

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

Report to:	<b>Pensions Committee</b>
Date:	<b>08 October 2015</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

This report updates the Committee on Fund matters over the quarter ending 30th June 2015 and any current issues.

**Recommendation(s):**

- 1) That the Committee note this report.
- 2) That the Committee decide whether they wish to provide a meeting for scheme members.

**Background**

**1 Fund Summary**

1.1 Over the period covered by this report, the value of the Fund fell in value by £37.7m (2.2%) to £1,714m on 30<sup>th</sup> June 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 30<sup>th</sup> June. 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 0.4%

UK Equities at weight

Global Equities overweight by 0.4%

Underweight Alternatives by 0.2%

Property at weight

Underweight Bonds by 0.5%

Overweight Cash by 0.3%

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 30<sup>th</sup> June 2015.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30<sup>th</sup> June, accounting for 9.1% of the Fund, which compares with 9.4% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

	<b>Company</b>	<b>Total Value £M</b>	<b>% of Fund</b>
1	ROYAL DUTCH SHELL	19.9	1.2
2	HSBC	19.9	1.2
3	BRITISH AMERICAN TOBACCO	19.0	1.1
4	APPLE	17.7	1.0
5	RECKITT BENCKISER	13.8	0.8
6	UNILEVER	13.6	0.8
7	BP	13.4	0.8
8	DIAGEO	13.0	0.8
9	VODAFONE	12.6	0.7
10	NESTLE	12.3	0.7
	<b>TOTAL</b>	<b>155.3</b>	<b>9.1</b>

- 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 523 company events and cast votes in respect of 8,314 resolutions. Of these resolutions, the Fund voted 'For' 6,064, 'Against' 2,042 and abstained on 42 and withheld votes on 166.
- 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 9<sup>th</sup> January 2014 meeting of this Committee, and effective from 1<sup>st</sup> 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](http://www.lapfforum.org). Highlights during the quarter included:

- Shareholder resolutions on strategic resilience to the BP and Shell AGMs achieved unprecedented levels of support, with votes in favour of over 98% at BP and nearly 99% at Shell. The success of these resolutions reflects the positive nature of the collaborative 'Aiming for A' group but also LAPFF's own long-term engagement with the companies culminating in twelve funds co-filing and 31 funds pre-declaring support for the resolutions. The resolutions included a request for an assessment of the companies' asset portfolio resilience against the range of IEA scenarios, which includes remaining within 2°C limits, and the role exploration, disposals and cash distributions to investors will play in the nearer term.
- A voting alert was issued for a similar resolution to the Statoil AGM, which received a correspondingly high level of support. LAPFF continued to highlight these issues with a related voting alert on cash distributions to investors for the Chevron AGM, on demand management strategy at Anadarko and supporting carbon emission targets at ExxonMobil.

- A meeting with the chairman of Barclays followed LAPFF's publicly expressed dissatisfaction with Sir John Sunderland presiding over a full year as remuneration committee chairman. The LAPFF chair also raised concerns with the accounts due to the accounting standards being applied.
- A number of LAPFF funds co-filed a shareholder resolution to the National Express AGM, requesting an independent assessment of labour relations at the Company's US subsidiary, Durham School Services. Cllr Greening of the LAPFF executive spoke to the motion and almost a quarter of independent shareholders failed to back National Express over labour rights at the AGM, the highest level of support for a shareholder resolution on employee rights.
- LAPFF representatives attended and proposed motions or addressed the board at eight AGMs during the quarter. These included Rio Tinto, where Cllr Greening raised tax transparency and carbon management; British American Tobacco, where health objectives linked to executive incentives were raised; Carillion and Balfour Beatty, where blacklisting and labour supply chain issues were raised and Next on supply chain standards in Bangladesh.
- In late May, Tesco announced provisions to claw back bonuses from its CEO and Finance Director. This move came after senior executives, who were in place during Tesco's accounting scandal, left the Company with high payouts. LAPFF had written a letter to Tesco in February concerning a lack of malus provisions in executive remuneration contracts and was pleased with the claw back developments.

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 £6.1m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2014 by 0.28%, annualised, as shown in the table below, and earned interest of £11.8k.

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

<b>Pension Fund Balance – Year to end June 2015</b>				
<b>Pension Fund Average Balance £'000</b>	<b>Interest Earned £'000</b>	<b>Cumulative Average Yield Annualised</b>	<b>Cumulative Weighted Benchmark Annualised</b>	<b>Performance</b>
		<b>%</b>	<b>%</b>	<b>%</b>
6,092.5	11.8	0.67	0.39	0.28

#### **4 Pensions Administration – Annual member meeting**

- 4.1 WYPF hold an annual member meeting to update members on Fund related issues and take questions from scheme members. At the July meeting of this Committee the question was asked as to whether this would be something that Lincolnshire would wish offer. Officers were asked to provide costs of hosting such an event.
- 4.2 Estimated costs for holding a 1 ½ hr session, with refreshments, followed by a buffet lunch, for 200 attendees, are around £1,600. Without lunch, the cost would be approximately £500.
- 4.3 The Committee is asked to consider whether they wish to progress this.

