

Pensions Committee Minutes

2pm, Wednesday 23 June 2021

Present:

Councillors Munn (Convener), Burgess, Child, Rose and Neil Ross; John Anzani and Richard Lamont.

Pension Board Members present:

Jim Anderson, Thomas Carr-Pollock, Nick Chapman, Sharon Dalli, Tom Howorth, Darren May, Brian Robertson and Alan Williamson.

Other Attendees:

Andy McKinnell, Independent Professional Observer and Nick Bennett, Scott Moncrieff (External Auditor)

Apologies:

Tony Beecher, Pension Board Member.

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

2. Order of Business

The Clerk advised there was no change to the order of business.

3. Declaration of Interests

To note there were no declarations of interest.

4. Minutes

Decision

- 1) To approve the minute of the Pensions Committee of 17 March 2021 as a correct record.

Matter Arising

Internal Audit Update for the Period 2 November 2020 to 9 February 2021 – Item 7 – Decision 3

To note that the update from the Chief Internal Auditor on the progress of the status and progress of the overdue audit finding raised in the Settlement and Custodian Services audit completed in 2019/20 remained outstanding and that the Chief Executive Officer and Convener would follow this up with the Chief Internal Auditor.

- 2) To approve the minute of the Pensions Committee of 24 March as a correct record.

5. Referrals/recommendations from the Pensions Audit Sub-committee

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee meeting on 22 June 2021.

(Reference – Pensions Audit Sub-Committee 22 June 2021)

6. Pension Board oversight

The Chair of the Pension Board advised the Committee of the relevant discussion and decisions taken at the Pension Board meeting and confirmed that the Pension Board would provide comment on other relevant matters during the meeting.

7. Agenda planning

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for September and December 2020 was presented.

Members expressed a wish to return to physical meetings as soon as possible as and when Scottish Government guidance and regulations permitted.

Decision

- 1) To note the agenda planning document.
- 2) To note that the Pension Board Members were invited to comment on agenda items during Committee meetings.
- 3) To agree that an additional meeting of the Committee be held in September 2021 to consider an update on Project Forth.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

8. LPF Unaudited Annual Report (and Financial Statements) 2021

Details were provided of the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund.

Lothian Pension Fund (Group) net asset valuation as at 31 March 2021 highlighted a significant recovery from the previous year's fall in global and UK equity markets with a total of £8,694m reflecting an increase of £1,215m (16.2%).

Given its mature membership profile, net assets of the Scottish Homes Pension Fund fell from £166.1m to £157.5m at 31 March 2021, a decrease of £8.6m (5.2%).

The Pensions Audit Sub-Committee had received a detailed presentation from the Fund's Senior Finance Manager on the detail of the Annual Report and Financial Statements.

Motion

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To commend the LPF staff team for their work in preparing and presenting the annual report and accounts in the new refreshed format.
- 3) To note that the LPF Statement of Responsible Investment Principles sets out the following commitments:
 - To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios;
 - To continue our work with Climate Action 100+;
 - To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy;
 - To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs;
 - Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements. Our ambition is that all holdings covered by TPI will have achieved a level 4 assessment and have a business plan whose carbon performance is in-line with the Paris agreement or better by 2025;
 - Using data from the Transition Pathway Initiative (TPI), we will not subscribe to new equity and fixed income issuance from companies whose business plans are not aligned with the aims of the Paris agreements at the time of the fundraising.
- 4) To agree that Lothian Pension Fund should continue its work on the commitments specified in the Statement of Responsible Investment Principles.
- 5) To note the recent actions by Glasgow City Council (June 2021), as Administering Authority of Strathclyde Pension Fund, to incorporate the explicit objective of implementing an investment strategy that is consistent with achieving the goal of global net-zero emissions by 2050.

- 6) To agree that LPF provide the Committee with a report that explores the feasibility of establishing minimum standards below which divestment can be considered and on the viability of a target of net-zero emissions across its own portfolios by 2050.

- moved by Councillor Munn, seconded by Councillor Child

Amendment

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2021 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To commend the LPF staff team for their work in preparing and presenting the annual report and accounts in the new refreshed format.

- moved by Councillor Rose, seconded by Richard Lamont

Voting

The voting was as follows:

For the Motion: - 3 votes

For the Amendment: - 4 votes

(For the Motion: Councillors Burgess, Child and Munn.

For the Amendment: Councillors Rose and Neil Ross; John Anzani and Richard Lamont.)

Decision

To approve the amendment by Councillor Rose.

