

Pension Fund Committee Council Chamber, Town Hall, Lerwick 6 December 2017 at 11.35am	Pension Board Council Chamber, Town Hall, Lerwick 6 December 2017 at 11.35am
Present – Members: A Cooper S Coutts S Leask R McGregor C Smith G Smith T Smith R Thomson	Present - Members: M Bell J Johnston D Marsh R Williamson I Scott
<u>Apologies:</u> M Burgess A Duncan	<u>Apologies:</u> A Goudie E Macdonald A Taylor
In Attendance: J Belford, Executive Manager – Finance J Riise, Executive Manager – Governance and Law & Joint Secretary to the Pension Board M Smith, Team Leader – Expenditure C Bain, Treasury Accountant A McIver, Assistant Accountant L Malcolmson, Committee Officer	
Also in Attendance: G Day, Schroders G Rutter, Schroders P Bone, Schroders D Green, Hymans Robertson A Lapi, Hymans Robertson	

Chair

Mr C Smith, Chair of the Committee presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

Minutes

The minutes of the meetings held on i) 29 August 2017 were confirmed on the motion of Mr Thomson seconded by Mr Leask, and on ii) 20 September 2017 were confirmed on the motion of Mr Leask, seconded by Mr Thomson.

19/17 Presentation from Schroders Investment Management

The Committee and Board considered a report by the Executive Manager – Finance [F-095], and a presentation from Schroder's Investment Management on the management of a property fund on behalf of the Pension Fund (handout attached as Appendix A).

Following the presentation, Members asked and received responses to a number of technical questions regarding the real estate debt fund and the risks involved; the lessons learned by the Fund Managers in regard to the EU property market; the reasons behind the disinvestment in London and their focus on the regional office spaces. The migration of retail sales to online sales was also discussed and the Fund Managers explained how they had disinvested in all shopping centres while they continue to invest in retail warehouses. The Fund Managers reported on growth in supermarkets moving into smaller spaces in towns eg. Tesco Extra and Sainsbury, which allows easy access for customers.

During further discussions the Fund Managers provided comment on the European -v- UK market post Brexit. The Fund Managers were also asked what opportunities there may be in Scotland and Northern Ireland given the downturn in the Oil Industry in Aberdeen. The Committee and Board were advised that there are property opportunities in Northern Ireland where there is also a booming technical industry. Although opportunities for investment in Aberdeen are limited, Fund Managers were looking at opportunities in the market in Edinburgh and Glasgow.

Decision:

The Pension Fund Committee and Pension Board NOTED the presentation.

20/17 **Management Accounts for Pension Fund Committee: 2017/18 – Projected Outturn at Quarter 2**

The Committee and Board considered a report by the Executive Manager – Finance [F-090-F] that enabled the Pension Fund Committee and Pension Board to monitor the financial performance of the Pension Fund to ensure that Members are aware of the forecast income and expenditure position and its impact on delivery of the approved budget.

The Executive Manager – Finance introduced the report and highlighted the variances referred to in the Appendix.

Comment was made that the narrative within the Appendix was very useful. In responding to the narrative on Transfers Out at paragraph 1.4, the Executive Manager – Finance confirmed that there was no penalty for the transfers and that it was based on individual circumstances and what is transferred into the Fund. He said that the value depends on the post holder and the salary was relevant to the value transferred. In terms of the lump sums he explained that this is part of a complex calculation and the choices people have to make, and confirmed that the figures provided include all necessary elements

Decision:

That the Pension Fund Committee and Pension Board reviewed the Management Accounts showing the projected outturn position at Quarter 2.

21/17 **Pension Fund – 2017/18 Mid Year Performance Review Report**

The Committee and Board considered a report by the Executive Manager – Finance [F-094-F] that allowed the Pension Fund Committee and Board to review the mid-year investment position and performance of the Pension Fund's external investments, managed on their behalf by Fund Managers.

The Executive Manager – Finance introduced the report and provided advice on the performance of the Pension Fund in reporting on the Fund Managers he indicated that in each case Members should be satisfied with the overall growth of the Fund. In responding to a question on what figure the Fund needs to be maintained at, the Executive Manager - Finance commented that while the value of the Fund fluctuates it is most important to monitor the performance of each Fund Manager as well as having the right Strategy in place into the future.

In addressing concern in regard to the Fund underperforming over six months and whether this will be reviewed, the Executive Manager – Finance advised that a review of the Fund Managers had been undertaken after the last tri-annual review of the fund performance, at which time there were significant changes made. He said that some Fund Managers have strong credentials whilst others new to the Fund have now gained some ground. He said that at the next tri-annual review of the Fund assumptions will be looked at to ensure that the right structure is in place. It was suggested to the Executive Manager – Finance that Fund Managers should take the Fund in the direction they intended but that they should not be allowed to go on too long if their strategy is not working. The Executive Manager – Finance agreed and explained when the Fund Managers would be invited to discuss their performance in due course.

