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County Offices
Newland
Lincoln
LN1 1YL

5 December 2018

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 13 December 2018** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Keith Ireland
Chief Executive

Membership of the Pensions Committee (8 Members of the Council and 3 Co-Opted Members)

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), B Adams, R D Butroid, P M Key, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

Co-Opted Members

Mr A N Antcliff, Employee Representative
Mr J Grant, Small Scheduled Bodies Representative
Jeff Summers, District Councils Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 13 DECEMBER 2018

Item	Title	Pages
1	Apologies for Absence	
2	Declarations of Members' Interests	
3	Minutes of previous meetings of the Pensions Committee held on Thursday 4th October 2018	5 - 12
4	CONSIDERATION OF EXEMPT INFORMATION	
	<i>(In accordance with Section 100(A)(4) of the Local Government Act 1972, the following agenda items have not been circulated to the press and public on the grounds that they are considered to contain exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of these items of business)</i>	
5	Custodian Tender and Appointment Recommendation	13 - 18
	<i>(To receive an exempt report from Jo Ray (Pension Fund Manager), which provides a summary of the recent Custodian Tender exercise)</i>	
6	Border to Coast Presentation	19 - 20
	<i>(To receive an exempt report from Jo Ray (Pension Fund Manager), which introduces the committee to representatives from the Border to Coast Pensions Partnership)</i>	
7	Club Vita Presentation	21 - 22
	<i>(To receive an exempt report from Jo Ray (Pension Fund Manager), which introduces the committee to representatives from Club Vita, a subsidiary of Hymans Robertson)</i>	
8	Hymans Robertson Actuarial Presentation	23 - 24
	<i>(To receive an exempt report from Jo Ray (Pension Fund Manager), which provides an introduction to the committee on the Fund's Actuary, Peter Summers)</i>	

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Please Note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

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www.lincolnshire.gov.uk/committeerecords



PENSIONS COMMITTEE 4 OCTOBER 2018

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), R D Butroid, P M Key, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

Co-opted Members: Mr A Antcliffe (Employee Representative) and Councillor Jeff Summers (District Council Representative)

Roger Butterly (Chairman of the LGPS Pension Board), Peter Jones (Independent Advisor) and David Vickers (Scheme Member Representative)

Officers in attendance:-

David Forbes (County Finance Officer), Claire Machej (Accounting, Investment and Governance Manager), Pete Moore (Executive Director, Finance and Public Protection), Jo Ray (Pension Fund Manager) and Yunus Gajra (Business Development Manager, West Yorkshire Pension Fund).

24 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor B Adams and James Grant (Small Scheduled Bodies Representative).

25 DECLARATIONS OF MEMBERS' INTERESTS

Both Councillor P Key and A Antcliffe declared an interest as contributing members of the Pension Fund.

26 MINUTES OF THE LAST MEETING HELD ON 19TH JULY 2018

RESOLVED

That the minutes of the meeting held on Thursday 19th July 2018 be approved as a correct record and signed by the Chairman.

27 INDEPENDENT ADVISOR'S REPORT

The Independent Advisor provided a market commentary on the current state of global investment markets, drawing attention to the following:

- The US equity market had risen by around 10%, leading to increases by the US Federal Reserve in its short term interest rate.

- There was a sense of growing anxiety about the health of non-US equities as growth has slowed.
- The Committee were reminded of the global liquidity situation, referring to the quantitative easing. It was noted that quantitative easing still continued in the UK but had ceased in the US. The Independent Advisor anticipated that quantitative easing was coming to an end.
- Brexit was not a significant factor in influencing equity prices.
- A 'no deal Brexit' could result in a lower rate for sterling. However, it was noted that due to the large overseas influence on most FTSE 100 companies; UK Equities may be strengthened as a result.
- The European Commission was preparing legislation in the case of a 'no deal Brexit'.
- A 'no deal Brexit' could potentially affect tariffs and product standards.

In response to a question, the Independent Advisor was of the view that inflation would not rise much more than 3%. He explained that in the current internet age, products were decreasing in price rather than rising. Although wages were rising, it did not seem to be leading to an increase in prices.

RESOLVED:

That the report be noted.

28 PENSIONS ADMINISTRATION REPORT

The Business Development Manager (West Yorkshire Pension Fund) updated the committee on current administration issues within the fund.

Attention was drawn the two underperforming Key Performance Indicators (KPI)'s:

- DG Nomination Form Received – It was noted that most of the data had been received, but records had not yet been updated, meaning that data would be available if it was required. The Business Development Manager was not concerned by the KPI not being reached in this instance.
- Monthly Posting – This was due to the amount of queries received on returns from Employers. It was noted that the percentage for monthly posting had increased quite significantly.

The following points were also highlighted:

- Figures showed a reduction in the active scheme membership, which was due to backlog of forms received from payroll providers.
- Although the Overall Customer Satisfaction Score for April to June 2018 was 72.1%, there had only been one complaint received, which was regarding opting out of the scheme and more of an employer issue.
- The employer survey had suggested that forms were not straightforward to fill in. The Committee were assured that this area was being investigated to see what improvements could be made to the forms.

