

Regulatory and Other Committee

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

Report to:	<b>Pensions Committee</b>
Date:	<b>07 January 2016</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

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

**Recommendation(s):**

That the Committee note this report.

## Background

### 1 Fund Summary

1.1 Over the period covered by this report, the value of the Fund fell in value by £56.7m (3.3%) to £1,657.2m on 30<sup>th</sup> September 2015. Fund performance and individual manager returns are covered in the separate Investment Management report, item 7 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 30<sup>th</sup> September. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Underweight Equities by 0.1%

UK Equities underweight by 0.3%

Global Equities at weight

Underweight Alternatives by 0.1%

Overweight Property by 0.1%

Neutral Bonds

Overweight Cash by 0.1%

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> September 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> September, accounting for 9.0% of the Fund, compared to 9.1% 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	BRITISH AMERICAN TOBACCO	19.6	1.2
2	ROYAL DUTCH SHELL	18.9	1.1
3	HSBC	17.9	1.1
4	APPLE	16.6	1.0
5	RECKITT BENCKISER	14.9	0.9
6	UNILEVER	13.3	0.8
8	NESTLE	12.5	0.8
7	MICROSOFT	11.9	0.7
9	VODAFONE	11.4	0.7
10	IMPERIAL TOBACCO	11.2	0.7
	<b>TOTAL</b>	<b>148.2</b>	<b>9.0</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 96 company events and cast votes in respect of 1,463 resolutions. Of these resolutions, the Fund voted 'For' 1138, 'Against' 307 and abstained on 11 and withheld votes on 7.
- 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). Engagement highlights during the quarter included:

- Held meetings with **Barclays, RBS and HSBC** to discuss the implications of Mr Bompas QC's second legal opinion on the interpretation of 'true and fair value' in accounts. This opinion received widespread media attention, including from the Financial Times.
- Attended the **National Grid** Annual General Meeting (AGM) to ask how the Company's climate strategy affects its overall strategy and whether it will disclose its Scope 3 emissions. The Company has confirmed that it is likely to do so next year.
- Posed questions at the AGMs of **BT, Vodafone and SSE** on topics including: remuneration; gender diversity; carbon emission reductions; and board and auditor independence.
- Participated in an **Equality and Human Rights Commission Inquiry** roundtable on the recruitment and appointment of board directors, including the appointment of women.
- Co-signed a letter to support the **Business Supply Chain Transparency on Trafficking and Slavery Act of 2015** being proposed at a federal level in the United States.

- Submitted a **consultation response to the Hong Kong Stock Exchange**, and advocated for mandatory reporting on carbon emissions.

2.3 Councillor Jackson and the Pension Fund Manager attended the LAPFF Annual Conference in Bournemouth in early December. This was the 20<sup>th</sup> Annual Conference for LAPFF and it also celebrated its 25<sup>th</sup> birthday as an organisation. Topics covered included:

- A look back at the last 25 years;
- Investor engagement;
- Carbon asset management;
- IFRS9 (an accounting standard); and
- LGPS developments.

2.4 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 £6.7m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2015 by 0.27%, annualised, as shown in the table below, and earned interest of £23.7k.

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 September 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>
6,725.8	23.7	0.70	0.43	0.27

## 4 Pension Board

4.1 The Pension Board held a meeting on 2<sup>nd</sup> December to focus on the Pensions Administration service provided by WYPF. Representatives from WYPF presented to the Board and covered a range of topics about their service.

## 5 Risk Register Update

5.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved. Over the quarter there have been no changes made.

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

## Conclusion

6.1 This reporting period saw the value of the Fund fall, decreasing by £56.7m to £1,657.2m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight property and cash; and
- underweight equities and alternatives .

## 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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