

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

Report to:	Pension Board
Date:	11th October 2018
Subject:	Pension Fund Update Report

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. 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 forward 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.

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 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 9, updating the Board on all breaches over the financial year to date. In addition, the Pensions Team Finance Officer will present to the Board detailing the contribution monitoring process that is undertaken.
- 3.3 **Late receipt of member information** –WYPF have been working closely with Lincolnshire County Council and their payroll provider, Serco, regarding the outstanding data submissions, particularly in respect of leavers. LCC reported itself to the Pensions Regulator on 10th April, and have held monthly meetings since June to ensure that proper monitoring is undertaken. An update on their current position is shown at section 4 below.
- 3.4 A positive piece of news is that 99.1% of the Lincolnshire Annual Benefit Statements for active members were produced by the deadline of 31st August 2018. Only 173 statements were blocked (unable to be sent), and only 25 of these related to LCC as the employer. Generally statements are blocked due to missing information that the employer has not supplied. Work continues to clear these blocks to ensure all statements are released.

4 LCC Employer Issue Update

- 4.1 LCC has been holding regular monthly meetings with Serco, as part of the improvement plan agreed with the Board earlier this year. Updates from these meetings have been communicated to the Fund and the Board.
- 4.2 Figures on the leavers' backlog have fallen from nearly 3,000 in January, when LCC first reported to the Board, to 274 as at 6th September. Unfortunately, this hasn't reduced much from the 320 reported at their July monthly meeting, when the guarantee was given that the backlog would be cleared by 30th September. The explanation for the slow progress was annual leave within the team and the prioritising of the annual benefits statement work. LCC have escalated this again with Serco on 25th September, and received the response that an additional resource had been identified and the team were now focussing on the final complex cases. Daily updates would be provided to LCC.

4.3 Comment from LCC is shown below:

"LCC is disappointed in the progress on leavers' backlog over the last couple of months. Following escalation of our concerns by the service manager, Serco have committed an extra resource from today.

We will be closely monitoring the progress over the next week and as agreed I will update you on the morning of the 9th October with the number outstanding and the revised completion date.

I will also update the breach to TPR once I have commitment to a completion date."

4.3 A verbal update will be provided at the meeting.

5 Risk Register Update

5.1 A report on the risk register is brought to this Board at agenda item 8, therefore an update is not provided in this report.

6 Asset Pooling Update

6.1 Border to Coast now has £7bn of assets under management, following the transition of a large part of the internally managed assets of three of the partner funds. Work is also continuing on the externally managed fund capability, with the planned launch of the UK Equity fund in Q4 2018, and a Global Equity fund in Q1 2019. The process for selecting and monitoring managers, developed with input from the partner funds and Mercers, was also approved by the company Board and reported to the Joint Committee.

6.2 Recruitment has continued to build the structure required to manage the partner fund assets. The key role of Chief Investment Officer had been undertaken by John Harrison in an interim basis, but has now been filled permanently, after the appointment of Daniel Booth, who started in early September. Daniel has significant experience across all asset classes and markets as well as in building investment functions for asset owners. He was previously responsible for leading the investment team responsible for pensions, insurance and endowment portfolios at Saudi Aramco (the Saudi Arabian Oil Company).

6.3 The Joint Committee (JC) last met on 10th July 2018, and the papers were circulated to all Pension Board members. The minutes will be circulated once approved, and below are the highlights:

- Shareholder Director appointment – following nominations and voting, Cllr John Weighall and Cllr Sue Ellis were selected as Shareholder Directors. This will be put to the Board for ratification and to shareholders for consent.

- Chairman and Vice Chairman of JC - following nominations and voting, Cllr Doug McMurdo (Bedfordshire) and Cllr Tim Evans (Surrey) were selected as Chairman and Vice Chairman respectively.
- Project and strategic updates – the JC were updated on progress to date, the governance charter, possible performance measures, the conflicts of interest policy, transition planning, the UK equity sub-fund launch, and the capability build of the alternatives platform.
- Scheme member representation on the JC – representation of scheme members using the current representatives on local Boards was approved, with a paper to be brought to the November meeting to agree process and number of representatives.

6.4 The next JC meeting is being held on 21st November and papers will be circulated to Board members. Any questions or comments on the papers should be directed to the Chairman of the Pensions Committee, Cllr Strengiel, who can raise them at the meeting.

Advisor Days

6.5 An advisor day was held in September for the partner fund's investment consultants and advisors to enable them to meet the senior management team and to provide an update on the sub-funds being.

Transitions

6.6 One of the initial principles in creating Border to Coast was that costs of the initial transitioning assets into the pool would be done in an equitable way. Opinion from Legal Counsel regarding the sharing of transition costs was received and Border to Coast has been liaising with MHCLG regarding options for the Partner Funds.

6.7 The simplest way to avoid any potential issues is for asset changes to be transitioned from the initial portfolios to the model portfolios within the sub-fund ACS. When actioned in here, all funds take a proportionate cost of transition relative to the assets they will have under management in the new sub-fund. In some instances, particularly in some overseas markets, it is more tax efficient for assets to be transitioned outside of the ACS, but this does not currently allow for transition costs to be shared across partner funds. As part of the transition planning process, Border to Coast will provide analysis of potential costs and benefits of transitioning inside or outside of the ACS before any transitions are made into each sub-fund.

Workshops

6.8 Officers are working closely with Border to Coast to ensure that the sub-fund offerings and the strategic asset allocations of the Partner Funds are aligned. A number of workshops have already been held, and more are

diarised over the coming months, covering alternative investments, global equities, responsible investment, the triennial valuation and fixed income. These will continue as the sub-fund offerings are developed.

- 6.9 A training session was held for both Board and Committee members on 11th September in County Offices covering the current investment strategy and how it might be mapped across to the Border to Coast sub-funds. Following this, a paper was brought to the October Pensions Committee to set out the considerations across each asset class, and provide a direction of travel of travel for the transition of funds.

Next steps for Lincolnshire

- 6.10 The initial transition of any assets from the Lincolnshire Fund is not expected until early next year. Upon receipt of delegated authority, officers and advisors will continue to work closely with Border to Coast to ensure that the Global Equity Alpha sub-fund is fit for purpose and meets the investment strategy objectives of the Fund.
- 6.11 Much work is still to be done on the final sub-fund offerings, and it will be a number of years before all assets are transitioned into the management of Border to Coast. Officers will continue to update the Board on progress through the quarterly meetings and monthly letters as appropriate.

Conclusion

- 7 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

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