During further discussion it was agreed that consideration would be given to what comparator information could be provided after a suggestion was made that Fund Manager's performance be compared against their six and 12 months performance rather than solely against the benchmark.

The Executive Manager – Governance and Law noted that comment had been received from Committee Members and asked the Board Members if they were happy with the level of information provided. The Board agreed that the information provided was helpful and the extra detail on continuous improvement and comparisons over time would be helpful. In response to a question, the Executive Manager – Finance advised that it was difficult to compare this Fund against the performance in other local authority areas as each Fund is different. He agreed however to prepare a paper on the investment against benchmark.

Decision:

The Pension Fund Committee and Pension Board reviewed the Pension Fund's external investments over the first six months of the 2017/18 financial year, and as such the Pension Fund Committee and Pension Board considered and commented on the outcome of this Mid Year review.

22/17

Formal Pension Fund Valuation 2017 – Whole Fund Initial Results & Draft Funding Strategy Statement (FSS)

The Committee and Board considered a report by the Executive Manager – Finance [F-097-F] that presented Hymans Robertson LLP initial 2017 Actuarial Valuation Report, at whole Fund level along with a copy of a revised Draft Funding Strategy Statement (FSS).

The Committee and Board were provided with a slide presentation by Mr Green and Ms Lapi of Hymans Robertson.

During discussions comment was made that the first part of the presentation had been transparent and the training previously delivered had been helpful, but it was suggested that the change in “longevity” within the papers provided needed to be written more clearly.

In response to a question about the contribution rates, Mr Green advised that this would vary from one employer to another but if the Fund were to stay the same the employee contribution rates would not be expected to change too much. It was difficult however to say what would happen at a whole fund level and that the organisation was not a slave to the stock market on valuation date.

The Executive Manager – Finance advised that early in January 2018 employer contribution would be circulated and as the Employers Forum would be held in Shetland at which Mr Green and Ms Lapi would present the results. The final results would be finalised by the end of March 2018.

A question was raised on the impact the rates had on gilts and whether this was replicated on all Funds, and the Committee and Board were advised that the investment returns had not been as high as expected three years ago. It was also noted that the direction of travel had been agreed across all Funds.

In terms of staff reductions within the Local Authority Mr Green was asked what affect there would be if more staff were shed. The Committee and Board were advised that the normal assumption would be for a 1-1 replacement however if there was a material change in the size of the workforce then figures would have to be reviewed. The affect would not show in the short term but would be picked up 3 years on.

The Executive Manager – Finance advised that there were changes to be made to the Funding Strategy Statement but these could be finalised under delegated authority. Mr Cooper moved that the Committee approve the recommendations contained in the report with the addition that delegated authority is granted to the Executive Manager – Finance in consultation with the Actuary, to ensure that revisions to the Funding Strategy Statement are made in a timely manner. Mr Coutts seconded.

Decision:

The Pension Fund Committee noted the Hymans Robertson LLP 2017 Formal Funding Valuation Initial Results report at whole Fund level and the revised Funding Strategy Statement (FSS), and RESOLVE to:

- AGREE any changes that should be applied to the Initial Results report or draft FSS; and
- APPROVE the valuation assumptions (amended where necessary) as set out in section 3 of the Initial Results report at Appendix 1;
- APPROVE the appropriate parameters for the calculations of employer contribution rates as described in section 5 of the Initial Results report at Appendix 1; and
- DELEGATE authority to the Executive Manager – Finance in consultation with the Actuary, to ensure that revisions to the Funding Strategy Statement (FSS) are made in a timely manner.

(Mr Johnson left the meeting)

23/17

Implementation of MiFID II (Markets in Financial Instruments Directive)

The Committee and Board considered a report by the Executive Manager – Finance [F-092-F] that outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3 January 2018.

The Executive Manager – Finance introduced the report and advised that the decision required was a regulatory change that would affect all pension funds.

Mr Cooper moved that the Committee approve the recommendations contained in the report. Mr Coutts seconded.

Decision:

The Pension Fund Committee and Pension Board NOTED the potential impact on the investment strategy from becoming a retail client with effect from 3rd January 2018.

The Pension Fund Committee RESOLVED to:

ACKNOWLEDGE and AGREE, in electing for professional client status, that the Pension Fund forgo the protections available to retail clients attached as Appendix 1;

AGREE the actions taken by the Executive Manager – Finance to date, with all relevant institutions, in order to ensure it can continue to implement an effective investment strategy; and

APPROVE delegated authority to the Executive Manager – Finance to make the necessary arrangements to finalise the applications and to determine the basis for the applications as either full or single service.

The meeting concluded at 1.35pm.

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Chair