

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	05 January 2017
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th September 2016 and any current issues.

Recommendation(s):

That the Committee note the report.

Background

1 Fund Summary

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £106m (5.8%) to £1,943.1m on 30th September 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 30th September. All asset classes are within the agreed tolerances. One portfolio, Blackrock Interim, exceeded their tolerance level of +/- 1% by -0.5%, to account for 5.7% of the Fund. This was not rebalanced as wider rebalancing was planned in the following quarter. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3.2%

UK Equities underweight by 0.7%

Global Equities overweight by 3.9%

Underweight Alternatives by 1.3%

Underweight Property by 1.1%

Underweight Bonds by 0.7%

Underweight 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 30th September 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th September, accounting for 10.2% of the Fund, compared to 10.3% 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	HSBC	32.2	1.7
2	ROYAL DUTCH SHELL	28.9	1.5
3	UNILEVER	22.3	1.1
4	RECKITT BENCKISER	22.1	1.1
5	MICROSOFT	19.5	1.0
6	BRITISH AMERICAN TOBACCO	17.5	0.9
7	BP	14.5	0.8
8	GLAXOSMITHKLINE	14.4	0.7
9	NESTLE	13.2	0.7
10	APPLE	13.0	0.7
	TOTAL	197.6	10.2

- 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 115 company events and cast votes in respect of 1,503 resolutions. Of these resolutions, the Fund voted 'For' 1,168, 'Against' 325, abstained on 1 and withheld votes on 9.
- 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:

- LAPFF was one of a number of shareholders and shareholder groups supporting a UNITE-backed resolution at the Sports Direct AGM that called for an independent review of the Company's human capital management strategy. The AGM received a lot of media coverage, and LAPFF's Executive Committee member, Jane Firth, spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live.
- In July, LAPFF and Carbon Tracker Initiative launched the report 'Engaging for a Low Carbon Transition' which sets out how a 2°C business model can be less risky than 'business-as-usual' for oil and gas companies.
- LAPFF continued with its engagement to promote women on boards, having meetings with Weir Group, Tullow Oil and Telecom Plus.
- LAPFF attended eight AGMs this quarter – Sainsbury, BT, British Land, SSE, Vodafone, National Grid, Vedanta and Sports Direct. At least four of these, Sainsbury, BT, SSE and Vedanta, have led to further engagements with the companies.

- LAPFF co-signed a letter with other investors to Alphabet, parent company to Google, requesting further disclosure about its tax practices. Google has faced a number of legal challenges to the amount of tax it pays in various countries.
- In the run-up to binding votes on remuneration policy at most companies' 2017 AGMs, LAPFF has maintained a focus on executive pay policies and how companies apply them in practice.
- Collaborative engagement with oil & gas, integrated mining and utility companies has continued through the 'Aiming for A' investor group with LAPFF separately also meeting with BP and Anglo American in the last quarter.

2.3 The LAPFF Annual Conference was held in Bournemouth in December. The Pension Fund Manager and Cllr Ray Phillips attended. The theme of the conference was Protecting Portfolio Value and subjects covered in the agenda included:

- Infrastructure investment;
- Impact Investment;
- Share buy backs;
- Mergers and acquisitions;
- Human capital investment;
- LGPS pooling; and
- Directors' pay

2.5 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 £12.4m. The invested cash has outperformed the benchmark from 1st April 2016 by 0.33%, annualised, as shown in the table below, and earned interest of £41.2k.

3.3 The Pension Fund Average Balance to 30th September 2016 has been inflated due to an eight day period in early September where the Pension Fund bank balance was £115m, due to a realignment of the asset allocation following the termination of the BMO.

- 3.4 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 – Q1 to 30th September 2016				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised	Cumulative Weighted Benchmark Annualised	Performance
		%	%	%
12,382.5	41.2	0.70	0.37	0.33

4 TPR Checklist Dashboard

- 4.1 The Pension Regulator's (TPR's) checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at Appendix E.
- 4.2 Areas that are not fully completed and compliant are:

B10 – Knowledge and Understanding – Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?
Amber - Training is a standing item on the agenda. The Board are completing self-assessments ahead of the March 17 meeting.

