SVSPS EMPLOYER CONSULTATIVE GROUP MEETING

Minutes of a Meeting held on Tuesday, 20 September 2016
at Regus, 10-12 St Andrew Square, Edinburgh EH2 2AF

All members of the SVSPS Employer Consultative Group were invited to attend.

Present:	Tim Hencher (Chair), Gordon Edwards, Isabelle Guillot D'Hauterives, Jan James, Claire Locker, Beverly Malcolm, Charles Younger
In Attendance:	Phil Bradish, Jacki Johnston (minute taker) Paul Smith - TPT Glenn Austen – TPT, representing the Trustee
Apologies	none

Conflicts of Interest: none declared.

The officers left the meeting.

CLOSED SESSION

A closed session was held.

The officers rejoined the meeting.

2016/01 **ELECTION OF CHAIR AND DEPUTY CHAIR**

During the closed session T Hencher and G Edwards were elected Chair and Deputy Chair respectively.

2016/02: **MINUTES OF PREVIOUS MEETINGS**

The minutes were approved as a true record of the meetings held on 26 June and 12 October 2015. J Johnston was asked to remove employer names and post them on the website. **JJ**

2016/03: **MATTERS ARISING FROM THE MINUTES**

<u>2015/02 – unincorporated organisations</u> – The Group noted the list of unincorporated organisations. P Smith confirmed the list was current.

T Hencher asked whether TPT would pursue the Trustees of an unincorporated organisation for a s75 debt. G Austen stated that the Trustee was under a duty to pursue, but if the costs would outweigh the benefits, it might decide it was not proportionate to do so.

G Austen believed the Trustee would initially pursue the current trustees, but could expect to be challenged as the whole of the debt would not have arisen only during the current trustees' tenure.

T Hencher asked whether officers had contacted the employers on the list to alert them to the possible consequences of not being incorporated. P Smith would draft a communication and T Hencher would review it. **PS/TH**

2015/14 – 2014 Valuation – T Hencher asked for more engagement with employers prior to the 2017 valuation. P Smith stated that employers had engaged with the Financial Assessment process, and with the valuation appeals process. A survey had been issued to employers recently and feedback would be used to improve communications and tailor them to what employers wanted to see. In addition, the FRS102 portal would be enhanced to enable employers to access actuarial reports and the Financial Assessment process.

P Bradish outlined the Trust's efforts over the past 18 months to engage more with employers. T Hencher asked whether communications were reaching the appropriate employer contacts. P Smith stated he had been in contact with all 95 employers regarding the valuation. The Group noted the recent project to overhaul the contacts database. I Guillot D'Hauterives suggested that contact details could be checked as part of the annual exercise to update members' pensionable earnings. Officers would consider this. **PS**

2015/15.2.1 Investment – G Austen was asked to check the impact of continuing with the 50% dollar hedge instead of implementing the CIO's recommendation to reduce the hedge to 30%. **GA**

2015/18 FRS102 – T Hencher's auditor had requested a precise figure but the modeller quoted to the nearest £1,000. P Smith explained that a precise figure was quoted where the total was under £100,000. P Smith stated that exact figures can be provided on request and the option for employers to produce results in £s would be considered as part of the next upgrade of the FRS102 modeller.

2015/22.2 Mortality assumption – the Group noted that G Austen and R Bradshaw had discussed the value of obtaining and considering LGPS mortality assumptions. They had agreed not to pursue this. The Trustee had instead imposed a recovery plan that was affordable for the majority of employers and had implemented an appeals process to accommodate employers that could not afford their revised deficit payments.

The Group requested earlier engagement with the Trustee to discuss assumptions for the 2017 valuation. **GA**

2016/04: ANNUAL REVIEW OF TERMS OF REFERENCE

J Johnston introduced her paper.

4.1 The Group approved the proposed amendments to the document (namely the creation of a separate section covering expanded provisions for Elections, and a minor amendment to paragraph 7 of the section 'Meetings and Conduct of Business' relating to resignation following non-attendance at three consecutive meetings).

4.2 The Register of Conflicts appended to the Terms of Reference would be brought up to date. **JJ**

2016/05: CO-OPTIONS AND ELECTIONS

J Johnston presented her paper.

