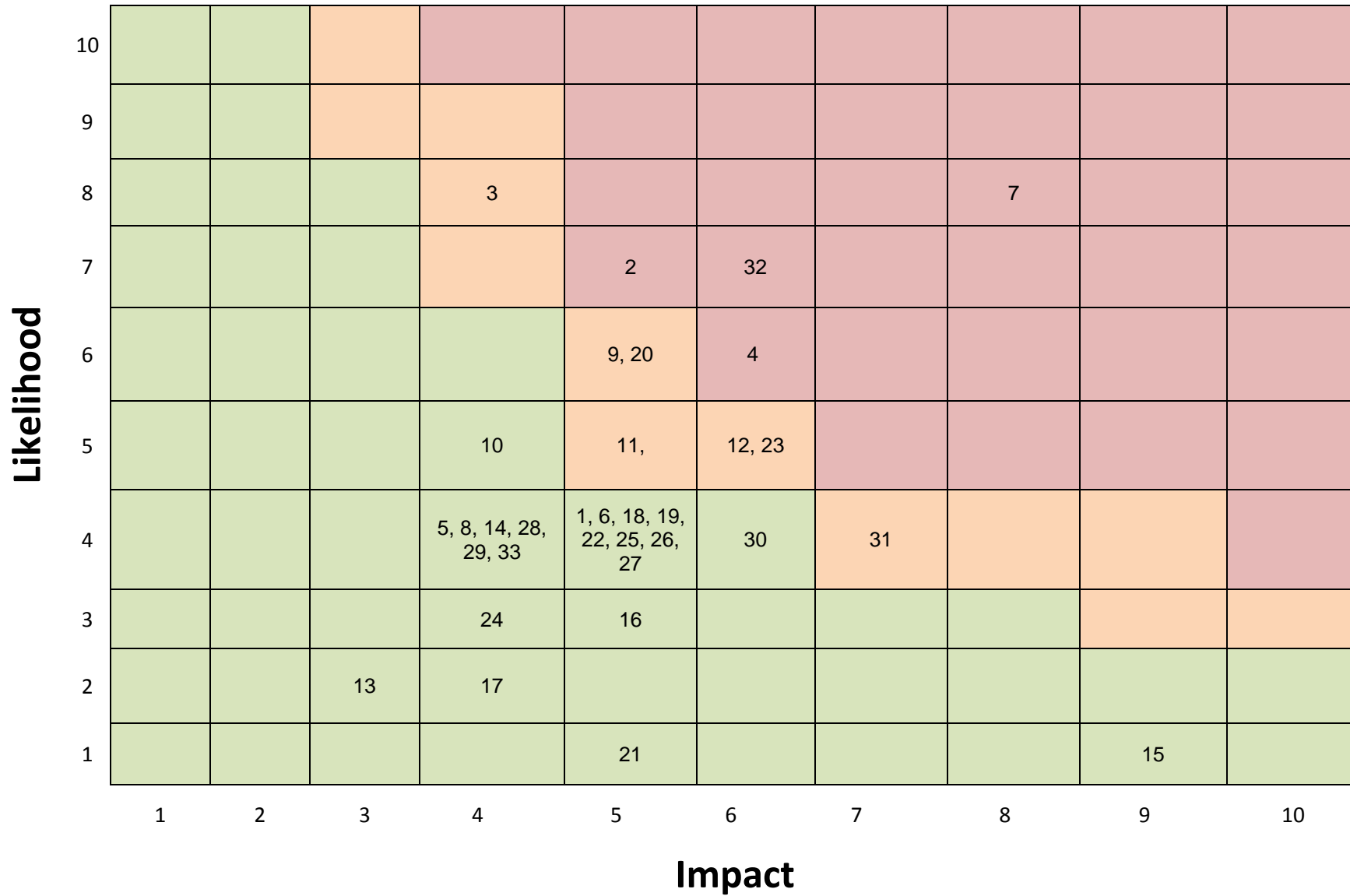
OTHER KEY POINTS

	Comments
New notable risks	None.
Other new risks	Inadequate, or failure of, supplier and other third party systems (including IT and data security) (to be added next quarter as 34)
New controls	Business Continuity Plans updated and scenario testing undertaken. (11) Regular diarised review of access to the Fund's shared files in place. (12) Legal advice on the application of Community Benefits, Fair Working Practices and Zero Hours Contracts for future LPF procurement exercises. (25) Non-executive director to be appointed on LPFE. (26) Compliance review of third party systems reliance introduced. (new 34)
Eliminated risks	None.
Notable initiatives / actions	<p>Moore Stephens is engaged on a rolling regulatory compliance audit and the Fund is working to enhance certain of its compliance processes and procedures. An action plan based on audit finding has been created and the LPFI board will be provided with regular updates. (20)</p> <p>The Fund is carrying out detailed impact analysis in relation to MiFID II and GDPR. It is also engaging with its relevant manager(s) and custodian to ensure ongoing compliance and readiness for the EMIR margining requirements in relation to it carrying out Forward FX to mitigate risk in its portfolios. (20)</p> <p>The Fund continues to monitor the position in relation to the following new regulation: GDPR, MiFID II, new anti-money laundering regulations and changes in the margin requirements for certain derivative transactions. (12, 20)</p> <p>The Monthly Contribution Reconciliation (MCR) process for secure data is nearing completion with the second last employer uploading monthly files, retrospective to April 2017. (29)</p> <p>The Fund is also engaging with CGI and CEC's head of ICT in order to mitigate the risk highlighted around its ICT. (7, 11, 18, 20)</p> <p>The Fund is looking to ensure continuity around access to HR files and other critical business systems and to ensure that each member of staff has two emergency contacts on the system and that there are processes to ensure this remains up to date and accessible to key persons. A test for the business continuity plan has been completed to check whether the plans are robust. (33)</p> <p>The Fund is looking to recruit HR support to develop HR function and report in to the Fund's senior management team. (32)</p> <p>The Fund is looking into whether a defibrillator can be made available on the ground floor of Atria One for general use of all units. It could otherwise look to obtain its own defibrillator for LPF's office and use. The relevant training of staff will then require to be carried out. (33)</p>
Material Litigation	None. However, the Fund has recently worked with the Falkirk Council to win an appeal made to the Information Commissioner to reinforce the position of both funds in not disclosing confidential and commercially sensitive details in relation to certain secondary market fund transactions that would have been to the detriment of their stakeholders and those of their business partners/counterparties. (21)

