

SHAPS COMMITTEE MEETING

Minutes of a meeting held on Thursday 28 September 2017
Hilton Double Tree, Cambridge Street, Glasgow, G2 3HN

All Pensions Committee members were invited to attend.

Present: Sally Inkster (Chair), Bill Darroch, Christopher Forrest, Colin Gibson, Margaret Bradley, Ron Watson, Tom Jessop

In Attendance: Andy O'Regan, Mike Ramsey (to 17/076.1 inclusive), Peter Smith, Simon Hart, Susan Wardlaw, T Bhachu (17/071 only)

Apologies Duncan McNaught, Ken Tudhope

STRATEGY SESSION

The Committee held a session to discuss and feedback its views on the proposed governance structure. Officers responded to questions raised by the Committee.

INVESTMENT SESSION

Peter Smith presented an Equity Investment training session which recapped on the Committee's decision to opt for passive equity management, changes to the growth asset portfolio since 2010 and performance comparisons for both the Global Equity Fund and Passive Global Equity Fund since 2010. The Committee noted the growth of the Investment Management Team and changes to the investment strategy since 2010 together with those proposed for the Growth asset portfolio over the next 12-18 months (which would reduce the equity allocation to 14% of the total assets, of which c.50% of which would be passively managed).

COMMITTEE MEETING

Conflicts of Interest: None other than those declared on the Register of Conflicts of Interest.

17/063 DECISIONS BETWEEN MEETINGS

S Wardlaw's report was received and the Committee, in its Trustee capacity, noted the following decisions:

17/063.1 In its Trustee capacity, the Committee approved the minutes (and extract) of the meeting held on 9 August 2017 as a true record of the meeting. The recommendation was approved as follows:

For	Against	Did not vote
8	0	1

The Committee member who 'did not vote' was not available to respond within the deadline.

17/063.2 The Committee ratify the actions agreed at the special meeting held on 28 August 2017. The recommendation was approved as follows:

For	Against	Did not vote
7	0	2

The Committee members 'who did not vote' were absent from the meeting.

17/064 MATTERS ARISING

S Wardlaw's report was received and the Committee, in its Trustee capacity, noted the content of the report. In respect of the following actions, S Wardlaw confirmed:

Minute 15/028.3 (Scheme Document): this would be redrafted to include changes arising from the new governance structure. S Wardlaw would confirm a timescale to the Chair following the meeting.

Minute 17/056.2 (Governance Review communications): these had been reviewed by the Communications Working Party and copies had been made available as part of the 27 September meeting BoardPack.

Minute 17/057.2 (SFHA Finance Conference): A O'Regan updated the Committee on current progress.

17/065 REVIEW RISK REGISTER

S Wardlaw's report was received and the Committee, in its Trustee capacity, discussed and agreed that the following new risk should be added to the Register:

17/065.1 The Committee asked that a new risk be included to address the potential reputational impact for TPT given the haste to consider and implement the proposed new governance structure and the potential impact on service delivery.

17/066 SECRETARY'S REPORT

S Wardlaw's report was received and the Committee, in its Trustee capacity, noted the position.

17/066.1 In response to a question raised S Wardlaw confirmed that the 8 December meeting date was reserved for the first meeting of the Scheme Committee. S Wardlaw agreed to consider alternative meetings dates, if required, and to confirm these to members of the Scheme Committee.

17/066.2 In response to a question raised regarding the appointment of an interim Chair to the Employer Committee to progress business prior to its first meeting, officers agreed to consider this with the Employer Committee representatives.

17/066.3 S Inkster confirmed that an additional meeting of the Pensions Committee would be required before 30 November to consider: TPT's response to the points raised in respect of the governance changes; and the Scheme Document.

17/067 MULTI-EMPLOYER SCHEME GOVERNANCE REVIEW

S Inkster thanked M Ramsey for the opportunity to discuss the Committee's concerns during the MES Governance Review session prior to the meeting.