5.1 The Group renewed C Younger's co-option for a period of two years.

5.2 The Group asked J Johnston to prepare a recruitment notice for a co-option with pensions actuarial expertise; T Hencher would advertise the position on the SCVO recruitment portal. **JJ**

5.3 An election would be held in 2016 to fill the vacancy created by N Clayton's departure, and the position held by J James since G Jones's secondment to the Welsh Government. It was agreed that the election process would be handled in-house; J Johnston would draft an invitation for nominations which would be issued to principal employer contacts. T Hencher and G Edwards agreed to be available to provide an insight into the ECG to potential candidates. **JJ**

5.4 It was agreed that terms of office for T Hencher, B Malcolm and C Locker would end in 2018. J Johnston would update the election history. **JJ**

5.5 It was also agreed that in a valuation year (the 12 months leading up to the valuation end date) only existing vacancies would be contested. **JJ**

2016/06: SCHEME FUNDING

G Austen presented his papers.

6.1 <u>Summary of 2014 Valuation</u>

6.1.1 The Group noted the summary of the valuation and the affordability appeals.

6.1.2 G Austen confirmed that 13 employers whose appeals were turned down were making their deficit payments in full. The Scheme Actuary would monitor 13 employers whose appeals had been successful to ensure that they were not subsidised by the remaining employers. I Guillot D'Hauterives asked for details of these employers to be circulated to the Group. **GA**

6.1.3 C Locker asked whether TPT was moving to a position where it would be possible to identify each employer's share of assets and liabilities. She was concerned that if this was possible, she would have to show pension costs on her balance sheet. G Austen stated that while each employer's share of liabilities could be calculated, the cost of identifying even a notional share of assets would be disproportionately high.

6.1.4 T Hencher asked officers to consider what evidence the ECG could collect from the employers as a group to inform the valuation discussions with the Trustee. **GA**

6.2 Funding Update as at 30 September 2015

6.2.1 The Group noted that while the funding level had improved from 72% to 73%, the deficit amount had increased £33.933million at the valuation date to an estimated £35.608million as at 30 September 2015.

6.2.2 G Austen stated that the funding update as at 30 September 2016 was likely to reveal a reduction in the funding level and a further increase to the deficit as interest rates had been reduced and gilt yields had fallen post Brexit.

6.2.3 At T Hencher's request, G Austen explained the nature of and reasons for the Insufficiency Report for transfer value calculations mentioned in the Administrator's Report later in the agenda.

- Transfers out of the scheme to another registered pension scheme must be permitted, provided the member is not drawing their benefits.
- A transfer value, when invested in another pension arrangement, should provide a similar value of benefit at retirement as the original scheme would have provided.
- Although the actuarial basis for calculating transfer values is less conservative than the Technical Provisions (scheme valuation) basis, it is possible when a scheme is in deficit that a transfer value might represent more than the member's fair share of the assets in the scheme. In other words, a transferring member might benefit to the detriment of the members remaining in the scheme.
- When a scheme has a significant deficit, the Trustee commissions an Insufficiency Report from the Scheme Actuary. The request would usually be made as part of a valuation process, but an increase or decrease in assets could trigger a request between valuations.

- The Insufficiency Report prepared in 2012 provided for 82% of a transfer value to be paid; the 2015 report provides for 79.5% to be paid. G Austen emphasised that this is stated very clearly in quotation letters, and had put some members off transferring.

2016/07: EMPLOYER FINANCIAL ASSESSMENT PROGRAMME

7.1 The Group noted that the 2016 Financial Assessment exercise indicated there was no material change to the Scheme's 'medium tending to high risk' covenant rating.

7.2 T Hencher challenged the use of the s75 figure in the Balance Sheet KPI. G Austen responded that if an organisation were to wind up the Trustee would seek to recover the s75 debt. However, in future the emphasis would be on affordability rather than balance sheet strength.

7.3 P Smith stated that the 2017 Financial Assessment exercise would be completed before the valuation date.

7.4 Officers noted that the Office of the Scottish Charities Regulator ('OSCR') would publish accounts for the 2016 year end for entities with funds in excess of £100,000.

2016/08: INVESTMENT

G Austen presented his paper.

8.1 Investment Strategy Changes

8.1.1 The Trustee sought the ECG's blessing to proposed changes to the investment strategy.

- The Trustee proposed to reduce the allocation to equities in the growth assets portfolio from around 47% to around 25%.
- The Trustee also proposed to increase the interest rate hedge ratio from 78% of funded assets to 85% of funded assets in the liability focussed assets portfolio.
- The current benchmark allocation of 52.5% to growth assets and 47.5% to liability focussed assets would not change. The new portfolio was expected to generate broadly the same returns as the current portfolio, but with less volatility.
- The Scheme Actuary has considered the proposed changes and confirmed he would expect the revised investment strategy would have had no impact on the 2014 valuation assumptions.

