

The background of the slide features a large, light blue watermark of the University of Victoria crest. The crest is a shield divided into four quadrants. The top-left quadrant shows a building with a diagonal beam of light. The top-right quadrant shows a stag's head with large antlers. The bottom-left quadrant shows a three-masted sailing ship on the water. The bottom-right quadrant shows an eagle with its wings spread. Above the shield is a crown with four floral motifs. Below the shield is a banner with the motto 'ANE FOR A'.

Agenda Item 7

General Governance Matters

Falkirk Council

Subject: General Governance Matters

Meeting: Joint Meeting of Pensions Committee and Pension Board

Date: 24 September 2020

Submitted by: Director of Corporate and Housing Services

1. Purpose of Report

1.1 This report updates the Committee and Board on miscellaneous matters related to Falkirk Pension Fund business.

2. Recommendation

2.1 The Pensions Committee and Board are invited to note the contents of this report.

3. McCloud

3.1 As previously reported, the “underpin” provision of the LGPS which gives protection to the rights of older members has been deemed age discriminatory as a result of the “McCloud” judgement.

3.2 In order to remedy this, it is proposed that all members who were in the scheme on 31 March 2012 and who continued until at least 1 April 2015 be provided with the protection. Accordingly, for the period from April 2015 to March 2022 (or date of leaving if earlier), members must be given the better of their “old style” final salary benefits or their new Career Average entitlement.

3.3 The changes will be backdated and apply to anyone who has left, retired or died and who meets the new criteria since 2015. In some cases, this will mean retrospectively recalculating benefits for pensioners, and paying arrears and interest. Latest calculations suggest this will add around 0.5% to the total liabilities of a typical fund. It was noted at the August joint meeting that an allowance for the “McCloud margin” would need to be made in the 2020 Fund Valuation.

3.4 A consultation exercise regarding the statutory changes needed to correct the discrimination has been launched by the Scottish Public Pensions Agency (SPPA) and is running until mid-October. The consultation is technical in nature and seeks comments on the adequacy of the proposed changes to the wording of the scheme rules. The proposals are being considered by the Scottish Pension Fund Officers Group.

- 3.5 In order to gain a better understanding of the scale of the issue for Falkirk, the Fund has asked Hymans Robertson to undertake a data review exercise. This will provide an indication of the resource needed to amend benefits and also highlight which Fund employers may be most impacted - likely to be employers with a younger age profile.

4. Goodwin and Walker Cases

- 4.1 As previously reported, SPPA have issued a Circular referring to the “Goodwin” and “Walker” cases. The upshot is that to avoid discrimination on grounds of sexual orientation, any survivor’s pension paid to a male dependant following the death of a female scheme member will require to be adjusted to take into account membership between 1978 and 1988, but only if the member died after 2005.
- 4.2 To administer this, all post-2005 dependant benefits arising from the deaths of female members will need to be reviewed. It should be noted that, in some circumstances, the Fund may not have any data on survivors or indeed be able to ascertain their present whereabouts. This will be on top of the retrospective calculations that are needed for McCloud and the retrospective changes which are likely to be needed to address the Cost Cap (i.e. Scheme deemed less expensive than predicted, so an adjustment to accrual rate from 1/4/2020 the most likely outcome).
- 4.3 The Fund Actuary has estimated that for a typical fund, correcting the Goodwin discrimination is likely to add around 0.5% to its liabilities. Again, this will require to be factored into the Valuation calculations along with the McCloud and the Cost Cap deliberations.

5. England and Wales Regulatory Proposals

- 5.1 In view of the Covid-19 experience, Funds in England and Wales are to be given greater flexibility to review employer contributions rates between Valuations.
- 5.2 The UK Government considers that this will enable Funds to respond to the full range of circumstances which could occur between valuations, including for example, a pandemic or a change in employer covenants. The provisions also allow an employer to ask for a contribution rate review from the Fund.
- 5.3 Any parallel changes in Scotland will be reported to Committee and Board.

6. Annual Statements 2020

- 6.1 The Annual Benefit Statement exercise for 2020 has been completed in line with statutory requirements. The Pensions team are now in the process of rerunning statements for any members who have notified address changes.

7. Corporate Governance

7.1 The Fund discharges its obligations as a responsible investor:

- by voting its shares;
- by monitoring the engagement efforts of its Managers; and
- by being a member of the Local Authority Pension Funds Forum (LAPFF).

7.2 LAPFF is supported by PIRC Ltd, who are the Forum's research and engagement partner. PIRC are also the Fund's voting agents and advisers on ESG matters.

