

**THE CHURCH OF SCOTLAND PENSION SCHEME FOR MINISTERS AND OVERSEAS  
MISSIONARIES  
THE CHURCH OF SCOTLAND PENSION SCHEME FOR STAFF  
THE CHURCH OF SCOTLAND PENSION SCHEME FOR MINISTRIES DEVELOPMENT  
STAFF**

**Feedback from third parties on Scheme governance and the Trustees' response to the General  
Assembly 2018 deliverance**

"It is my impression that the Trustee Boards of the three Schemes have excellent governance structures and processes in place. I have been the legal adviser to the three Schemes for 12 years and over that period I have observed the Trustees continuously strive to comply with best practice as that has evolved. The Trustees are very focussed on improving their own relevant knowledge and skills through training, both individually and as a group. They also ensure that they are following best practice by having their legal and actuarial advisers present throughout all trustee meetings.

The experience and skills which the Trustees bring to the Board are invaluable. Usually this range of experience and skills would only be available to schemes with a number of independent professional trustees. The Schemes are unusual in having a large number of "independent" trustees i.e. trustees who are not employed by the sponsoring employers, who bring those skills without being paid. In addition, by recently widening the eligibility criteria for member nominated trustees, the Trustees have ensured that these posts can continue to be filled, and by highly qualified individuals, at a time when many trustee boards struggle to find member nominated trustees at all.

The Trustees are well aware of the potential for conflicts of interest, particularly given the commonality of some of the Trustees across all three Schemes. Potential conflicts are monitored carefully and, where issues arise, managed appropriately, taking professional advice as required.

For as long as I have advised the Trustees, they have been mindful of the benefits of open dialogue with the Employing Agencies. They have sought to encourage that dialogue, for example by inviting the Employers to attend trustee meetings and to engage early in valuation discussions. Their efforts have gained traction in recent years, in particular with the instigation of the Pensions Forum, allowing for a greater understanding of the respective roles of the Trustees and Employers.

My impression is that the Trustees do work well together. Obviously different Trustees are at different stages of development in their role as pension scheme trustees. However, my observation is that processes are in place to assist the less experienced Trustees, both through training and by the support offered by the more experienced Trustees.

In summary, my impression is that the Schemes have excellent governance structures and processes in place, and that the Trustees are committed to ensuring that they maintain the high standards already set."

**Margaret Meehan, Partner, Burness Paul LLP  
18<sup>th</sup> February 2019**

“The documents are comprehensive and clear, the arguments are sound and all of the conclusions are, to my mind, justified. The Report takes account, in my view, of all the relevant factors in relation to legislation, regulations, advice from the Pensions Regulator and good practice. To be more specific the Trustee Board structure is well set out and reflects good practice. The use of an Investment Sub-Group is important (also good practice) and I note that this committee reports back to the Trustees where formal decisions are taken. The economic arguments not to appoint an independent trustee are valid; particularly when read alongside the experience and skills documented in the Trustee Profiles contained in the consolidated report. If there was ever a change in the trustee group that reduced this mix of relevant skills and experience, it would be possible to review the use of an independent.

What impressions can be drawn from the Report on the competence of Trustees or the quality of governance? The answer to this is clearly subjective, as matters such as - do the Trustees pre-read the papers; participate fully in meetings; challenge and test the advice they receive; listen to minority opinions etc..... - can't be observed from the paperwork. However, from the written material the impression is very positive. The profiles show a good balance of experience and skills (as noted above). The conflicts policy is comprehensive and is supported by the documented register of interests and declared conflicts.”

**Neil Walton, Fellow of the Institute of Actuaries; prepared in his personal capacity on a pro bono basis. Professionally Neil is Head of Investment Solutions at Schroder Investment Management and has 30 years of experience across asset management and investment consulting.**  
**20<sup>th</sup> February 2019**

“The trustees are clearly very conscious of governance and process and have done some great work on this over the years. The Pensions Regulator has made it clear through their 21st Century Trusteeship campaign that they expect all boards to be improving standards of governance and monitoring their effectiveness on an annual basis. The 21st century trusteeship initiative was one of the training sessions at last year's training day, enabling the trustees to dedicate some time to considering governance and agreeing actions. In my view allowing time outside normal trustee meetings to focus on governance is valuable.

There is an increasing tendency on trustee boards to recruit a professional trustee, with the Pensions Regulator's research showing that just over half of all boards have a professional trustee in place. The Regulator is very supportive of this direction of travel, and has been instrumental in pushing the professional trustee community to instigate a more formal system of self-regulation. Increasing regulatory attention on professional trustees will indirectly act to raise the bar for all trustees, whether lay or professional, and place increased scrutiny on pension board effectiveness. Although your board has not formally appointed a professional trustee you do have access to a wide skill set, through the various ENTs and MNTs on the board, including actuaries, investment professionals and accountants. In my experience, it is rare to have so many skilled trustees providing their time free of charge to run pension schemes. You should be well placed to deal with any scrutiny on your board effectiveness going forward.

The deliverance report notes the efficiencies that operating the three trustee boards as one group brings. I agree with this and would note that the trustees are always conscious of the potential for conflicts of interest. We have documented conflicts of interest policies and trustees and advisors are all reminded to bring to light new possible conflicts as they arise. Having your legal advisors present at trustee meetings helps to give the trustees context around different possible conflicts as they arise and are discussed, and I see this as a good use of your advisors.

As the deliverance report notes, I agree that the trustee board has a diverse mix of trustees with different areas of expertise. This promotes discussion and consideration of alternative points of view. Decisions are generally made following varied discussion and challenge, with all trustees given the opportunity to air concerns and views. The trustees have used training days to consider alternative ways of ensuring all viewpoints are heard (i.e. via surveys with the results visualised in a heatmap). This can help the trustees understand particular areas where knowledge may be lacking, or where there may be minority views. The trustees could consider utilising technology to support this on a more regular basis, as a clear way of documenting the decision making process. As new trustees are recruited the trustees will wish to continue to consider the diversity of the trustee board, perhaps with an increasing focus on cognitive diversity. This is particularly helpful to ensure that the board has people who think about issues from different perspectives.

The deliverance report is comprehensive and there is no key area that I feel the group have omitted.”

**Heather Allingham, Scheme Actuary, Hymans Robertson**  
**20<sup>th</sup> February 2019**

“In terms of governance, my view is that the Schemes are well run from an investment governance perspective, with the ISG meeting diligently every quarter and considering the impact of investment market movements and changes in outlook, on their asset portfolio. I believe the key thing that the ISG and Trustee do very successfully, more successfully than many other pension schemes many of whom have professional trustees, is to identify and manage the key financial risks, primarily interest rate risk. I believe this focus is a direct benefit of having very experienced actuaries and investment professionals on the ISG and Trustee Board, and has been to the Schemes’ huge financial benefit. Work on hedging these liability risks done by the ISG and Trustee in the 2010 – 2015 period is a significant contributor to very strong current funding position disclosed at the 2018 actuarial valuation, and I expect will have saved the Church £ tens of millions in deficit contributions.

I believe the ISG works well, with the Chairman encouraging each member to contribute, and using his extensive investment experience to focus discussion in the right areas.”

**Kenneth Ettles, Investment Principal and Actuary, Aon**  
**15<sup>th</sup> March 2019**