(Reference – report by the Chief Finance Officer, LPF, submitted)

9. Joint Investment Strategy Panel Activity

An update was provided on the activity of the Joint Investment Strategy Panel (JISP) for the year to 31 March 2021 with a focus on the Lothian Pension Fund and the Scottish Homes Pension Fund.

The JISP met quarterly and provided strategic advice on all aspects of the investments of the Pension Funds. Regular activities included reporting to and making recommendations about investment strategy to the Committee, monitoring and advising on strategy implementation and risk and advising on the types of investment manager to utilise.

Decision

To note the activities of the Joint Investment Strategy Panel during the financial year 2022/21.

(Reference – report by the Chief Executive Officer, LPF, submitted)

10. Annual Investment Update – Lothian Pension Fund

An update was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2021.

Over the twelve months to 31 March 2021, investment market returns were dominated by the rebound in equities following the pandemic-induced market decline in the first quarter of 2020. The Fund aimed to achieve a return in line with its strategic benchmark over the long term with a lower-than-benchmark level of risk.

Lothian Pension Fund's funding level (ratio of assets to liabilities) was 106% at the March 2020 valuation, an improvement from the 98% at 31 March 2017. Following receipt of these results and discussions with employers, work was now underway to determine potential changes to investment strategy.

Decision

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

(Reference – report by the Chief Investment Officer, LPF, submitted)

11. Annual Investment Update – Scottish Homes Pension Fund

An update was provided on the strategic allocation and the invested assets of the Scottish Homes Pension Fund for the year to 31 March 2021.

The funding level was 117% at the March 2020 valuation, an improvement from the 104% at 31 March 2017.

In line with the Scottish Government's guidance, the Fund's objective was to minimise the investment shortfall risk of assets relative to liabilities. The Fund's assets comprised UK gilts and cash as closely matched to the estimated liability payments as possible.

Decision

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

(Reference – report by the Chief Investment Officer, LPF, submitted)

12. Investment Strategy Review

The conclusions of the review of the investment strategy of the Lothian Pension Fund were presented. Approval was also sought for the long-term investment strategy. Minor amendments were proposed to the existing strategy including a name change for one Policy Group (para 4.7) and changes to the Policy Group weightings and permitted ranges (para 4.32) including a 5% reduction in Equities.

The strategy review had been undertaken in co-operation with Falkirk and Fife Pension Funds taking advice from the Joint Investment Strategy Panel (JISP) and Hymans Robertson.

Decision

To approve the amendments to the investment strategy as outlined in paragraphs 4.32 to 4.34 of the report by the Chief Executive Officer, LPF.

(Reference – report by the Chief Executive Officer, LPF, submitted)

13. Statement of Investment Principles

The Statement of Investment Principles for Lothian Pension Fund and Scottish Homes Pension Fund was submitted. The material changes to the SIP were sent out in Appendix A of the paper where the new investment strategies were detailed.

Strategic advice had been sought from investment consultant Hymans Robertson and the independent advisers on the Joint Investment Strategy Panel following completion of the latest triennial actuarial valuation.

Decision

To adopt the revised Statement of Investment Principles.

(Reference – report by the Chief Executive Officer, LPF, submitted)

14. Risk Management Summary

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of LPF's risk analysis.

The Risk Management Group continued to meet regularly to assess all elements of the LPF Group's risk framework including the risk appetite, register, overall assurance position and any more granular risks escalation from other sub-groups.

Decision

To note the quarterly risk overview as at 6 May 2021.

(Reference – report by the Chief Risk Officer, LPF, submitted)

15. Annual LPF Group Governance Update

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

An update was provided on the operation of the LPF Group's legal, regulatory and governance structures together with the activities of its corporate subsidiaries LPFE Limited and LPFI Limited.

Information was also provided on the actions being implemented following the 2019/20 governance review.

Decision

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

(Reference – report by the Chief Risk Officer, LPF, submitted)

16. ICT Update

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

Information was provided on progress with Lothian Pension Fund's ICT pathway and digital strategy.

Decision

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

(References – Pensions Committee 29 September 2020 (item 17); report by the Chief Executive Officer, LPF, submitted)

17. Recommendations for Award of Contract in respect of Engagement and Voting Services for Lothian Pension Fund

The Sub-Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Schedule 7(A) of the Act.

Approval was sought to award a contract for Engagement and Voting Services for Lothian Pension Fund.

Decision

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

(Reference – report by the Chief Investment Officer, LPF, submitted)

18. Valedictory Remarks

On behalf of the Pensions Committee members and Pension Board members, the Convener thanked the outgoing Chief Executive Officer, Doug Heron, for his leadership and commitment to the ongoing work and governance of Lothian Pension Fund during his tenure and wished him well in his new role.