- 20,506 Annual Benefit Statements (99.2% of the active membership) had been produced by the statutory deadline of 31st August, which was a fantastic achievement for the fund.
- West Yorkshire Pension Fund (WYPF) had taken on 6 additional Fire clients, and in addition, the London Borough of Hounslow had joined the West Yorkshire/Lincolnshire Pension Fund shared service partnership from 1st August 2018.
- Recruitment was taking place to ensure that there would be no impact on existing clients and services as a result of the addition of new clients.
- The WYPF had won in both of their two categories at the 2018 LAPF Awards, as well as being chosen as for the LGPS Fund of the year (assets over £2.5 billion) – Administration Award.

Questions and comments from members and officers included the following:

- One member questioned why the target percentage for 'Pension Estimate' was lower than most other targets. In response, it was clarified that the target had been put in place as a temporary measure, and had been lowered following a high number of estimate requests.
- It was clarified that corrected statements were sent out to customers who had received an error on their Annual Benefit Statements.
- The Committee congratulated the Business Development Manager on the fund's success at the LAPF Awards, as well as being chosen as for the LGPS Fund of the year (assets over £2.5 billion) Administration Award.

RESOLVED

That the report be noted.

29 PENSION FUND UPDATE REPORT

The Pension Fund Manager updated the Committee on Fund Matters over the Quarter ending 30th June 2018, highlighting that the Pension Fund had increased in value by £124.6m (or 5.4%).

It was noted that fixed interest was slightly below the agreed tolerance weighting at 11.5%, compared to a lower tolerance of 12%. The Committee were referred to Appendix A of the report, which set out the Fund's distribution as at 30th June 2018.

The Committee were informed of the Fund's ten largest single company investments noting that there had been no change in the names of the companies.

The Pension Fund Manager then discussed the following:

- Local Authority Pension Fund Forum
- Treasury Management
- TPR Checklist Dashboard
- An update on Breaches Reporting

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- Risk Register Update
- Custodian Review

RESOLVED:

That the report be noted.

30 INVESTMENT MANAGEMENT REPORT

The Accounting, Governance and Investment Manager presented a report which updated the Committee on the management of the Lincolnshire Pension Fund's assets over the period from 1st April 2018 – 30th June 2018.

The Committees attention was drawn to the following matters:

- The Funding level as at 30th June 2018 was 83.5%, on a rolled forward basis.
- Over the period of 31st March 2016 to 30th June 2018, the deficit in real money had decreased from £529m to £468m.
- Over the shorter term horizon, the funding level had increased from 78.6% to 83.5%, and the deficit had reduced from £608.5m to £467m.
- The Fund had increased in value by £124m during the previous quarter.
- The Fund produced a positive return of 5.84% over the previous quarter, outperforming the benchmark by 0.48%.
- Over the 12 month period, all Managers had matched or outperformed their benchmarks.
- An update was provided on the key person change at Morgan Stanley Diversified Alternatives. The Committee were reassured that at this point in time officers and the Fund's Investment Consultant (Hymans Robertson) did not have any significant concerns about this change.

Questions and comments from members and officers included the following:

- In response to a question, it was explained that the funding level fluctuated on a quarter to quarter basis and it was suggested that the longer term figures were a more accurate reflection of overall performance.

RESOLVED:

That the report be noted.

31 PENSION FUND RISK REGISTER REVIEW REPORT

The Committee received a report from the Accounting, Investment and Governance Manager which sought to provide further information on the Pension Fund Risk Register in comparison to the eleven other partner funds within Border to Coast.

Members were referred to Appendix A of the report, which provided a copy of the Lincolnshire Pension Fund's Risk Register. The Committee were informed that the one significant risk identified by Lincolnshire had also been identified by the eleven partner funds. The moderate risks included in the Lincolnshire risk register were also identified by other funds. However, other funds had identified a small number of moderate risks which had not been explicitly captured on the Lincolnshire risk register.

It was noted that the risks identified in the Lincolnshire Pension Fund Risk Register were generally in line with the other Border to Coast partner Funds.

The Committee were informed that there were a small number of risks which did not currently form part of the Lincolnshire Pension Fund Risk Register. The Accounting, Investment and Governance manager invited the Committee to consider if there were any further risks that they wished to be incorporated into the Lincolnshire Risk Register.

Questions and comments from members and officers included the following:

- It was noted that at a medium and high risk level, there were no risks identified by partner funds that the Lincolnshire fund had not identified.
- It was agreed that a risk regarding the impact of climate change and a low carbon economy would be added to the register. Officers agreed that this would be added as part of risk 25 – Failure to meet requirements as a responsible investor – across all ESG risks.
- In response to a question, it was clarified that any risks for 'investing in companies which took part in fracking' would already be included under risk 25 – Failure to meet requirements as a responsible investor – across all ESG risks.

RESOLVED:

1. That the report and comments made be noted.
2. That risk 25 'Failure to meet requirements as a responsible investor – across all ESG risks', be amended to include the risk of climate change and the move to a low carbon economy.

