

## Pensions Committee Minutes

2pm, Wednesday 21 June 2023

### Present:

Councillors Watt (Convener), Burgess, Doggart, Nicolson and Neil Ross; John Anzani and Richard Lamont.

### Pension Board Members present:

Jim Anderson, Tony Beecher, Thomas Carr-Pollock, Nick Chapman, Sharon Dalli, Tom Howorth and Alan Williamson.

### Other Attendees:

Andy McKinnell (Independent Professional Observer).

**Apologies:** Darren May and Brian Robertson, Pension Board members.

### 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. Minute

---

#### Decision

- 1) To approve the minute of the Pensions Committee of 23 March 2023 as a correct record subject to noting that LAPFF minutes would be circulated to members for information.
- 2) To request officers to consider establishing a rolling actions log for future meetings to track outstanding actions.

## **5. Pension Board Oversight**

---

To note that the Pension Board had met prior to this meeting and that Pension Board members would provide comment on relevant matters during the meeting.

## **6. Agenda planning**

---

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings for September and December 2023 and March 2024 was presented.

### **Decision**

- 1) To note the agenda planning document and the revisions to the agenda planning document.
- 2) To note that an additional meeting of the Pensions Audit Sub-Committee would be held on Tuesday 19 March 2024 if required.
- 3) To note that the Convener of the Audit Sub-Committee would prepare a written annual report highlighting any specific issues raised at the Sub-Committee for presentation to the next Pensions Committee meeting for information.
- 4) To note that the Pension Board members were invited to comment on agenda items during Committee meetings.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted.)

## **7. Funding Strategy Statement**

---

As required under the Scheme regulations, a valuation of the funds would be carried out at 31 March 2023. Data had been provided to the actuary to allow work to begin on the valuation of the Scottish Homes Pension Fund. Data cleansing for Lothian Pension Fund was ongoing following submission of employer year-end data and it was anticipated that data would be submitted to the actuary in July 2023 with initial employer results being available in Autumn 2023.

The final valuation report and final revised funding strategy statement would be presented to the Pensions Committee in March 2024.

### **Decision**

- 1) To note that the Fund intended to consult with employers on the revised Funding Strategy Statement.
- 2) To approve the draft revised Funding Strategy Statement subject to any further amendment arising from the forthcoming employer consultation being reported to Pensions Committee at its next meeting.

(Reference – report by the Senior Pensions Employers and Members Manager, Lothian Pension Fund, submitted)

## **8. LPF Unaudited Annual Report (and Financial Statements) 2023**

---

Details were provided of the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund.

Despite volatile markets the Lothian Pension Fund had made a small positive return for the year. This had resulted in Lothian Pension Fund Group net asset valuation as at 31 March 2023 being broadly in line with last year £9,700.6m (2022 - £9,605.2m).

Scottish Homes Pension Fund had a mature membership profile with its 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. Over the year, the Fund's assets and liabilities had declined but funding level had remained consistent with last year.

### **Decision**

- 1) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 for Lothian Pension Fund and Scottish Homes Pension Fund.
- 2) To note the unaudited Annual Report (and Financial Statements) for the year ended 31 March 2023 would be submitted to the auditor, Azets Audit Services Ltd, by the due date of 30 June 2023.
- 3) To note that final proof reading of the report was still ongoing and that any potential corrections and minor amendments would be completed prior to release to the auditor and publication on the website.
- 4) To include a reference to the Local Authority Pension Fund Forum in the investment engagement section of the accounts.
- 5) To include in the accounts a comment that the Fund had introduced an honorarium for the two external Pensions Committee members.
- 6) To record the Committee's thanks and appreciation to all staff involved with preparation and finalisation of the annual accounts.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

## **9. Statement of Investment Principles**

---

The Statement of Investment Principles (SIP) for Lothian Pension Fund and Scottish Homes Pension Fund was submitted. There had been one material change to the SIP which was the removal of the actual portfolio allocations which were previously contained in Appendix B and were now reported as part of the annual investment update.

The Joint Investment Strategy Panel had reviewed the SIP in June 2023 and had confirmed that the SIP satisfied the Pensions Committee's statutory duty and was an accurate reflection of current advice which included reconsideration of long-term investment strategy following the triennial actuarial valuation.

