

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

Report to:	<b>Pensions Committee</b>
Date:	<b>19 July 2018</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> March 2018 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 fell in value by £70.5m (3.1%) to £2,175.4m on 31<sup>st</sup> March 2018. Fund performance and individual manager returns are covered in the separate Investment Management report, item 8 on the agenda.
- 1.2 Appendix A shows the Fund's distribution as at 31<sup>st</sup> 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 1.6%

UK Equities underweight by 1.4%  
Global Equities overweight by 3.0%

Underweight Alternatives by 0.6%

Overweight Property by 0.5%

Underweight Infrastructure by 0.9%

Underweight Bonds by 1.4%

Overweight Cash by 0.7%

Movements in weight are due to the relative performance of the different asset classes. In light of the impending change of asset managers as we move towards the transition of assets into Border to Coast, it is not expected that any rebalancing either within the equity portfolios, or between equities and fixed interest allocations, would be undertaken.

- 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> March 2018.
- 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> March, accounting for 10.1% of the Fund, compared to 10.7% in the last quarter. Direct 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	33.3	1.5
2	BRITISH AMERICAN TOBACCO	31.9	1.5
3	MICROSOFT	24.7	1.1
4	HSBC	23.6	1.1
6	RECKITT BENCKISER	22.5	1.0
6	UNILEVER	22.5	1.0
7	BP	16.3	0.8
8	JP MORGAN	16.1	0.7
9	APPLE	15.6	0.7
10	VISA	15.0	0.7
	<b>TOTAL</b>	<b>221.5</b>	<b>10.1</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 51 company events and cast votes in respect of 649 resolutions. Of these resolutions, the Fund voted 'For' 408, 'Against' 211, abstained on 20 and withheld votes on 10.
- 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 and approved at the 22<sup>nd</sup> March 2018 meeting of this Committee.

## 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:

- During the last quarter, LAPFF has engaged with 21 companies on issues ranging from climate change resilience to human rights and due diligence process implementation.
- Following speculation over the Human Rights Council's list of companies believed to be in violation of international human rights law due to their practices in West Bank and Gaza, the Forum requested meetings with some of these companies to follow up on these allegations. LAPFF is concerned that if an appropriate due diligence process is not in place, both the company and shareholders can face damaging reputational risks.
- The Forum published two reports at the beginning of the year. The first on Share Buybacks discusses the complexities and implications of share buybacks and questions whether they are the right method for distributing capital to shareholders. The second, on Precarious Work assesses the risk these employment practices pose for companies as well as investors. It also provides guidance to assist investors in engaging on the topic.
- The Forum issued a voting alert recommending opposition to a stock option grant to Tesla Chief Executive, Elon Musk. Whilst the Forum welcomed the proposal's incentivisation of Mr Musk's role as a catalyst

for the process of decarbonisation of a large segment of the transport sector, and was pleased to see that the performance period was set to a timeframe of ten years, the proposed performance award sets an unhealthy precedent for public company compensation. Upon successful achievement of all performance milestones, Mr Musk could own as much as 28.3%% of Tesla and be awarded \$55.8 billion. LAPFF was also concerned that in an attempt to hit all operational milestones, ongoing employment and health and safety related risks at Tesla have yet to be resolved. The Forum continues to engage with the company over these practices as they undermine the ability of Tesla to meet production targets.

- The Forum regularly engages with companies over cybersecurity management. To this end the Forum had correspondence with Lloyds Banking Group with regards to Lloyd’s 2017 cyberattack which brought down its digital services for two days.
  - The Forum liaised with several companies from the transport sector including Bayerische Motoren Werke, Daimler, Rolls-Royce Holdings and Volkswagen to understand the companies’ approach to climate risk and their role in a tightening regulatory and tax environment.
- 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 £15.8m for the year financial year to 31<sup>st</sup> March. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2017 by 0.26%, annualised, as shown in the table below, and earned interest of £71.5k.
- 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> March 2018</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>
15,762.93	71.48	0.54	0.28	0.26

## 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 No areas have changed since the last quarter's report.
- 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, whilst all Board members have completed this training, certificates have not been received for all Committee 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 Breaches Reporting**

- 5.1 In line with the Breaches reporting policy (brought as part of the Policy reviews in paper 10) any breaches that are reported to the Pensions Regulator (TPR) are brought to the attention of the Pensions Committee and Pension Board. Breaches reporting is included in the standard quarterly update paper of the Board, however this includes all non-material breaches that are not reported to TPR.
- 5.2 As the Committee are aware, LCC (as an employer in the Fund) has been in discussion with the Fund and the Pension Board for a number of months about data issues, specifically the backlog of leavers forms provided to WYPF as the Fund's shared service administrator, and an improvement plan was agreed.
- 5.3 Following a meeting of the Board held on 26<sup>th</sup> March 2018, the Board recommended to representatives from LCC that they should report themselves to TPR, rather than the Board reporting them. This was confirmed as being done on 10<sup>th</sup> April 2018.
- 5.4 A special meeting of the Board was held on 7<sup>th</sup> June 2018, to enable LCC to update the Board on the progress of the improvement plan and to understand what monitoring had been put in place to ensure that LCC met all the requirements of an employer in the LGPS. The Board were satisfied with progress at that point, and will be updated on progress at the next Board meeting in July.

## **6 Risk Register Update**

- 6.1 The risk register is brought to this Committee at agenda item 11, therefore an update is not provided in this report.

## Conclusion

7 This reporting period saw the value of the Fund fall, decreasing by £70.5m to £2,175.4m. 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.

## 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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