B12 – Knowledge and Understanding - Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?
Amber – It is the intention that all PB and PC members carry this out, and provide copies of the completion certificate to the Pension Fund Manager, however completion certificates have not been received for all members.

F1 – Maintaining Accurate Member Data - Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?
Amber - Scheme member records are maintained by WYPF. Therefore much of the information here and in later questions relates to the records they hold on LCC's behalf. However, as the scheme manager, LCC is required to be satisfied the regulations are being adhered to. Data accuracy is checked as part of the valuation process and the annual benefits statement process. Monthly data submission will improve data accuracy going forwards, however there are a number of historical data issues that are in the process of being identified and rectified.

F5 - Maintaining Accurate Member Data - Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?

Grey – not relevant as we do not expect there to be decisions outside of the PB. This will be monitored.

H1 – Maintaining Contributions - Has an annual benefit statement been provided to all active members within the required timescales?

Amber on compliance - 87.6% of Statements as at the deadline of 31st August 2016 were issued. This compares to 38% across all members at this time last year. Total across all members this year is over 90%.

H3 - Maintaining Contributions - Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?

Amber - 96.9% of Statements as at the deadline of 31st August 2016 were issued. This compares to 38% across all members at this time last year. Total across all members this year is over 90%.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H7 - Maintaining Contributions - Is basic scheme information provided to all new and prospective members within the required timescales?

*Amber - New starter information is issued by WYPF, **when they have been notified by employers**. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the website. However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. The monthly data returns are improving this process.*

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Annual self-assessment not yet carried out and no personal training plans in place.

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.

5.2 Over the quarter there has been one removal from the register, shown below, as approval has now been received.

Risk 24 removed.

Risk 24	Consequences	Controls	Risk Score	
			L	I
Government consultation on asset pooling - approval to proceed with BCPP proposition.	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	3	2

5.3 One additional risk has been added at risk 29.

Risk 29	Consequences	Controls	Risk Score	
			L	I
Asset pooling - creation of BCPP within Government's timetable.	Potential intervention by Secretary of State if April 18 deadline not met	Resource dedicated to BCPP work when required Ensuring understanding of Members to get full Council approval in February Regular communications with Govt to reassure progress is being made	3	2

5.4 The only red risk is risk 28 which was added in June, as a result of the Brexit vote. Given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate.

Risk 28	Consequences	Controls	Risk Score	
			L	I
UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	4	3

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

6 Lincolnshire Pension Fund – Scheme Member Annual Meeting

- 6.1 The first Scheme Member Meeting took place on 23rd November, at the Alive Centre in Lincoln. Having allowed attendance for up to 200 scheme members, there was a disappointing turnout of around 40. The Pension Fund Manager, Chair of Pensions Committee and Independent Chair of the Pension Board all presented, and guest speakers from Trading Standards and Lincolnshire Police spoke about scams and how to avoid them. Despite the low number of attendees, feedback was very positive, with requests to hold this event annually. The Committee will be asked to consider this at the January meeting. The presentations from the event were circulated with the monthly update letter that was sent to the Committee and the Pension Board on 25th November.
- 6.2 Given the positive feedback, the Fund would look to run another annual meeting next year, but with a minimum number of attendees required to proceed. The meeting will be mentioned in the Spring scheme member newsletters, with comments from the attendees, to encourage attendance in future.

Conclusion

- 7 This reporting period saw the value of the Fund rise, increasing by £106m to £1,943.1m. At the end of the period the asset allocation, compared to the strategic allocation, was;
- overweight equities; and
 - underweight property, fixed interest, alternatives and cash.
- 8 The first scheme member meeting took place on 23rd November with a disappointing attendance. Feedback was very positive and requests were made to hold the event annually, however a minimum number of attendees would be required to proceed.

Consultation

a) Have Risks and Impact Analysis been carried out??

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the

author of this report.

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

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