8.1.2 Liability focussed assets

- The increased level of hedging was intended to protect the employers if interest rates were to fall further. G Edwards asked whether further falls were expected; G Austen stated this could not be ruled out; Germany and Sweden were currently experiencing negative yields.
- C Younger asked a number of questions:
  - What will this cost? G Austen stated it would be cost neutral.
  - Has the Trust tested a scenario where interest rates rise? G Austen responded that some of the upside gain would be given up if this were to happen.
  - Could the Trust leverage to the upside so as not to lose the upside gain?

    After-meeting note: The point of introducing the leveraged LDI funds is to protect the funding level from a fall in yields, there is no upside protection that could be applied apart from introducing derivatives, but this then defeats the objective of the downside protection.
  - If the funding level were to improve by 20%, would the Trust proceed to implement this change? G Austen believed it might, in order to lock in gains.

8.1.3 Growth assets

- The proposed change would permit further diversification which would provide more stability though very slightly reduced expected returns.
- The Group noted that the growth assets would be grouped under five headings (Equity, Credit, Skill, Illiquidity and Insurance) instead of the current eight headings within three 'buckets' (Equity, Liquid Alternative and Illiquid Alternative).
- I Guillot D'Hauterives asked for a note to explain how the chart at paragraph 4.1 (model growth portfolio) maps to the charts at 4.3 (current portfolio) and 4.4 (proposed portfolio). **GA**

8.1.4 C Younger asked what would happen to the Recovery Plan if funding were to improve. G Austen responded that the Trustee would continue to collect an affordable level of contributions, which would result in a shortened recovery period.

8.1.5 After discussion, the Group accepted the changes proposed by the Trustee.

8.2 Investment Reports

G Austen presented the reports.

8.2.1 Investment Performance Report to 30 June 2016

- The Group noted better than benchmark returns over the quarter and over five years; over 12 months, performance had matched the benchmark.
- However, the value of the scheme's liabilities had increased by more than the assets.
- The Group noted that the Trust was soon to introduce new funding software which would track movements in the SVSPS liabilities.
- The Group noted the contents of the report.

8.2.2 Investment Committee Report

- The Group noted the contents of the report.
- G Austen notified the Group of the departure of D Adkins, the Chief Investment Officer. He would be replaced by C Speed, formerly of BlackRock, later in the year.

2016/09: **SCHEME ACCOUNTS 2015**

The Group noted the contents of the Financial Statements for the year ended 30 September 2015.

2016/10: **ADMINISTRATOR'S REPORT**

The Group noted the Administrator's Report and attached appendices.

10.1 The Group requested that member names be removed from the report in future. **PS**

10.2 T Hencher informed the Group that Spence & Partners was conducting a managed transfer exercise for a group of 20 employers led by SCVO.

10.3 The Group noted that the liquidation of [redacted] had been completed; the Scheme had received 12.5 pence in the £; £24,473 of the s75 debt of £195,788 had been paid (Appendix C, Table 1 refers).

10.4 P Smith stated that totals had been omitted from Table 2. £10.6million (c72%) of the total debt of £14.7million had been settled.

10.5 [redacted] was expected to settle its s75 debt of £2.3million imminently. T Hencher expressed concern that in the event of a 'bad' valuation, s75 debts were insufficient to cover the orphan liabilities left behind and the additional costs would fall on the remaining employers. G Austen would seek the Trustee's view on whether the payment should be invested in the LDI Fund. **GA**

2016/11 ANY OTHER BUSINESS

P Smith circulated a schedule showing Pension Protection Fund levies since 2006. He confirmed that data held by Experian and used to calculate levies was in order, and employers could log on to the Experian portal to check their data is correct. P Smith is to consider how and when updates regarding the Experian web portal could be communicated to employers. G Austen added that Experian will engage with employers to advise them how to improve their ratings. P Smith agreed to circulate a note explaining the Herfindahl Index, which is the basis for the calculation of the insolvency risk score for a multi-employer scheme. **PS**

2016/12: DATE OF NEXT MEETING

The Group agreed that, while the Terms of Reference provide for two meetings in a calendar year, there was no need to meet again in 2016. J Johnston would circulate dates for the 2017 meeting programme. **JJ**

The meeting closed at 12.45

SVSPS ECG: 20.09.2016
v1 07.10.16 to P Smith/G Austen
v2 02.12.16 to T Hencher
To ECG 21.12.16