

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

Report to:	<b>Pensions Committee</b>
Date:	<b>08 March 2017</b>
Subject:	<b>Pension Fund Update Report</b>

**Summary:**

This report updates the Committee on Fund matters over the quarter ending 31<sup>st</sup> December 2016 and any current issues.

**Recommendation(s):**

That the Committee note the report.

## **Background**

### **Fund Summary**

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £36.7m (1.9%) to £2,004.9m on 31<sup>st</sup> December 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 31<sup>st</sup> December. All asset classes are within the agreed tolerances, other than cash which was held ahead of the rebalancing in January. One portfolio, Blackrock Interim, exceeded their tolerance level of +/- 1% by -0.25%, to account for 5.5% of the Fund. This was rebalanced in January. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 2.2%

UK Equities underweight by 0.7%

Global Equities overweight by 2.9%

Underweight Alternatives by 1.5%

Underweight Property by 1.1%

Underweight Bonds by 1.3%

Overweight Cash by 1.7%

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 31<sup>st</sup> December 2016.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31<sup>st</sup> December, accounting for 10.5% of the Fund, compared to 10.2% last quarter. Equity holdings in the Fund are now shown on the Pensions shared website ([www.wypf.org.uk](http://www.wypf.org.uk)), and updated on a quarterly basis.

	<b>Company</b>	<b>Total Value £M</b>	<b>% of Fund</b>
1	ROYAL DUTCH SHELL	35.2	1.7
2	BRITISH AMERICAN TOBACCO	27.4	1.4
3	RECKITT BENCKISER	24.8	1.2
4	HSBC	24.0	1.2
5	UNILEVER	21.6	1.1
6	MICROSOFT	19.8	1.0
7	BP	17.5	0.9
8	GLAXOSMITHKLINE	14.2	0.7
9	JPMORGAN	13.3	0.7
10	L'OREAL	12.7	0.6
	<b>TOTAL</b>	<b>210.5</b>	<b>10.5</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 77 company events and cast votes in respect of 722 resolutions. Of these resolutions, the Fund voted 'For' 531, 'Against' 178, abstained on 4 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 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 engagement report can be found on their website at [www.lapfforum.org](http://www.lapfforum.org). Some of the highlights during the quarter included:

- LAPFF met with Rolls Royce and Rio Tinto to discuss a range of issues, including climate change and strategic resilience.
- After attending the Sky AGM, Ian Greenwood met with Sky's Deputy Chairman, to discuss Twenty-First Century Fox's anticipated takeover bid and James Murdoch's appointment as Chairman of Sky. LAPFF has long opposed the appointment of James Murdoch as a board member of his father's companies, both because of his role during the phone hacking scandal and because of the governance issues raised by his family ties.
- Antofagasta requested a meeting with LAPFF to introduce the Company's new Senior Independent Director. LAPFF Chairman Kieran Quinn took the meeting and asked about measures taken to promote greater diversity, not only at board level but throughout the organisation and at recruitment, as well as governance challenges related to the fact that Antofagasta is a family-owned company.
- After attending the Vedanta AGM, Councillor Richard Greening met with the Company to discuss its human rights and environmental record. LAPFF has engaged in previous years with the Company due to specific concerns raised, related to both issues. However, Vedanta has

appointed a former Shell employee as a director and Chair of the CSR Committee to help improve performance in these areas.

- Councillors Toby Simon and Doug McMurdo met with Shell's remuneration chairman to discuss the Company's executive remuneration arrangements in advance of the AGM vote. They questioned how the performance indicators used by Shell such as 'production available for sale' and 'project delivery' aligned with low carbon, low demand scenarios.
- LAPFF met with representatives of Rio Tinto and BP to discuss the companies' respective responses to the strategic resilience resolutions on climate change passed at their 2016 and 2015 AGMs respectively. The Rio Tinto meeting provided confirmation that disclosure would not be able to fully address all five elements of the resolution in the course of one year but that reporting would be a work in progress. The BP meeting explored a greater use of scenario planning, having introduced the 'faster transition' scenario which will be built on, other scenarios included consideration of the mobility revolution, e.g. the role of electric vehicles and autonomous driving.

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 outturn report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £10.5m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2016 by 0.35%, annualised, as shown in the table below, and earned interest of £52.1k.

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 – Q1 to 31<sup>st</sup> December 2016</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>
10,520.5	52.1	0.68	0.33	0.35

## 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 The Areas that are not fully completed and compliant are listed below. This has not changed since the last Pensions Committee meeting.

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 31<sup>st</sup> 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 31<sup>st</sup> 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 One additional risk has been added over the quarter, at risk 30, linked to risk 29 of meeting the Government's deadline.

Risk 30	Consequences	Controls	Risk Score	
			L	I
Asset pooling - creation of BCPP within Government's timetable, to the detriment of BCPP.	In pushing to meet the deadline, the work is rushed and not properly considered, leading to BCPP not being fit for purpose.	Resource dedicated to BCPP work when required Ensuring understanding of Members that it is better to get it right than to meet the imposed deadline Regular communications	1	2

		with Govt to reassure progress is being made		
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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 – Employers' Annual Meeting

6.1 The Annual Meeting for scheme employers has been postponed, due to a low take up from employers. The original meeting was due to be held on 15<sup>th</sup> February, however this was in the school holiday week for a number of academies. The date has been rearranged to Thursday 23<sup>rd</sup> March. Committee members are welcome to attend.

### Conclusion

7 This reporting period saw the value of the Fund rise, increasing by £36.7m to £2,004.9m. 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) 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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