#### **5 Risk Register Update**

- 5.1 The risk register is a live document an updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved. Over the quarter the following changes have been made:

##### **Deletions**

**Risk 17 and 18** – New Scheme communication and implementation - these have been removed as the scheme has been in place for over a year now

**Risk 21** - Pensions administration contract end – this has been removed as the transition is complete

**Risk 22** - Pensions administration service provider transition – this has been removed as the transition is complete

##### **Additions**

**Risk 24** – LGPS Pooling – The current situation (which is explained in section 6) is leading to uncertainty over the future structure for the LGPS,

and what decisions will lie with the Pension Committee going forwards. The controls in place are currently to participate in the national working group to submit options to the Government, to keep updated with current Government thinking and to keep the Committee informed.

**Risk 25 – Employer Breaches** – since 1<sup>st</sup> April 2015, we are required to report material breaches to the Pensions Regulator (TPR). This includes where employers do not fulfil their duties correctly or in a timely manner. The controls in place are ensuring employers are aware of their responsibilities through the Administration Strategy and employer training. The current situation with Serco is causing breaches of the requirements laid down by TPR. This is being managed by discussion with LCC and TPR.

- 5.2 The full risk register is available from officers should any member of the Committee wish to see it.

## **6 LGPS Pooling**

- 6.1 Officers updated the Committee in July with news from the Summer Budget that the Government had announced that Local Authorities should put forward proposals to "pool investments to significantly reduce costs, while maintaining overall investment performance". Since this, Government has been having informal dialogue with Local Authorities, Fund Managers and other interested parties to share and inform its thinking.
- 6.2 Hymans Robertson have prepared a briefing note (attached at appendix E) to update on the current thinking. The Fund's consultant, Paul Potter, will brief the Committee with what this may mean.
- 6.3 Lincolnshire has joined a joint working group, facilitated by Hymans Robertson, to explore proposals and to put a limited number of options to Government early in the new year, as to how pooling could work. There are a number for Funds working on this project, covering all sections of the LGPS. In addition, there are a number of other collaborations being explored across the country.
- 6.4 The timescale for this is very challenging, with the Government wanting to include savings from the pooling in the next budget, and to implement the final outcome within this Parliament.

## **7 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. Given the move to asset pooling, it is suggested that the Fund continues to put any changes on hold until there is greater clarity on the asset pooling question.

## **7 Local Pension Board**

7.1 The Lincolnshire Pension Board had its inaugural meeting on 30<sup>th</sup> July 2015. At this meeting the Terms of Reference were agreed, and also a Conflicts of Interest Policy, Knowledge and Training Policy and Reporting Breaches Policy. All information and documents relating to the Pension Board are published on the shared pensions website at [www.wypf.org.uk](http://www.wypf.org.uk).

7.2 The next meeting of the Pension Board is Wednesday 7<sup>th</sup> October, and will be cover the requirements of the Pensions Regulator, and compare how Lincolnshire complies with them.

7.3 The Pension Board have been invited to attend the Pensions Committee training on Thursday 1<sup>st</sup> October.

7.4 At the July Pensions Committee meeting, a question was raised about whether there was a conflict of interest in the Pensions & Treasury Manager being the lead officer for the Board, as well as for the Committee. This question was raised with the Fund's consultant, Hymans Robertson, who agreed that there was no conflict, and that this was standard practice across all Funds for the same officer to advise both the Committee and Board. The Pensions Committee training on Thursday 1<sup>st</sup> October will provide an update and introduction to the Pension Board.

## **Conclusion**

8.1 This reporting period saw the value of the Fund fall, decreasing by £37.7m to close at £1,714m. At the end of the period the asset allocation, compared to the strategic allocation, was;

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

8.2 The Government are looking to move the LGPS into large asset pools and asking for proposals from Funds as to how this might work. Lincolnshire is involved in the joint working group to provide workable options for the Government to consider.

8.3 It is suggested that any asset allocation changes are put on hold until there is clarity around the LGPS pooling proposals.

8.4 The Lincolnshire Pension Board held its first meeting at the end of July.

- 8.5. The Committee are asked to consider whether they wish to provide an annual meeting for scheme members.

## **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
Appendix E	Hymans Robertson Briefing Note on LGPS Pooling

## **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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