

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

Report to:	Pensions Committee
Date:	4 October 2018
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30th June 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 increased in value by £124.6m (5.4%) to £2,300.5m on 30th June 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 30th June. Across the asset classes, Fixed Interest is slightly below the agreed tolerance weighting, at 11.5% compared to a lower tolerance of 12%. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3.3%

UK Equities underweight by 0.8%
Global Equities overweight by 4.1%

Underweight Alternatives by 1.2%

Neutral Property

Underweight Infrastructure by 0.8%

Underweight Bonds by 2%

Overweight Cash by 0.6%

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 would be undertaken, unless it is funded by reinvestment of cash.

- 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 30th June 2018.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th June, accounting for 10.5% of the Fund, compared to 10.1% 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	39.9	1.7
2	MICROSOFT	28.7	1.3
3	UNILEVER	26.3	1.1
4	BRITISH AMERICAN TOBACCO	25.9	1.1
5	HSBC	25.6	1.1
6	RECKITT BENCKISER	22.7	1.0
7	BP	20.	0.9
8	VISA	18.7	0.8
9	APPLE	17.3	0.8
10	JP MORGAN	16.2	0.7
	TOTAL	241.5	10.5

- 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 367 company events and cast votes in respect of 5,086 resolutions. Of these resolutions, the Fund voted 'For' 3,296, 'Against' 1,602, abstained on 45 and withheld votes on 143.
- 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 22nd 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. Some of the highlights during the quarter included:

- During the last quarter, LAPFF has engaged with 17 companies on issues ranging from climate change reporting to human capital management and board composition.
- In this busy AGM season, the Forum issued several climate related voting alerts at a range of oil and gas, mining and transport companies. These related to climate change risk analysis, alignment with the Paris Agreement goals, disclosure of public policy advocacy on energy and climate change and fuel efficiency standards. Other voting alerts covered remuneration, proxy access and support for appointing an independent Chairman.
- Concerned over reports of poor human capital management, LAPFF engaged with Banco Santander on practices at its US subsidiary, as well as progressing engagement with Tesla Inc. A LAPFF executive member had a call with a Tesla representative to discuss a range of governance issues, including board composition, health and safety and employment standards. In addition, the Forum also organised a webinar to discuss the Company's most pivotal problems and issued voting advice to members.

- LAPFF has substantially contributed to the debate on the future of the Financial Reporting Council (FRC). Following the announcement of the Kingman Review, the LAPFF chair met with Sir John Kingman in May and put its view that the FRC should be disbanded. In June, the Kingman Inquiry issued a call for evidence, including an option that would result in the break-up of the FRC's functions and asking for structural solutions.
- The Forum has co-signed a letter to the US Securities and Exchange Commission (SEC) over new regulations that make it more difficult to file shareholder resolutions in the US. The letter sets out concerns, including that their staff's new analytical approach increases uncertainty and inefficiency, a new interpretation of micromanagement undermines investor engagement and a new approach to the applications of the rules encourages gamesmanship. A meeting is being sought to explore these concerns further.

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 £15.4m for the year financial year to 30th June. The invested cash has outperformed the benchmark from 1st April 2018 by 0.17%, annualised, as shown in the table below, and earned interest of £26.3k.

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 30th June 2018				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
15,381.4	26.3	0.69	0.52	0.17

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 - update

- 5.1 In line with the Breaches reporting policy, 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 reported itself to the Pensions Regulator in April, following concerns raised by the Pension Board.
- 5.3 Since the last meeting of the Board in July, LCC have held regular meetings with WYPF and Serco and have kept officers and the Board updated on progress in clearing the backlogs. LCC have also kept the Pensions Regulator updated. Monthly monitoring meetings are now a standard part of the process put in place to ensure that LCC is aware of the performance of Serco in respect to the pensions responsibilities that it undertakes on LCC's behalf.
- 5.4 The Board will continue to monitor progress to ensure that LCC is meeting the standards required as an employer in the Pension Fund.

6 Risk Register Update

- 6.1 At the July meeting of this Committee it was requested that officers compare the Fund's risk register to other partner funds across Border to Coast. This is brought to the Committee in agenda item 8, therefore an update is not provided in this report.

7 Custodian Review

- 7.1 The October 2017 Committee approved an extension to the current custodian's contract for an additional three years, to allow for the new requirements of a monitoring service under asset pooling to be understood. It was reported to the January 2018 Committee that following discussion with JPMorgan, the current custodian, the extension would only run to 31st March 2019. This was due to the expected value of segregated assets that would remain under custody following the initial transitions into a global

equity sub-fund with Border to Coast, and the fee floor that JPMorgan would have to implement.

- 7.2 To ensure that a custodian is in place for 1st April 2019, officers will be calling off from the National LGPS Custody Framework. This is a reasonably short and simple process, as the initial OJEU procurement to appoint suppliers to the framework has already taken place. The call off process requires a short request for tender document, specific to our requirements, to be issued to those suppliers on the framework that can meet our needs. Following completion of the call off process and appropriate due diligence, a recommendation will be brought to the December meeting of this Committee.

Conclusion

- 8 This reporting period saw the value of the Fund fall, increasing by £82.8m to £2,300.5m. At the end of the period the asset allocation, compared to the strategic allocation, was;
- neutral property;
 - overweight equities 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

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

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