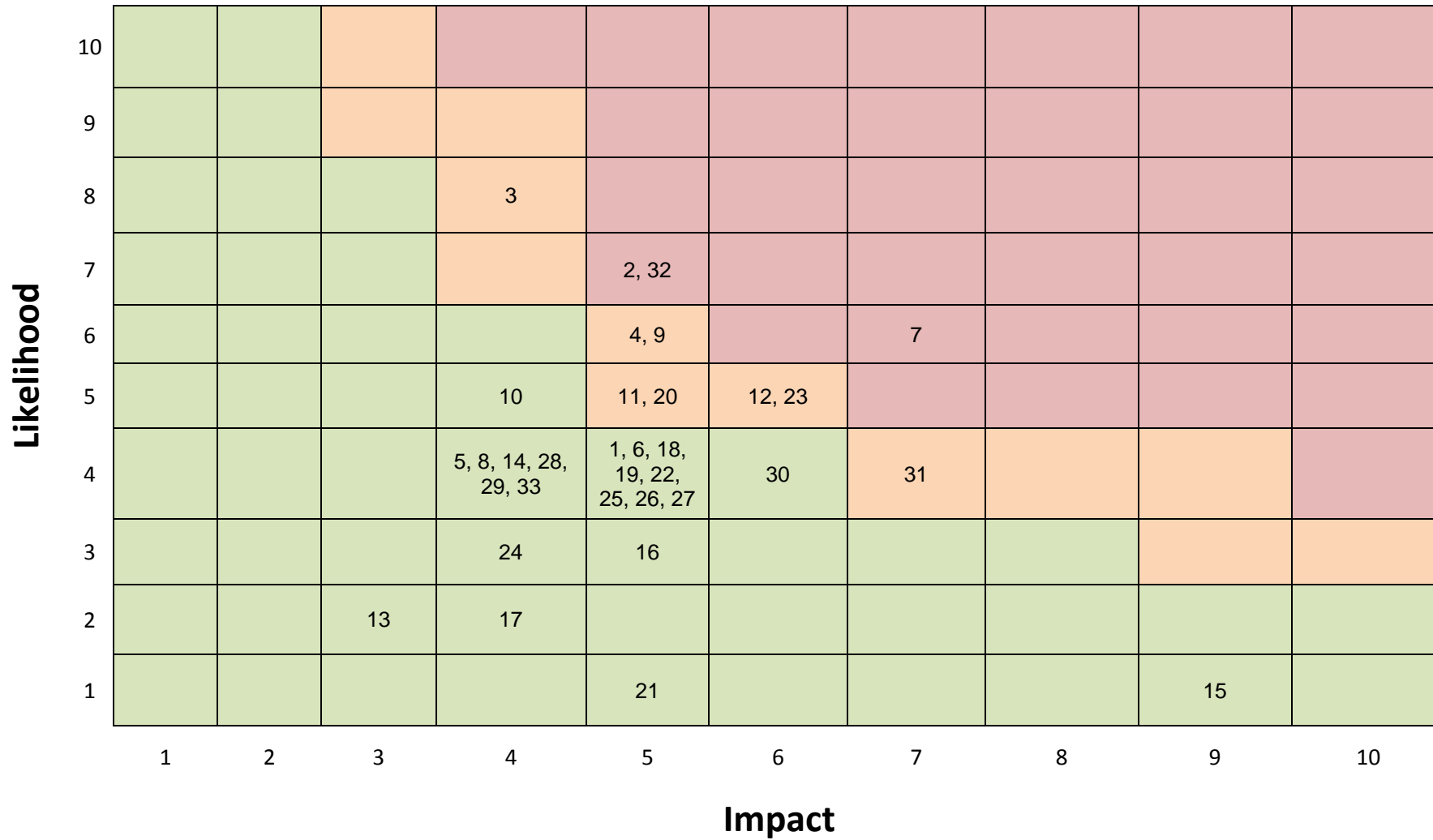
All Risks: Status Overview



Q3 2017/18 All Risks: Impact and Likelihood Overview



Q2 2017/18 All Risks: Impact and Likelihood Overview



Key: Risks by Number

- 1 Adverse Investment Performance - pressure on employer contributions
- 2 Adverse Movement of non-investment funding assumptions- pressure on employer contributions
- 3 Collapse of an employer
- 4 Recruitment and retention of key staff
- 5 Fraud or theft of Council/Pension Fund assets
- 6 Staff negligence
- 7 Failure of IT systems
- 8 Employers HR decisions without consideration of fund
- 9 Committee members take decisions against sound advice

- 10 Pension Board not operating effectively
- 11 Business continuity issues
- 12 Members' confidential data is breached
- 13 Loss due to stock lending default
- 14 Risk of incorrect pension payments
- 15 Late payment of pension
- 16 Market abuse by investment team or others
- 17 Portfolio transition issues

- 18 Disclosure of confidential information
- 19 Material breach of contract
- 20 Regulatory breach
- 21 FOI process not in accordance with law
- 22 Incorrect communication with members
- 23 Not acting in accordance with proper authority/delegations
- 24 Inappropriate use of pension fund monies
- 25 Procurement/framework breach
- 26 Group Structure and Governance not fully compliant and up to date (including integration of subsidiaries)
- 27 Claim or liability arising from shared services
- 28 Unauthorised access to PensionsWEB
- 29 Incorrect data from Employers leading to fines etc.
- 30 Inadequate contractual protection for services
- 31 Over reliance on single core service provider
- 32 HR insufficient to carry out active projects
- 33 Breach of Health and safety regulations