32 PERFORMANCE MEASUREMENT ANNUAL REPORT

The Pension Fund Manager presented a report which set out the Pension Fund's longer term investment performance for the period ending 31st March 2018.

The Committee's attention was drawn to the longer term Fund and benchmark performance, along with the increases in consumer prices and public sector earnings.

The Pension Fund Manager discussed the following:

- The Funds' 10 years, 5 years, 3 years and 1 year returns

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- An attribution analysis of the Fund
- The PIRC Local Authority Universe

It was noted that the Pension Fund's investment performance of 6.7% over the 10 year period ended on the 31st March 2018, and was slightly behind the strategic benchmark of 7.2%. The Pension Fund Manager explained that the Fund was seeking to outperform the benchmark by 0.75% per annum over rolling 3 year periods.

RESOLVED:

That the report be noted.

33 ASSET POOLING UPDATE AND INVESTMENT STRATEGY

The Committee received a report which provided an update on activity within the Border to Coast Pensions Partnership, and considered how the Lincolnshire Pension Fund's investment strategy may be implemented in the asset pool.

The Pension Fund Manager highlighted the following:

- The Border to Coast partnership had become fully operational and now had £7bn of assets under management, following the transition of a large part of the internally managed assets of three of the partner funds.
- Daniel Booth had been appointed as the Chief Investment Officer for Border to Coast. The Committee noted that Daniel had significant experience across asset classes and markets as well as in building investment functions for asset owners.
- An update was given on the Joint Committee meeting that had taken place on 10th July 2018.
- An advisor day had been held in September for the partner fund's investment consultants and advisors to enable them to meet the senior management team.
- Border to Coast had been liaising with MHCLG regarding options for the sharing of transition costs between Partner Funds. There were two options for transition costs to be shared, either within the sub-fund ACS, or outside of the sub-fund ACS. It was noted that Border to Coast would provide analysis of potential costs and benefits of transitioning inside or outside of the ACS before any transitions were made into each sub-fund.
- The Committee were reassured that the officers were working closely with Border to Coast to ensure that the sub-fund offerings and the strategic asset allocations of the Partner Funds were aligned.
- The Investment Strategy was outlined with the expected transition pathway across to Border to Coast for each of the current mandates.

The Committee unanimously voted to approve the following recommendations:

1. To move the 5% to diversifying growth assets instead of Global Equities.

2. To commit to the transition of the current Global Equity (high conviction active) assets to the Global Equity Alpha sub-fund within Border to Coast
3. To delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chairman and Vice Chairman of the Pensions Committee, to agree the transition of Fund assets following appropriate due diligence.

Questions and comments from members and officers included the following:

- The Chairman explained that the Joint Committee was made up of all the Chairman of the partner funds, and that the group worked well together.
- In response to a question, the Pension Fund Manager explained how the costs of transition would impact the Fund differently depending upon whether the transition was completed inside or outside of the ACS.
- Officers clarified that full due diligence would be undertaken ahead of any transitions into the Border to Coast sub-funds.
- It was noted that it was expected that the first transition date for Lincolnshire Fund assets to Border to Coast would be in Q1 or Q2 2019.
- One member asked how much information had been given to scheme members regarding the move to asset pooling. It was clarified that this had been communicated in newsletters but the changes did not impact scheme members.

RESOLVED:

1. That the report and comments be noted
2. That the Committee approve the following recommendations:
 - a) As the opportunities arise, to reduce UK equities by 5% in favour of diversifying assets, to be allocated following further discussion at a future Committee meeting
 - b) To commit to the transition of the current Global Equity (high conviction active) assets to the Global Equity Alpha sub-fund within Boarder to Coast.
 - c) To delegate authority to the Executive Director of Finance and Public Protection, in consultation with the Chairman and Vice-Chairman of the Pensions Committee, to agree the transition of Fund assets following appropriate due diligence.

34 PENSION FUND EXTERNAL AUDIT REPORT

The Accounting, Investment and Governance Manager presented a report which summarised the findings from the work undertaken by the Council's External Auditors, KPMG.

It was noted that the Pension Fund Annual Report and Accounts for the year ending 31st March 2018 had been audited by the KPMG. Members were referred to Appendix A of the report for details on their findings.

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It was highlighted that three specific risks had been identified from KPMG's initial risk assessment for the 2017/18 Pension Fund Accounts:

- Faster accounts close – the statutory deadline for preparing accounts moved forward to the end of May from the end of July in previous periods;
- Agresso upgrade – a significant update was required to the agresso system during 2017/18
- Valuation of hard to price investments – these assets were inherently harder to value as they do not have publically available quotes prices and require professional judgement or assumptions to be made at year end.

Plus a further three risks arising from the requirements of the International Standards on Auditing:

- Pension fund investments fair value disclosures;
- Pension Fund auditors requests from other auditors; and
- Judgements associated with actuarial assumptions of assets and liabilities.

The Committee were pleased to note that the audit had been completed within the statutory deadline of the end of July and the Pension Fund received an unqualified audit opinion.

RESOLVED:

That the report be noted

The meeting closed at 12.30 pm

Agenda Item 5

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