

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

Report to:	Pensions Committee
Date:	22 March 2018
Subject:	Pension Fund Update Report

Summary:

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

Recommendation(s):

That the Committee notes the report.

Background

Fund Summary

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £85.3m (3.9%) to £2,246.0m on 31st December 2018. 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 were within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3%

UK Equities underweight by 0.7%
Global Equities overweight by 3.7%

Underweight Alternatives by 1.2%

Overweight Property by 0.2%

Underweight Infrastructure by 1.0%

Underweight Bonds by 1.7%

Overweight Cash by 0.7%

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 31st December 2017.
- 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 10.7% of the Fund, compared to 9.3% in the last quarter. Direct equity holdings in the Fund are now shown on the Pensions shared website (www.wypf.org.uk), and updated on a quarterly basis.

	Company	Total Value £M	% of Fund
1	ROYAL DUTCH SHELL	37.8	1.7
2	BRITISH AMERICAN TOBACCO	37.6	1.7
3	HSBC	26.9	1.2
4	MICROSOFT	26.8	1.2
5	UNILEVER	23.0	1.0
6	RECKITT BENCKISER	21.5	0.9
7	BP	17.6	0.8
8	APPLE	17.3	0.8
9	JP MORGAN	16.2	0.7
10	ACCENTURE	15.9	0.7
	TOTAL	240.6	10.7

- 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 38 company events and cast votes in respect of 414 resolutions. Of these resolutions, the Fund voted 'For' 294, 'Against' 86, abstained on 28 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. Amendments to the current template have been brought to this Committee meeting in paper 9.

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:

- The Forum issued a voting alert in support of JD Wetherspoon’s remuneration policy. During 2017, LAPFF identified companies with highest and lowest oppose votes on their remuneration reports in 2016 that held policy votes in 2017. JD Wetherspoon has had very strong support for both its remuneration report in 2016 (88%) and its remuneration policy in 2014 (99.7%).
- A successful meeting took place between Executive Rewards Director at Diageo and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company’s pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company’s gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.
- LAPFF attended the Hargreaves Lansdown AGM, and asked the Board about remuneration for the CEO, specifically awards given when he joined the Company. Faith Ward, who attended the AGM on behalf of LAPFF, also asked about the Company’s plans to implement the findings of the Taskforce for Climate-Related Financial Disclosure (TCFD). The Company was receptive to LAPFF’s views and is open to a follow up meeting on the TCFD.
- Reflecting growing member concerns on cybersecurity and data content, LAPFF has had a number of meetings with companies to probe their governance and risk management procedures on this issue. Companies met included WPP, Sainsbury, Prudential and IAG.

- LAPFF issued its Climate Change Investment Policy Framework in November, to help member funds in their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The framework provides guidance in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals. A companion document provides practical guidance for considering climate risk in investment strategy for funds.
- LAPFF has engaged with a number of companies to promote greater board gender diversity including on a collaborative basis. Together with other members of the 30% Club Investor Group, LAPFF met with companies in the real estate sector to determine companies' initiatives to increase female representation. The Group is considering whether to publish a note about the engagements with the sector.

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 £15.5m. The invested cash has outperformed the benchmark from 1st April 2017 by 0.30%, annualised, as shown in the table below, and earned interest of £60.7k.

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 – Q1 to 31st December 2017				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
15,548.0	60.7	0.52	0.22	0.30

4 TPR Checklist Dashboard

4.1 To assist in the governance of the Lincolnshire Fund, it assesses itself against the requirements of the Pension Regulator's (TPR's) code of practice 14 for public service pension schemes, as set out in a check list

attached at Appendix E. This is presented to the Committee and Board at each quarterly meeting, and any non-compliant or incomplete areas are addressed. This is seen as best practice in open and transparent governance.

4.2 The areas that have changed since the last quarter's report are listed below.

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

Grey to Green – Prudential has provided assurance evidence that this happened.

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

Grey to Green – Prudential has provided assurance they do.

4.3 The Areas that are not fully completed and/or 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 submissions and employer training are improving data accuracy, 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.

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 and employer training 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.

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 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 No risks have changed status or been added over the quarter.
- 5.3 There is still one red risk, risk 24, which was added in June '16 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate.

Risk 24	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

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

6 21st Century Trusteeship

- 6.1 The Pensions Regulator (TPR) has formally launched its campaign on 21st century trusteeship, with a section dedicated to the subject on its website (<http://www.thepensionsregulator.gov.uk/21st-century-trusteeship.aspx>). This campaign follows the discussion paper published in 2016 looking at

how standards could be raised across trustees, to improve the way that pension funds are managed, and research findings that many pension schemes are not meeting the governance standards that TPR expects.

6.2 Whilst the language is directed at private Boards of Trustees, TPR expect all pension schemes to consider the guidance. The programme includes a series of communications to make clear what TPR expectations are on those responsible for managing a scheme effectively. This includes the main things that need to be in place and which will support good decision-making. For example:

- clear roles and responsibilities and clear strategic objectives
- a skilled, engaged and diverse board led by an effective chair
- close relationships with employers, advisers and others involved in running the scheme
- sound structures and processes focused on outcomes
- a robust risk management framework focused on key risks

6.3 The overall programme is divided into three themes:

- Good governance
- Clear roles and responsibilities
- Clear purpose and strategy

6.4 TPR are clear to point out that they not creating new or higher standards of governance for those running schemes, rather they are making clearer what they think good governance looks like, and what they will do if they don't see these standards being met. Overall the message is clear: trustees who fail to comply will face enforcement action.

6.5 In addition to completing the Trustee Toolkit, as discussed at previous meetings (<https://trusteetoolkit.thepensionsregulator.gov.uk/>), it is suggested that the Committee also visit the website at paragraph 6.1 to familiarise themselves with TPR's campaign.

Conclusion

7 This reporting period saw the value of the Fund rise, increasing by £85.3m to £2,2456.0m. At the end of the period the asset allocation, compared to the strategic allocation, was;

- overweight equities, property and cash; and
- underweight fixed interest, infrastructure 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.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation 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

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