

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

Report to:	Pensions Committee
Date:	13 July 2017
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st March 2017 and any current issues.

Recommendation(s):

That the Committee nominate a new LAPFF Representative for the Fund and note the report.

Background

Fund Summary

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £95m (4.7%) to £2,099.9m on 31st March 2017. 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 were within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 2.4%

UK Equities underweight by 1.0%
Global Equities overweight by 3.4%

Underweight Alternatives by 1.1%

Overweight Property by 0.1%

Underweight Infrastructure by 1.0%

Underweight Bonds by 1.0%

Overweight Cash by 0.5%

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 10.1% of the Fund, compared to 10.5% last quarter. Direct equity holdings in the Fund are now shown on the Pensions shared website (www.wyfpf.org.uk), and updated on a quarterly basis.

	Company	Total Value £M	% of Fund
1	ROYAL DUTCH SHELL	31.0	1.5
2	UNILEVER	27.8	1.3
3	BRITISH AMERICAN TOBACCO	27.1	1.3
4	RECKITT BENCKISER	25.4	1.2
5	HSBC	22.4	1.1
6	MICROSOFT	19.2	0.9
7	APPLE	16.8	0.8
8	BP	15.0	0.7
9	GLAXOSMITHKLINE	14.0	0.7
10	JPMORGAN	12.8	0.6
	TOTAL	211.5	10.1

- 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 85 company events and cast votes in respect of 1,301 resolutions. Of these resolutions, the Fund voted 'For' 912, 'Against' 324, abstained on 49 and withheld votes on 16.
- 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 engagement report can be found on their website at www.lapfforum.org. Some of the highlights during the quarter included:

- LAPFF responded to The Department for Business, Energy & Industrial Strategy's Green Paper on Corporate Governance Reform. The response focused on ensuring that executive pay is properly aligned to long-term performance and giving greater voice to employees and consumers in the boardroom.
- Cllr Doug McMurdo (LAPFF Executive member) attended the easyJet AGM and spoke to the Chairman and Senior Independent Director.
- In responding to the Financial Stability Board's Taskforce on Climate Disclosure report, LAPFF supported its recommendations and considered all market participants should be encouraged to aim for full implementation.
- At a follow-up meeting with the Chairman of Rio Tinto, Rodney Barton, of the LAPFF executive, joined other investors in the small coalition that has been meeting with the company since 2013, to improve its response to the anticipated low-carbon transition.
- LAPFF responded to the government-backed Parker Review on Ethnic Diversity of UK Boards' consultation report 'Beyond One by 21'. The interim report highlighted the lack of ethnic diversity and makes several

recommendations. The Forum's response set out the Forum's position on diversity, how it engages on such issues and recommended that the final report could be strengthened by stressing the role that investors can and should play.

- The Forum met with HSBC to discuss the company's sparse human capital management reporting and financial regulation, including reports from the US suggesting that financial regulations implemented after the financial crisis to protect economies from further crises are likely to be rolled back.

2.3 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

2.4 Prior to the May elections and Committee changes, Cllr Nev Jackson was the Lincolnshire representative for the LAPFF, attending quarterly business meetings in London and the annual conference. As Cllr Jackson is no longer a County Councillor, the Pension Fund needs a new representative. The authority to appoint individuals to external bodies sits with the Executive Director of Finance and Public Protection, and he has requested that an individual is nominated from amongst the current Committee members.

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 £10.4m. The invested cash has outperformed the benchmark from 1st April 2016 by 0.34%, annualised, as shown in the table below, and earned interest of £61k.

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 – Q1 to 31st March 2017				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised	Cumulative Weighted Benchmark Annualised	Performance
		%	%	%
10,379.3	61.0	0.65	0.31	0.34

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.

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%. The annual benefit statement process is currently underway for the August 2017 deadline.

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%. The annual benefit statement process is currently underway for the August 2017 deadline.

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.*

4.3 The areas changed since the last Pensions Committee meeting 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?

From Amber to Green - The Board completed self-assessments ahead of the March '17 meeting, and the results were discussed. Additional information and training has been/will be provided. Training will continue to be a standing item on the agenda, and self-assessment will take place at regular intervals.

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.

Remaining Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Self-assessments were carried out in March, however no personal training plans have been put in place, as the assessments have been used to identify training areas required across the Board.

5 Risk Register Update

- 5.1 The risk register is brought to this Committee at agenda item 10, therefore an update is not provided in this report

6 Asset Pooling Update

- 6.1 Work has continued on the creation of Border to Coast Pensions Partnership Ltd (BCPP). The three project workstreams of the Operating Model and Asset Structures, People (incl. Property) and Governance have been very busy, to ensure that the go-live date of June 2018 can be met.

6.2 The first Joint Committee (JC) took place on 6th June, and Cllr Strenghel attended to represent the Lincolnshire Fund. The appointments of Cllr John Weighell (North Yorkshire Fund) as Chairman and Cllr Sue Ellis (South Yorkshire Fund) as Vice Chairman of the new JC were confirmed. The agenda covered the topics listed below:

- an update on the project delivery and implementation budget;
- feedback from the various national working groups;
- an update on the governance documentation completions and the incorporation of BCPP;
- refinement of the BCPP cost sharing principles;
- progress on the development of the target operating model and asset template;
- an update on the property search;
- consideration on the terms and conditions for BCPP employees;
- BCPP company structures and roles;
- A briefing on the governance requirements as an FCA regulated company; and
- An update on the executive search process.

The papers and minutes from the meeting will be shared with the Committee following this meeting.

6.3 The recruitment of the senior roles (Chairman, Chief Executive Officer, Chief Investment Officer, Chief Operating Officer/Chief Financial Officer, Chief Risk Officer and two Non-Executive Directors) is underway. There has been a delay in the appointment of the Chairman and the CEO as a result of the changes to the Pensions Committee Chairmen from the elections that happened in May. The expectation is that the Chairman and CEO will both be appointed before the summer break, with the additional executive posts appointed in September. The two NED's are expected to be appointed in July.

6.4 A separate pooling update paper will be brought to the next Pensions Committee.

7 **Committee Training**

7.1 The Committee were informed by email (20th June) of a two day training session that has been organised for the members of Pensions Committee and Pension Boards that are part of the Border to Coast Pensions Partnership. The New Member Training is to be delivered in York on the 11th / 12th September, and covers all major activities involved in running a Pensions Fund, focusing on the responsibilities of those charged with Governance of a Fund.

7.2 Places are limited and interest has been shown across all of the partner funds in BCPP. Committee members are asked to contact Jon Haw

(jonathan.haw@lincolnshire.gov.uk) at their earliest opportunity if they wish to attend, to ensure that a place can be secured.

Conclusion

8 This reporting period saw the value of the Fund rise, increasing by £95m to £2,099.9m. 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

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