7.3 During the quarter to June, 2020. LAPFF undertook 113 engagements with 79 companies, including:

- Alphabet – On Governance / Human Rights
- Amazon – On Governance / Human Rights
- Anglo American – On Climate Change / Human Rights
- Barclays – On Climate Change
- Carnival – On Executive Pay
- National Grid – On Climate Change
- Rio Tinto – On Human Rights

7.4 The second quarter of the year is traditionally the busiest time for company AGMs. With the onset of Covid-19 and consequent lockdown, the Forum reported that it had challenges with AGM attendance and company engagement. Whilst meetings were still held - using online facilities - questions generally had to be submitted in advance and then not necessarily answered in public at the meeting. These developments are not in line with LAPFF's expectation of transparency and stakeholder participation in AGMs and it will consequently be pushing companies to improve their approach to virtual meetings going forward.

7.5 The LAPFF engagement report for Quarter 2 has been uploaded to the Sharefile portal. Copies of the most recent Fund manager investment and engagement reports have also been uploaded.

8. Voting

8.1 Details of how Fund votes have been cast across various categories during the last available quarter (Quarter 2 of 2020) are attached at appendix 1.

9. Training

9.1 The undernoted training event is being held online on the following dates:

Thursday morning, 1 October	Scottish LGPS Conference (Session 1)
Thursday morning, 8 October	Scottish LGPS Conference (Session 2)

The event is being organised by Pensions Officers from various Scottish Funds. It is strongly recommended for Committee and Board members, covering a range of relevant topics, including governance, administration and current investment themes. There will also be an update from one of the Joint Secretaries of the Scheme Advisory Board.

9.2 In terms of the Fund's training policy, Committee and Board members should prioritise attendance at this event if possible. Please contact Debbie Macrae (debbie.macrae@falkirk.gov.uk) who will arrange for the organisers (Scottish Borders Council) to issue the invite details.

9.3 A subsequent event is being held on:

Thursday afternoon, 22 October	Local Govt Chronicle – Investment Seminar
Friday morning, 23 October	Local Govt Chronicle – Investment Seminar

This is also highly recommended focusing on issues such as covid-19, climate change and actuarial valuations. To notify your intention to join the sessions, contact Harry Bower on 020 3953 2030 or email Harry.Bower@emap.com.

10. Future Committee Date

10.1 The next scheduled date for the Committee and Board meeting is:

- 10 December, 2020

Director of Corporate & Housing Services

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Date: 14 September 2020

Appendices

Appendix 1 – PIRC Voting Update for Q2 2020

List of Background Papers:

SPPA - The Local Government Pension Scheme (Scotland) -
Addressing discrimination – amendments to the statutory underpin



Falkirk Council Pension Fund

PROXY VOTING REVIEW

PERIOD 1st April 2020 to 30th June 2020

1 Resolution Analysis

- Number of resolutions voted: 996 (note that it MAY include non-voting items).
- Number of resolutions supported by client: 650
- Number of resolutions opposed by client: 243
- Number of resolutions abstained by client: 73
- Number of resolutions Non-voting: 18
- Number of resolutions Withheld by client: 6
- Number of resolutions Not Supported by client: 0

1.1 Number of meetings voted by geographical location

Location	Number of Meetings Voted
UK & BRITISH OVERSEAS	29
EUROPE & GLOBAL EU	10
USA & CANADA	9
ASIA	2
JAPAN	1
TOTAL	51

1.2 Number of Resolutions by Vote Categories

Vote Categories	Number of Resolutions
For	650
Abstain	73
Oppose	243
Non-Voting	18
Not Supported	0
Withhold	6
US Frequency Vote on Pay	0
Withdrawn	6
TOTAL	996

1.4 Number of Votes by Region

	For	Abstain	Oppose	Non-Voting	Not Supported	Withhold	Withdrawn	US Frequency Vote on Pay	Total
UK & BRITISH OVERSEAS	411	43	130	0	0	0	6	0	590
EUROPE & GLOBAL EU	125	22	57	18	0	0	0	0	222
USA & CANADA	86	8	46	0	0	6	0	0	146
ASIA	14	0	8	0	0	0	0	0	22
JAPAN	14	0	2	0	0	0	0	0	16
TOTAL	650	73	243	18	0	6	6	0	996

1.5 Votes Made in the Portfolio Per Resolution Category

	Portfolio						
	For	Abstain	Oppose	Non-Voting	Not Supported	Withheld	Withdrawn
All Employee Schemes	9	0	2	0	0	0	0
Annual Reports	29	20	59	0	0	0	0
Articles of Association	11	0	0	0	0	0	0
Auditors	43	6	21	0	0	0	0
Corporate Actions	1	0	1	0	0	0	0
Corporate Donations	15	2	3	0	0	0	0
Debt & Loans	2	0	0	0	0	0	0
Directors	390	41	55	0	0	6	1
Dividend	22	0	0	0	0	0	5
Executive Pay Schemes	2	1	7	0	0	0	0
Miscellaneous	31	1	10	0	0	0	0
NED Fees	7	0	0	0	0	0	0
Non-Voting	0	0	0	18	0	0	0
Say on Pay	0	1	8	0	0	0	0
Share Capital Restructuring	1	0	0	0	0	0	0
Share Issue/Re-purchase	64	0	74	0	0	0	0
Shareholder Resolution	23	1	3	0	0	0	0