The following proposal was submitted by Councillor Burgess in terms of Standing Order 11:

“Committee:

- 1.1 Agrees to adopt the revised Statement of Investment Principles with the following adjustment:

*Principle 11: Committee believes that responsible investment should reduce risk and may improve returns,*

*[Delete] but that mechanistic divestment is inconsistent with the Funds’ fiduciary duty to members and employers*

*[Insert] and that specific divestment may be consistent with the Funds’ fiduciary duty to members and employers.*

- 1.2 Regarding Principle 12, requests a report outlining the Lothian Pension Fund’s engagement activities and successes, specifically focusing on instances where voting has influenced the activities of fossil fuel or related companies and including how LPF voted at the 2023 AGMs of BP, Shell, TotalEnergies, Exxon and Chevron in relation to the shareholder resolutions calling for these companies to align their 2030 reduction target for Scope 3 emissions with the goal of the Paris Climate Agreement.”

### **Decision**

- 1) To defer the decision to adopt the revised Statement of Investment Principles to the September meeting of the Committee.
- 2) To request a briefing note for members in advance of the September meeting providing further information on the content of the proposal submitted by Councillor Burgess in relation to principle 12 ie. “the Lothian Pension Fund’s engagement activities and successes, specifically focusing on instances where voting had influenced the activities of fossil fuel or related companies and including how Lothian Pension Fund voted at the 2023 Annual General Meetings of BP, Shell, TotalEnergies, Exxon and Chevron in relation to the shareholder resolutions calling for these companies to align their 2030 reduction target for Scope 3 emissions with the goal of the Paris Climate Agreement.”
- 3) To note that the Fund’s voting records would be reinstated on the Lothian Pension Fund website.
- 4) To note that Hermes EOS would be included in a training session for members in September 2023.

(References – Pensions Committee 29 June 2022 (item 11); report by the Chief Investment Officer, Lothian Pension Fund, submitted)

## **10. 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 2023 with a focus on the Lothian Pension Fund (LPF) and the Scottish Homes Pension Fund (SHPF).

During 2022/23 JISP had continued to advise and assist in the oversight of the Lothian, Falkirk and Fife Pension funds' investment strategies, focussing on asset allocation, risk and performance. This included the oversight of Lothian Pension Fund and Scottish Homes Pension Fund.

The JISP monitored and advised on the implementation of investment strategy by officers and the internal investment management team focusing on achieving target allocations within the constraints defined by the Pensions Committee.

For Lothian Pension Fund, the JISP advised in several areas including policy group allocation, manager structure and strategies, benchmarks and performance, portfolio diversification and allocations to private market investments including infrastructure and corporate loans. For the fully funded SHPF, the JISP continued to monitor the asset-liability matching.

### **Decision**

To note the activities of the Joint Investment Strategy Panel during the financial year 2022/23.

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

## **11. Annual Investment Update – Lothian Pension Fund**

---

An update was provided on the investments and funding position of the Lothian Pension Fund to 31 March 2023.

Over the twelve months to 31 March 2023, the total Fund return was +0.3% which compared with the benchmark return of -14.6%. Investment market returns were mixed over the period with notable declines in UK gilts.

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 formally assessed on a triennial basis with the most recent figure of 106% at the March 2020 valuation. Over ten years the Fund had gained 9.7% per annum lagging the benchmark gain of 10.0% per annum but with lower risk.

The next triennial valuation would be undertaken during 2023 and concluded by 31 March 2024 at the latest.

The following proposal was submitted by Councillor Burgess in terms of Standing Order 11:

“Committee:

Requests a report to its next meeting detailing all investments currently held by Lothian Pension Fund in companies whose principal business is in fossil fuels for example BP, Shell, TotalEnergies, Exxon and Chevron.”

### **Decision**

- 1) To note the asset allocation, investment performance and funding update of the Lothian Pension Fund.
- 2) To note the terms of the proposal submitted by Councillor Burgess.

- 3) To note that officers would provide the link to the investments published on Lothian Pension Fund website to members with a request that any feedback be forwarded to the Chief Investment Officer, Lothian Pension Fund.
- 4) Thereafter, as a result of any feedback received, if members agreed an additional report was required, this would be presented to Committee.

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

## **12. 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 (SHPF) for the year to 31 March 2023.

The actuarial funding level of the Fund was 118% at the March 2020 valuation. The Fund's actuary had reported the same funding level in their funding update dated 31 March 2022 and in their recent 2022/23 Actuarial Statement in May 2023, had stated that the funding level at end March 2023 was likely to be fairly similar to that reported at the previous formal valuation.

The triennial actuarial valuation was currently underway following which the formal valuation result at 31 March 2023 would be confirmed including any changes reflecting fund experience and financial and demographic assumptions.