- 17/067.1 The Committee noted that S Wardlaw and S Inkster would collate the points raised during that session for presentation to K Parry to respond.
- 17/067.2 M Ramsey agreed to feed back to the MES Working Party and the Trustee, the concerns expressed by the Committee regarding the process, the appointment of an Independent Chair, and trustee delegations.
- 17/067.3 The following Committee members agreed to participate on the Independent Chair Appointment Panel and the Scheme Committee Selection Panel, subject to availability once the timeline was available: D McNaught, B Darroch, and C Forrest.

17/068 INVESTMENT UPDATE

P Smith presented his report and the Committee, in its Employer Representative capacity, noted the content.

- 17/068.1 Management of the Equity Investment: The Committee discussed the information presented in the Investment Session. Recognising the evolution of TPT's investment service since 2010 (when the decision to invest passively was made); the incorporation of risk management considerations in the stock selection process used by the active managers; and noting the proposal to reduce the equity exposure over the coming 12-18 months to c.14% of the fund (of which c.50% would be passively managed), the Committee agreed to revert to the use of the Global Equity Fund (GEF) as the vehicle of choice for the management of equity investments instead of the Passive GEF.

- 17/068.2 Investment Committee Report: P Smith highlighted the following:

Insurance Linked Securities: The positive fund performance since inception in 2013. Whilst the recent US catastrophes had negatively impacted on the fund, it was noted that performance should be measured over periods of say 5 years to provide a more accurate picture of longer term performance. TPT had committed a further c.£20m (funded by equities) to this investment during June.

Infrastructure: The Investment Committee had approved investment in two new global managers to complement the existing managers which invest predominantly in the Europe. The current allocation to infrastructure is expected to double as a result.

Secure Income: The Investment Committee had approved the appointment of Standard Life's fund as this was believed to be a closer fit to TPT's portfolio. This fund would replace BlackRock's Inflation-linked growth fund. The allocation to this asset class would be doubled (funded by equities).

Synthetic Equities: Implementation of the strategy commenced will be completed by October. The Scheme's current Interest Rate hedge ratio was confirmed as 100% and the Inflation hedge ratio as 90%. Whilst the latter is higher than the target, 85%, no action would be taken to reduce this.

Emerging Markets Equities: The Investment Committee had appointed M&G as the new manager and the assets will be transitioned during October 2017.

Two new managers had been approved in respect of Alternative Risk Premium and Risk Sharing portfolios. The Committee will be updated on these appointments at future meetings.

17/068.3 Investment Performance: the Committee noted the content of the report to 30 June 2017.

17/069 APPROVE SPECIFIC EXPENSES BUDGET TO 30 SEPTEMBER 2018

A O'Regan presented this report and the Committee, in its Employer Representative capacity, noted the content and the supporting appendix tabled at the meeting. The appendix recorded the costs according to Scheme or Employer Committee.

17/069.1 The Committee sought confirmation of which Committee will monitor and approve the specific expenses budget going forward.

17/069.2 The Committee noted the 3.6% RPI increase to the UCM for non-investment services effective from 1 October 2017 (which resulted in a UCM of £91.43 for 2017/18); and requested confirmation of TPT's actual observed costs over the term of the existing Service Agreement and Catalogue.

17/069.3 A O'Regan stated that going forward the Scheme will continue to have a designated Scheme Secretary however it was TPT's intention to include the specific cost in respect of the Scheme Secretary within the UCM from 2018 to be consistent with other schemes at TPT. This would leave the Specific Expenses to be the Scheme's external costs paid by TPT and the cost of any significant additional time by TPT Officers outside core services (with prior agreement from the Chair). The Committee questioned this approach but noted that the proposal would be discussed as part of the 17/18 service catalogue review.

17/069.4 In response to questions raised, A O'Regan confirmed that the budgeted Committee expenses were an indicative amount based on the anticipated higher number of meetings in the initial year and in a valuation year (being the second year of the new structure). He confirmed that the cost of the Independent Chair would be a pro-rata cost across both MES' which introduced a Scheme Committee.

17/069.5 The Committee noted that section 3.16.3 in respect of the Pensions Regulator's levy being allocated to quarter four should be deleted.

17/069.6 It was noted that the Employer Committee will be updated on the Trustee's Expense Reserve Account provision as part of the 17/18 service catalogue review.

