

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

Report to:	<b>LGPS Local Pension Board</b>
Date:	<b>25 July 2018</b>
Subject:	<b>Pension Fund Update Report</b>

#### Summary:

This report updates the Board on Pension Fund matters and any current issues.

#### Recommendation(s):

That the Board note the report.

## Background

### 1 Responsible Investment

1.1 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.

1.2 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.

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

## 2 TPR Checklist Dashboard

- 2.1 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 A. 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.
- 2.2 No areas have changed since the last quarter's report.
- 2.3 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.*

### **3 Breaches Reporting**

3.1 The Breaches Reporting Policy is brought before this Board in paper 7 for annual review. The Fund, and those charged with its governance, has a requirement to log and, where necessary, report breaches to the Pensions Regular. The Breaches Register attached at appendix B shows those breaches logged since recording began. Since the last Pension Board quarterly meeting, two breaches have been added. These are detailed below:

3.2 **Late payment of contributions** – a separate paper is presented to the Board at paper 10, updating the Committee on all breaches over the financial year 2017/18.

3.3 **Late receipt of member information** – WYPF have been working closely with Lincolnshire County Council's payroll provider, Serco, regarding their outstanding data submissions, particularly in respect of leavers. Since the last quarterly meeting LCC reported themselves to the Pensions Regulator on 10<sup>th</sup> April. An update on their current position is included at paper 9.

### **6 Risk Register Update**

6.1 The risk register is brought to this Board as part of agenda item 7, therefore an update is not provided in this report.

### **7 Asset Pooling Update**

7.1 An update on the progress of asset pooling project is provided in paper 6 of this agenda.

### **Conclusion**

8 The Fund Update report is a quarterly report to the Pension Board, to update the Board on Pension Fund matters and any current issues.

## 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	TPR Checklist Dashboard
Appendix B	Breaches Register

## Background Papers

Not applicable.

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