In line with the Scottish Government 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, Lothian Pension Fund, submitted)

## **13. Risk and Compliance Update**

---

In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, an overview was provided of monitoring and assurance undertaken in LPF since the last meeting, noting any material observations or exceptions.

A summary was also provided of the work being undertaken to enhance current risk management arrangements.

A key part of the operational plan would be an evaluation of the effectiveness of changes as they were introduced and embedded through observation, feedback and testing. Training and awareness would underpin the programme and ensure that staff understood their role in the framework.

Recruitment had been underway for a new post in the Risk and Compliance team with subject matter expertise in investment compliance and front office monitoring and oversight. An offer had been accepted by the preferred candidate with an anticipated start date towards the end of the summer.

## **Decision**

- 1) To note the Lothian Pension Fund Group's Risk Register and Quarterly Risk Overview.
- 2) To note the ongoing strategy and development around the Group's risk management framework.

(Reference – report by the Chief Risk Officer, Lothian Pension Fund, submitted)

## **14. Annual LPF Group Governance Update**

---

The 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.

The annual 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.

A summary was presented of the key changes and activities within LPF's governing bodies over the last 12 months together with a summary of future planned improvements over the next 12 months.

## **Decision**

To note the annual LPF Group governance update.

(Reference – report by the Governance Manager, Lothian Pension Fund, submitted)

## **15. Project Forth**

---

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude 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.

Following discussion by members and taking into consideration advice from officers, the Committee agreed to consider the covering report in public and to make it available on the public website but to retain appendices 1 and 2 as private at this time.

The Chief Executive Officer advised the Committee that, on 1 June 2023, he had received written confirmation from the City of Edinburgh Council that, based on an informal and high-level consideration of various risks and issues, there was currently no appetite to explore further fundamentally changing the existing model of Lothian Pension Fund.

This message had been relayed verbally and in writing to the Chief Executive of Falkirk Council by the Chief Executive of City of Edinburgh Council and also to the Falkirk Council Finance Director who was the responsible officer for Falkirk Council Pension Fund and co-sponsor of the Project.

In light of the information contained in the written communication from the Chief Executive of the City of Edinburgh Council, the Chief Executive Officer, Lothian Pension Fund was recommending cessation of Project Forth and that, if agreed by the Pensions Committee, the communications plan set out in appendix 2 of his report would be progressed.

The Committee expressed concerns that they had not been afforded the opportunity to have sight of the updated business case as requested at previous meetings nor had they had the opportunity to fully assess and debate the benefits, risks and governance around the project.

### **Proposal 1**

The following proposal was moved by Councillor Watt:

To approve the recommendations set out in the report by the Chief Executive Officer, Lothian Pension Fund as follows:

- 1) To agree to cease any further development of the merger of Falkirk Council and Lothian LGPS Pension Funds in line with the guidance provided by the City of Edinburgh Council but to continue discussions with Falkirk Council around enhancing the collaboration between Falkirk and Lothian LGPS based on existing operational arrangements.
- 2) To note the Lothian Pension Fund and Falkirk Council Pension Fund Project Forth cessation communications plan (appendix 2) which was predicated on this agreement.

### **Proposal 2**

The following proposal was moved by John Anzani:

- 1) To reject the recommendations set out in the report by the Chief Executive Officer, Lothian Pension Fund and agree to progress with Project Forth.
- 2) To agree that an options paper on proposed governance structures be submitted to the Pensions Committee as previously discussed by Committee on 29 September 2022 and 7 December 2022.

### **Voting**

For Proposal 1 - 2 votes

For Proposal 2 - 4 votes

(For Proposal 1 – Councillors Burgess and Watt.)

(For Proposal 2 – John Anzani, Councillor Doggart, Richard Lamont and Councillor Ross.)

### **Decision**

To approve Proposal 2 by John Anzani as follows:

- 1) To reject the recommendations set out in the report by the Chief Executive Officer, Lothian Pension Fund and agree to progress with Project Forth.
- 2) To agree that an options paper on proposed governance structures be submitted to the Pensions Committee as previously discussed by Committee on 29 September 2022 and 7 December 2022.

(References – Pensions Committee 29 September 2020 (item 18), 29 September 2021 (item 14), 29 June 2022 (item 18), 28 September 2022 (item 15), 7 December 2022 (item 12), 23 March 2023 (item 15); report by the Chief Executive Officer, Lothian Pension Fund, submitted)