

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	14 July 2016
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st March 2016 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 £17.7m (1%) to £1,750.2m on 31st March 2016. 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 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 0.9%

UK Equities underweight by 0.8%

Global Equities overweight by 1.7%

Underweight Alternatives by 0.7%

Neutral Property

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 31st March 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st March, accounting for 9.6% of the Fund, compared to 9.0% 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	25.1	1.4
2	BRITISH AMERICAN TOBACCO	20.9	1.2
3	RECKITT BENCKISER	17.4	1.0
4	MICROSOFT	17.2	1.0
5	APPLE	16.9	1.0
6	HSBC	16.2	0.9
7	UNILEVER	15.4	0.9
8	ALPHABET	14.0	0.8
9	GLAXOSMITHKLINE	12.6	0.7
10	VODAFONE	11.8	0.7
	TOTAL	167.5	9.6

- 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 1329 resolutions. Of these resolutions, the Fund voted 'For' 965, 'Against' 337 and abstained on 19 and withheld votes on 8.
- 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:

- Engagement continued with BP to assess how the company is responding to the resolution requests from last year, with a meeting with a number of BP's senior management at the end of February, with colleagues from the Aiming for A coalition.
- Engagement with BHP representatives about the Company's community engagement efforts, particularly at the Cerrejon mine in Colombia, and its responses to the Samarco disaster in Brazil.
- Meetings with Kier Group to discuss the company's remuneration practices.
- Engaging with the FTSE 100 companies on tax through the Forum's Corporate Tax Transparency Initiative (CTTI) questionnaire.
- Attendance at a Nestlé investor roundtable event, where one of the new executive members was successful in getting the Nestlé Chairman to agree to review the Company's reporting on labour rights in the supply

chain, so that the Company is compliant with the reporting requirements in the new Modern Slavery Act.

- LAPFF finalized its policies on human capital which should help to guide engagements relating to people and investment value.
- Co-filing three strategic resilience resolutions for the 2016 AGMs of Glencore, Anglo American, and Rio Tinto.

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 outturn report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £7m. 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 £52k.

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 – 2015/16 Outturn				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
6,981.6	52	0.73	0.45	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 April Committee are:

G8 - Maintaining Contributions - the process for monitoring contributions is now fully in place, this has moved from yellow to green for being completed, and red to yellow for being compliant.

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. The annual review of the risk register is agenda item 12.

6 LGPS Asset Pooling

- 6.1 The deadline for the final submission to DCLG for the asset pooling proposals is 15th July. By the date of this Committee the Border to Coast Pension Partnership (BCPP) submission will have been approved by all 13 Funds in the partnership (either by the Pensions Committees or through delegation by the Executive Directors). Officers circulated the final submission to members of this Committee on 11th July.
- 6.2 The expectation (pre EU Referendum result) was that formal approval by Ministers to progress the creation of BCPP would be received in September and the timetable to meet the April 2018 deadline depends upon this. Officers will continue working on the detail behind BCPP over the next few months, and will not be waiting until formal approval is received. Given the positive feedback from Government so far, it is expected that approval will be given. Conversations will continue with DCLG and HMT over the summer months to ensure that there are no further areas that need to be addressed or clarified in the submission.
- 6.3 The next meeting of the Member Steering Group is set for 30th September, and will be a strategy planning day.
- 6.4 However, following the "Leave" outcome of the EU referendum, there is greater uncertainty as to whether asset pooling will still be a priority for Government.

7 Member Training – LGA Fundamentals

- 7.1 The training dates for the three day Fundamentals training have now been released. This is an A-Z bespoke Local Government Pension Scheme training course, aimed at elected members serving on pension committees/panels, and has been attended by over 1300 delegates since 2002. It is recommended that all Committee members undertake this training during their time on the Committee. Details of the programme were included as an attachment to the May monthly update letter, emailed to the Committee on 23rd June.

7.2 Fundamentals XV 2016 will be delivered at three locations as follows:

London	Day 1	6 October
	Day 2	1 November
	Day 3	29 November

Leeds	Day 1	18 October
	Day 2	9 November
	Day 3	6 December

Cardiff	Day 1	25 October
	Day 2	15 November
	Day 3	14 December

7.3 If you would like to attend any of the dates, please contact Jon Haw (jonathan.haw@lincolnshire.gov.uk or 01522 553627) and he will book your place.

Conclusion

8 This reporting period saw the value of the Fund rise, increasing by £17.7m to £1,750.2m. 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 .

9 The deadline for the Governments asset pooling submissions is 15th July. Lincolnshire has approved the BCPP submission, and await the Governments formal response.

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.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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