1.12 List of all meetings voted

Company	Meeting Date	Type	Resolutions	For	Abstain	Oppose
KASIKORNBANK PCL	02-04-2020	AGM	13	10	0	3
LENNAR CORPORATION	07-04-2020	AGM	14	5	0	9
VIVENDI SA	20-04-2020	AGM	30	8	0	22
CITIGROUP INC.	21-04-2020	AGM	22	17	1	4
DRAX GROUP PLC	22-04-2020	AGM	20	13	2	5
WOLTERS KLUWER NV	23-04-2020	AGM	21	10	1	5
RELX PLC	23-04-2020	AGM	21	13	5	3
HSBC HOLDINGS PLC	24-04-2020	AGM	28	15	3	10
PEARSON PLC	24-04-2020	AGM	23	14	3	6
LONZA GROUP AG	28-04-2020	AGM	24	12	7	5
BAYER AG	28-04-2020	AGM	10	6	2	2
NATWEST GROUP PLC	29-04-2020	AGM	30	20	3	7
UNILEVER NV	30-04-2020	AGM	23	18	1	3
THE GOLDMAN SACHS GROUP INC.	30-04-2020	AGM	15	11	1	3
INFORMA PLC	04-05-2020	EGM	1	1	0	0
ANGLO AMERICAN PLC	05-05-2020	AGM	23	12	2	9
STANDARD CHARTERED PLC	06-05-2020	AGM	30	23	0	6
GILEAD SCIENCES INC	06-05-2020	AGM	12	7	0	5
EVERSOURCE ENERGY	06-05-2020	AGM	12	3	2	7
GLAXOSMITHKLINE PLC	06-05-2020	AGM	24	18	0	6
INTACT FINANCIAL CORPORATION	06-05-2020	AGM	15	12	0	3
PROVIDENT FINANCIAL PLC	07-05-2020	AGM	20	15	1	3
ROLLS-ROYCE HOLDINGS PLC	07-05-2020	AGM	23	20	1	2
ROLLS-ROYCE HOLDINGS PLC	07-05-2020	EGM	1	1	0	0
REACH PLC	07-05-2020	AGM	20	10	3	6
BAE SYSTEMS PLC	07-05-2020	AGM	23	18	2	3

BARCLAYS PLC	07-05-2020	AGM	30	21	2	7
TP ICAP PLC	13-05-2020	AGM	21	15	0	6
ALTRIA GROUP INC.	14-05-2020	AGM	16	8	0	8
TESCO PLC	14-05-2020	EGM	1	1	0	0
COMPUTACENTER PLC	14-05-2020	AGM	21	15	3	3
WILLIAM HILL PLC	15-05-2020	AGM	20	13	2	4
ROYAL DUTCH SHELL PLC	19-05-2020	AGM	21	15	1	5
SAP SE	20-05-2020	AGM	9	3	0	5
LLOYDS BANKING GROUP PLC	21-05-2020	AGM	29	20	1	7
LEGAL & GENERAL GROUP PLC	21-05-2020	AGM	25	19	1	5
CENTRICA PLC	22-05-2020	AGM	19	16	0	3
AVIVA PLC	26-05-2020	AGM	26	19	1	5
RELX PLC	26-05-2020	EGM	1	1	0	0
BP PLC	27-05-2020	AGM	23	15	1	7
SWEDBANK AB	28-05-2020	AGM	60	33	9	9
AIA GROUP LTD	29-05-2020	AGM	9	4	0	5
ALPHABET INC	03-06-2020	AGM	24	15	0	9
WPP PLC	10-06-2020	AGM	19	10	5	4
BRENNTAG AG	10-06-2020	AGM	10	8	0	1
WM MORRISON SUPERMARKETS PLC	11-06-2020	AGM	20	16	1	3
INFORMA PLC	12-06-2020	AGM	22	16	0	6
MASTERCARD INCORPORATED	16-06-2020	AGM	16	8	4	4
SUZUKI MOTOR CO LTD	26-06-2020	AGM	16	14	0	2
TESCO PLC	26-06-2020	AGM	26	21	1	4
DNB GROUP ASA	30-06-2020	AGM	14	12	1	0