17/070 EMPLOYER ACCOUNTING UPDATE

A O'Regan presented this report and the Committee, in its Employer Representative capacity, noted the content. He confirmed that the Housing SORP Working Party had provided a methodology which is expected to provide "sufficient information" to enable employers to account for their participation in SHAPS as a DB scheme in line with FRS102. He also noted that if sufficient information was available then this

approach would be mandatory for all employers to adopt and that TPT has requested that the Working Party issue a communication to the housing sector setting out timing expectations.

17/070.1 TPT's next stage would be to finalise the assessment of external costs (actuarial, audit and development).

17/070.2 The Committee discussed the proposal being presented by the Working Party. Committee members questioned: that the basis (estimated assets and liabilities) did not in fact comply with the accounting standard; the auditor assurance and whether this will be accepted across the industry; and the allocation of costs.

17/070.3 M Ramsey welcomed the feedback and stated that a cost/benefit proposal would be presented to the Management Board for due consideration.

17/071 FINANCIAL ASSESSMENT EXERCISE 2017

T Bhachu joined the meeting by telephone conference and presented his report. The Committee, in its Trustee capacity, noted the content.

17/071.1 T Bhachu confirmed that to date TPT has received submissions from all employers. 50% of the submission had been validated and at the date of the meeting no new higher risk employers had been identified, and no appeals received in respect of an employer risk categorisation. A final report would be presented to the Scheme Committee at its first meeting.

17/071.2 In respect of the proposed revisions to the free style questions, it was noted that greater reliance could be placed upon the SHR assessment.

T Bhachu left the meeting.

17/072 2018 VALUATION PLANNING

S Hart presented this report and the Committee, in both its Trustee and Employer Representative capacity, noted that this was an initial broad outline to the 2018 valuation. S Hart highlighted the parameters in which the Scheme Committee would consider the valuation assumption set and confirmed that agreement of the Funding Committee would be required should the Scheme Committee wish to agree less prudent assumptions.

17/072.1 S Hart provided the Committee with an estimated funding position as at 27 September 2017 and confirmed that this was marginally ahead of the current Recovery Plan target from the 2015 valuation.

17/073 REVIEW OF THE SERVICE CATALOGUE

A O'Regan presented this report and the Committee, in its Employer Representative capacity, noted the content.

17/074 TPT SENIOR MANAGEMENT UPDATE

M Ramsey provided an update on the following topics:

- The Pensions Regulator (tPR);
- Sophistication;
- Governance; and

- New Business.

17/074.1 On behalf of the Trustee Board he thanked the Pensions Committee for its commitment and contribution over the 24 years' service for SHAPS. He noted the Trustee's and TPT's appreciation to the Committee members who were retiring from 30 November 2017 and looked forward to working with the Committee members transitioning to the new governance structure. He assured the Committee that the new structure would maintain the ethos of the SHAPS Pensions Committee going forward.

17/075 SPECIFIC EXPENSES REPORT

A O'Regan presented this report and the Committee, in its Employer Representative capacity, noted the content.

17/075.1 The Committee noted that the additional Marketing and Mailing costs were as a result of the governance review mailing to members.

17/076 ADMINISTRATION REPORT

A O'Regan presented this report and the Committee, in its Employer Representative capacity, noted the content.

17/076.1 The Committee discussed the DC telephone response times and member experience and noted the focus to provide a quality service to member via dedicated resources as opposed to pooled resources.

17/077 SCHEME MANAGEMENT

S Wardlaw's report was received and the Committee, in both its Trustee and Employer Representative capacities, noted the content.

17/078 EMPLOYER SUPPORT GROUP

A O'Regan advised that no meeting had taken place prior to the Committee meeting as there had been no questions raised by employers and it was beneficial to wait for the announcement of the governance review.

17/079 KEY ITEMS TO REPORT TO THE TRUSTEE

The following items are to be drawn to the Trustee's attention:

- Governance changes feedback;
- The change to the Scheme's equity holding; and
- Employer accounting update.

17/080 AOCB

The Committee conveyed its thanks and appreciation to the Officers for their service and commitment to the Committee.