

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	16 July 2015
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st March 2015 and any current issues.

Recommendation(s):

That the Committee note this report and agree the revised strategic benchmark.

Background

1 Fund Summary

1.1 Over the period covered by this report, the value of the Fund rose in value by £81.9m (4.9%) to £1,751.7m on 31st March 2015. Fund performance and individual manager returns are covered in the separate Investment Management report, item 6 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 31st March. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 1.3%

UK Equities underweight by 1.1%

Global Equities overweight by 1.4%

Underweight Alternatives by 0.8%

Underweight Property by 0.5%

Underweight Bonds by 0.5%

Overweight Cash by 0.4%

Movements in weight are due to the relative performance of the different asset classes.

- 1.3 The purchases and sales made by the Fund's portfolio managers over the period (including those transactions resulting from corporate activity such as take-overs) are summarised in Appendix B.
- 1.4 Appendix C shows the market returns over the three and twelve months to 31st March 2015.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st December, accounting for 9.4% of the Fund, which compares with 9.3% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	Company	Total Value £M	% of Fund
1	ROYAL DUTCH SHELL	22.7	1.3
2	HSBC	20.3	1.2
3	BRITISH AMERICAN TOBACCO	19.9	1.1
5	APPLE	17.4	1.0
8	RECKITT BENCKISER	14.7	0.8
6	UNILEVER	14.3	0.8
9	BP	14.0	0.8
4	NESTLE	13.8	0.8
7	DIAGEO	13.5	0.8
10	GLAXOSMITHKLINE	13.2	0.8
	TOTAL	163.8	9.4

- 1.6 Appendix D presents summarised information in respect of votes cast by the Manifest Voting Agency, in relation to the Fund's equity holdings. Over the three months covered by this report, the Fund voted at 106 company meetings and cast votes in respect of 1289 resolutions. Of these resolutions, the Fund voted 'For' 981, 'Against' 290 and abstained on 15 and withheld votes on 3.
- 1.7 A breakdown of the issues covered by these resolutions together with an analysis of how the votes were cast between 'For', 'Abstain' or 'Against' a resolution is given in Appendix D. Votes were cast in accordance with the

voting template last reviewed at the 9th January 2014 meeting of this Committee, and effective from 1st March 2014.

2 Local Authority Pension Fund Forum

2.1 The Fund participates in the Local Authority Pension Fund Forum that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.
- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.
- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.
- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.
- **Consultations** – to respond to any relevant consultations.

2.2 The latest LAPFF newsletter can be found on their website at www.lapfforum.org. Highlights during the quarter included:

- The boards of Shell and BP recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the 'Aiming for A' coalition of which LAPFF is part. The resolutions addressed 'strategic resilience to 2035 and beyond' focussing on carbon management, strategy and disclosure. For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. Both AGM's have now been held and the resolutions received 98.28% support at BP and 99.8% support at Shell.
- Société Générale announced in 2014 the separation of the roles of chairman and chief executive. LAPFF has met regularly with the company to discuss this concern since 2010. This issue was also raised at a meeting with Total, in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capital expenditure plans for marginal oil reserves.

- Subsequent to collaborative engagement in 2014, in early 2015 Wilmar revealed that it has fully mapped its supply chain, making public all its suppliers in Indonesia and Malaysia. This improved transparency should allow investors to understand better how well the company is implementing supply chain sustainability practices.
- LAPFF's participation in the Sustainable Palm Oil Manifesto was one prompt for Malaysian palm oil trader Kuala Lumpur Kepong's announcement in January 2015 that it will begin to use the industry-standard definition of high carbon stock (HCS) forests developed by The Forest Trust, Golden Agri-Resources and Greenpeace. Another Manifesto member, IOI, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.
- A meeting with the Forum's third largest European holding, Novartis, explored board independence and executive remuneration in the context of new Swiss governance regulation.

2.3 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3 Treasury Management

3.1 At the April 2010 meeting, the Pensions Committee agreed a Service Level Agreement with the Treasury team within Lincolnshire County Council, for the continued provision of cash management services to the Pension Fund.

3.2 The Treasury Manager has produced the quarterly report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £8.8m. The invested cash has outperformed the benchmark from 1st April 2014 by 0.25%, annualised, as shown in the table below, and earned interest of £58k.

3.3 A new weighted benchmark (combining both 7 day and 3 month LIBID) has been adopted by the Council, replacing the 7 Day LIBID benchmark. This new benchmark is more reflective of the investment portfolio maturity profile.

Pension Fund Pooled Balance – Year to end March 2015				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised	Cumulative Weighted Benchmark Annualised	Performance
		%	%	%
8,846.5	58.0	0.66	0.41	0.25

4 Pensions Administration

- 4.1 The contract with Mouchel to provide Pensions Administration services to the Fund ended on 31st March 2015. Committee members were notified in May that West Yorkshire Pension Fund (WYPF) was the preferred provider for pensions administration services from 1st April 2015. WYPF will be presenting the Pensions Administration paper at item 7 on this agenda.
- 4.2 Internal Audit has completed their audit of the transition to WYPF and have returned an opinion of "Effective". The executive summary in the report states:

The transfer of Pensions Administration to West Yorkshire Pension Fund was effectively monitored and managed by the collaboration and project boards. There were regular meetings to review the associated risks and progress actions and issues throughout the project. We also noted periodic updates to the Council's Pensions Committee.

