

Pensions Committee

2.00pm, Wednesday 27 June 2018

Present:

Councillors Rankin (Convener), Child, Rose, Neil Ross; Richard Lamont.

Pension Board Members:

Jim Anderson, Thomas Carr-Pollock, Sharon Dali, Darren May, Paul Ritchie and Alan Williamson.

1. Minutes

Decision

To approve the minute of the Pensions Committee of 26 March 2018 as a correct record.

2. 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 June 2018.

Decision

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

(Reference – Pensions Audit Sub-Committee 26 June 2018)

3. Agenda Planning

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

Decision

To note the agenda planning document.

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

4. Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund Annual Report 2018 (and Financial Statements) Unaudited

The unaudited Annual Report and Financial Statements for the year ended 31 March 2018 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund were submitted.

Decision

- 1) To note the unaudited Annual Report and Financial Statements for the year ended 31 March 2018 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.
- 2) To refer the report, for information, to the City of Edinburgh Council, in its role as administering authority of the Pension Funds.

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

5. Investment Strategy Panel Activity

An update was provided on the activity of the Investment Strategy Panel for the year to 31 March 2018. New terms of reference had been agreed by the Pensions Committee in March 2018 to enable efficient collaboration with the Falkirk Council Pension Fund. The new joint Investment Strategy Panel was designed to align governance for the investment of funds.

The Panel focussed on the implementation of the investment strategies for the three pension funds and had oversight of the performance, asset allocation and risk of the investments.

Decision

To note the activities of the Investment Strategy Panel during the financial year 2017/18.

(References – Pensions Committee 26 March 2018 (item 7); report by the Executive Director of Resources, submitted)

6. Annual Investment Update – Lothian Pension Fund

Information was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2018. The absolute performance of the Fund over the twelve month period was 1.4%. The five year performance was £10.3% per annum and over ten years the Fund had returned 8.7% per annum.

Decision

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

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

7. Annual Investment Update – Lothian Buses Pension Fund

Information was provided on the investments and funding position of the Lothian Buses Pension Fund to 31 March 2018. Overall, the Fund had produced a return of 4.9% over the year ahead of the benchmark return of 3.5%. The five year return was 10.9% per annum ahead of benchmark by 1.4%.

The Pensions Committee, at its meeting in March 2018, had agreed the merger of the Fund with the Lothian Pension Fund subject to the satisfactory completion of a revised admission agreement and shareholder guarantees.

Decision

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

(References – Pensions Committee 26 March 2018 (item 10); report by the Executive Director of Resources, submitted)

8. Annual Investment Update – Scottish Homes Pension Fund

An update was provided for the year to 31 March 2018 on the evolution of the funding level of the Scottish Homes Pension Fund, its strategy allocation and the performance of its assets. The Fund had produced a return of 0.3% over the year. The five year return was 8.2% and over ten years the Fund had returned 8.5% per annum.

Decision

- 1) To note the changes to the funding level, the strategy and actual asset allocations, and the asset returns of the Scottish Homes Pension Fund to end 31 March 2018.
- 2) To note the Fund's assets now comprised index-linked gilts and cash, matching expected liability payments as closely as possible.
- 3) To approve the following new investment objective:

"To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the Fund."

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

9. Climate Change Risk and Carbon Footprinting

Climate change concerns had prompted governments around the world to implement policies to limit global temperature increases. Details were provided of Lothian Pension Fund's recent carbon footprint exercise and how the Fund's approach incorporated environment, social and governance issues into the investment process.

Decision

- 1) To note that the Fund had undertaken a carbon footprinting exercise which was considered by the Investment Strategy Panel in March 2018.
- 2) To reaffirm the Fund's commitment to integrate environmental, social and governance (ESG) considerations, such as carbon efficiency trends, into its decision-making.
- 3) To note that the Fund scrutinises and engages with investment managers to ensure that they are taking ESG issues, including climate change and carbon risk, into account in their investment decision-making.
- 4) To reaffirm the Fund's policy of not divesting solely on the grounds of non-financial factors.
- 5) To note that the Fund would monitor research on the link between ESG factors (including carbon-related factors) and financial performance to inform future investment strategy, such as stock selection criteria of quantitative strategies.
- 6) To agree that the Fund should aim to influence engagement activity based on its shareholdings of companies that perform poorly on carbon efficiency measurements.

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

10. Lothian Pension Fund's "Pensions Discretions Policy" – Amendment in Respect of Trivial Commutation

A minor amendment was proposed to the Fund's Pensions Discretions Policy to allow members to continue to receive payment of a small pension, rather than such being paid as a single trivial commutation lump sum.

Decision

To approve the amendment to Lothian Pension Fund's "Pensions Discretions Policy", at point 44, as detailed in paragraph 3.1 of the report by the Executive Director of Resources.

(References – Pensions Committee 25 March 2015 (item 7); report by the Executive Director of Resources, submitted)

11. Regulatory Update – General Data Protection Regulation (GDPR) and Local Government Pension Scheme (LGPS) Regulations

An update was provided on the Lothian Pension Fund's (LPF) General Data Protection Regulation (GDPR) and wider information governance project. Detailed information was also provided highlighting what LPF had been doing to ensure best practice in this area, compliant with GDPR and other applicable data protection law and regulation in force from time to time.

A high-level update was also provided on the Local Government Pension Scheme (LGPS) regulations which came into effect on 1 June 2018.

Decision

- 1) To note the update on the Fund's preparedness for GDPR.
- 2) To note the update on the new LGPS regulations which came into force on 1 June 2018.

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

12. Webcasting

On 3 May 2018 the City of Edinburgh Council agreed to offer the use of webcasting facilities to the Pensions Committee

Decision

To continue consideration of the report to the next meeting of the Pensions Committee scheduled to be held on 26 September 2018.

(References – Act of Council No.8 of 3 May 2018; report by the Executive Director of Resources, submitted)

13. Risk Management Summary

In line with the pension funds' ongoing risk management procedures, an overview was provided of the Fund's risk analysis.

Decision

To note the Quarterly Risk Overview.

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

14. Lothian Pension Fund Staffing Update

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.

Information was provided on the remaining pension fund staff transferred to LPFE Limited following appropriate consultation with staff and trade unions.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

15. Pensions Tax Audit Findings - Verbal Update by the Convener of the Pensions Audit Sub-Committee

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.

A verbal update was provided by the Convener of the Pensions Audit Sub-Committee on the discussion at the meeting of the Pensions Audit Sub-Committee on 26 June 2018 on Pension Tax Audit Findings.

Decision

To note that the risk and controls would be reviewed by the Audit Sub-Committee as part of the annual review of the risk register.

(Reference – Pensions Audit Sub-Committee 26 June 2018 (item 5))