

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	07 April 2016
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st December 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 increased in value by £75.4m (4.5%) to £1,732.6m on 31st December 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 31st December. 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 1.1%

UK Equities underweight by 0.5%

Global Equities overweight by 1.7%

Underweight Alternatives by 0.7%

Underweight Property by 0.1%

Underweight Bonds by 0.6%

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 31st December 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 9.0% of the Fund, the same as 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	BRITISH AMERICAN TOBACCO	19.4	1.1
2	HSBC	19.3	1.1
3	ROYAL DUTCH SHELL	18.6	1.1
4	MICROSOFT	16.4	0.9
5	APPLE	15.9	0.9
6	RECKITT BENCKISER	15.8	0.9
8	UNILEVER	13.7	0.8
7	ALPHABET	13.1	0.8
9	VODAFONE	12.2	0.7
10	GLAXOSMITHKLINE	12.1	0.7
	TOTAL	156.6	9.0

- 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 80 company events and cast votes in respect of 682 resolutions. Of these resolutions, the Fund voted 'For' 549, 'Against' 123 and abstained on 4 and withheld votes on 6.
- 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. Some of the engagement highlights during the quarter included:

- Attended the BP SRI day, to hear about the positive impact that the strategic resilience resolution co-filed by LAPFF funds had had.
- Participated in two investor meetings with Shell about the impact of the strategic resilience resolution, the oil price, communicating climate change science and the proposed BG acquisition.
- Met with the CEO of SSE plc to understand the company's succession planning process and adoption of progressive tax and living wage policies.
- Met with Toyota to discuss issues ranging from the recent VW scandal and product recalls, to renewable energy and board diversity.
- Attended the Sky plc AGM in November, in order to ask the board about the concentration of 21st Century Fox representatives on the Sky board.
- Written to Sports Direct to follow upon concerns about the company's use of zero hour contracts.

- 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 £6.5m. The invested cash has outperformed the benchmark from 1st April 2015 by 0.28%, annualised, as shown in the table below, and earned interest of £42.7k.
- 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.

Pension Fund Balance – Year to end December 2015				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised	Cumulative Weighted Benchmark Annualised	Performance
		%	%	%
6,481.7	42.7	0.71	0.44	0.28

4 TPR Checklist Dashboard

- 4.1 The Pension Regulator's checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at appendix E.
- 4.2 Changes made since the January Committee are:
- H1 – Annual Benefit Statements to actives in required timescales – moved from yellow to green – 97% sent out by 30th November.
- H3 – Benefit statement sent to all members who have requested one – moved from yellow to green.
- I5 – IDRPs – acknowledgement of application sent – moved from yellow to green.

18 – IDRP – effectiveness of arrangements – moved from red to green – arrangements reviewed.

19 – IDRP – effectiveness of employers' arrangements – moved from red to green – arrangements monitored.

K12 – SAB Guidance – Pension Board aware of LCC's FOI policy – moved from yellow to green – policy circulated to Board members.

4.3 The only remaining red area is on G8 - Maintaining Contributions, where the process for monitoring contributions is still being developed. This will be fully in place for 1st April 2016.

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 the following risks have been added:

Risk 26	Consequences	Controls	Risk Score	
			L	I
Workloads and resources - additional work of asset pooling and a gresso issues, along with team changes, means resources will be very stretched for the coming months	Accounts not closed in time or correctly Assets not managed/monitored Contributions not monitored Valuation work not completed	Monthly meetings with County Finance Officer to raise issues Concerns reported to Pensions Committee and Pension Board	2	3

Risk 27	Consequences	Controls	Risk Score	
			L	I
Ongoing monthly data issues with LCC	Valuation data not submitted on time or accurately Statutory deadlines missed Contribution rates provided late to employers Incorrect contribution rate for LCC calculated	Monthly meetings with County Finance Officer to raise issues Concerns reported to Pensions Committee and Pension Board Concerns raised direct to employer	3	3

Risk 24 has been amended from red to blue, as progress has been made on the pooling proposal:

Risk 24	Consequences	Controls	Risk Score	
			L	I
Government consultation on asset pooling	Uncertainty and inability to make investment decisions	Pool decision made Cross pool working group Communicate to Committee regularly Chair and S151 meetings	2	3

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 rise, increasing by £75.3m to £1,732.6m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight equities and cash; and
- underweight property, fixed interest 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
Appendix E	TPR Checklist Dashboard

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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