We can confirm from the reconciliation of control totals that the expected number of records extracted from Altair balanced correctly to those uploaded to the new Civica system. We also verified that the scanned and imaged documents were correctly transferred to the relevant pension records and that pensioner payroll standing data is complete.

Our testing of data transferred from the Altair system to records held on Civica identified some information on Altair that was not present in the new Civica system – we have received assurance from the new provider that this issue is not significant and will not have any detrimental effect when calculating member benefits. The Pensions and Treasury Manager agrees the explanations provided by WYPF on this issue are valid.

The results of WYPF's own testing together with our sample tests, provides reasonable assurance over the data transfer and confidence in the continued accuracy of the Council's pension records.

- 4.3 As previously brought to the attention of the Committee, a small number of over and under payments to pensioners have been identified as part of the reconciliation and data cleansing work carried out. Underpayments were corrected in March and resolutions on the recovery of most of the overpayments have been agreed. We are working with Legal Services to resolve the small number of cases that are still outstanding.

5 Risk Register Update

- 5.1 The annual review of the risk register is at agenda item 12 of this meeting, therefore there is no quarterly update.

6 Asset Allocation

- 6.1 It was previously agreed that a further meeting of the working group would be held following the response to the DCLG's 'Call for Evidence' consultation, and a paper would be brought to the Committee detailing the research that Hymans have completed and providing any recommendations on changes within the Fund's active global equity allocation.
- 6.2 As yet we are still awaiting the Government's response and will continue to update the Committee with any further information that becomes available.

7 Local Pension Board

- 7.1 The Lincolnshire Pension Board was established by the statutory deadline of 1st April 2015. Following a request for nominations from both scheme member and employer representatives, the members of the Board have now been appointed. A paper was taken to the Group Leaders meeting in June to finalise the appointments.
- 7.2 The makeup of the LGPS Pension Board is:

Independent Chair

Roger Buttery - Roger has vast experience of pension scheme trusteeship, governance, benefits administration, investments and pension scheme accounting in both the public and private sectors, and currently serves on a number of private sector Pension Boards. He has also served on a number of audit committees that have reviewed governance issues.

Employer Representatives

Councillor Marc Jones – as the LCC representative.

Kirsty McGauley (Grantham College) – Kirsty works as the Payroll and HR Administrator at the College, and is active at the Fund's employer meetings. More than half of the Fund's employers are from the Education sector.

Scheme Member Representatives

Ian Crowther – union representative. The unions have requested that Faye Houlby be his deputy should he be unavailable.

Dave Vickers – Dave was the Pensions Administration Manager for the Lincolnshire Fund for 20 years, retiring last May, therefore has a wide experience of pensions administration, benefits and governance. He has been a Trustee for 16 years for 5 company pension schemes.

7.3 A training day for the new Board has been organised on 20th July, and the first Board meeting will be held on 30th July, in County Offices.

8 Strategic Benchmark

8.1 A question was raised at the April Committee requesting a review of the Fund's objective to meet the strategic benchmark by 1% per annum, over the long term. This was particularly relevant given the change in asset allocation over the last few years.

8.2 The Fund's consultant, Hymans Robertson, and officers have given consideration to the objective and propose reducing the target to 0.75% outperformance.

8.3 The reasoning behind this reduction is that over 25% of the Fund is invested in mandates with absolute return target – used as a benchmark by JP Morgan for performance measurement purposes - and therefore no separate 'outperformance' expected. One example of this is the Libor +4% target that Morgan Stanley has on the Alternatives mandate.

8.4 The outperformance of the remaining managers should meet the 0.75%, if they all met their mandated targets.

8.5 The Committee is asked to approve the amendment to the objective of the Fund to outperform the strategic benchmark by 0.75%, over the long term.

Conclusion

9.1 This reporting period saw the value of the Fund grow, increasing by £81.9m to close at £1,751.7m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight equities and cash;
- underweight alternatives, fixed interest and property.

9.2 The pensions administration service transferred to WYPF from 1st April 2015, and a successful audit report was received covering the transition.

9.3 The asset allocation working group have put their work on hold until the outcome of the DCLG's 'Call for Evidence' consultation is known.

9.4 The Lincolnshire Pension Board has been fully appointed and will hold its first meeting at the end of July.

- 9.5. The recommendation is made to amend the outperformance objective of the Fund from 1% to 0.75% above the strategic benchmark.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Purchases and Sales of Investments
Appendix C	Changes in Market Indices
Appendix D	Equity Voting Activity

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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