

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Pensions Committee
Date:	18 July 2019
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31 March 2019 and any current issues.

Recommendation(s):

That the Committee;

- 1) note the report; and
- 2) approve the extension to the contract for Actuarial Services to 31 October 2020.

Background

Fund Summary

1.1 Over the period covered by this report, the value of the Fund increased in value by £151.8m (6.9%) to £2,351.7m on 31 March 2019. Fund performance and individual manager returns are covered in the separate Investment Management report, item 9 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 31 March. Across the asset classes, all are within their approved tolerance levels. At a manager level, Columbia Threadneedle and Morgan Stanley Global Brands are above their higher tolerance levels, however as these mandates will be transitioning to Border to Coast in the near future, no rebalancing has been undertaken. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 3%

UK Equities underweight by 1.7%

Global Equities overweight by 4.7%

Underweight Alternatives by 1.0%

Underweight Property by 0.4%

Underweight Infrastructure by 0.6%

Underweight Bonds by 1.5%

Overweight Cash by 0.5%

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 31 March 2019.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31 March, accounting for 10.7% of the Fund, compared to 10.3% 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	37.7	1.6
2	MICROSOFT	36.5	1.6
4	RECKITT BENCKISER	25.6	1.1
5	UNILEVER	25.2	1.1
3	HSBC	23.8	1.0
8	BRITISH AMERICAN TOBACCO	21.3	0.9
6	VISA	21.3	0.9
7	BP	21.0	0.9
9	DIAGEO	19.1	0.8
10	PHILIP MORRIS INTERNATIONAL	18.5	0.8
	TOTAL	250.0	10.7

- 1.6 Appendix D presents summarised information in respect of how external managers have voted in relation to the Fund's equity holdings.

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 this quarter, LAPFF engaged with 104 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.
- In February Ryanair announced that current Chairman David Bonderman would be replaced during 2020. The statement was made after LAPFF had voiced an intention to requisition the AGM in order to propose a resolution requesting Mr Bonderman resign from the Board.
- The Government announced plans to replace the Financial Reporting Council (FRC) with the Auditing, Reporting and Governance Authority (ARGA). This comes in the aftermath of the Kingman Review which recommended the FRC be disbanded, a position promoted by LAPFF after many years of raising concerns over the FRC.
- After pledging to include the overall reduction of its net carbon footprint in considering executive remuneration outcomes, Royal Dutch Shell Plc published its remuneration report enacting this commitment. As a member of the Climate Action 100+ investor initiative, LAPFF welcomed Royal Dutch Shell's steps in addressing the need to tackle climate change proactively. This is considered a small but pioneering step towards enabling companies to prepare for the low carbon transition.
- The Forum joined investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050.

- 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 £10.8m for the year financial year to 31 March. The invested cash has outperformed the benchmark from 1 April 2018 by 0.18%, annualised, as shown in the table below, and earned interest of £88k.
- 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 – 2018/19 Outturn				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
10,803.54	87.99	0.84	0.66	0.18

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, however in B12 there is now only one member of the Pensions Committee yet to complete their TPR Toolkit training.
- 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, a certificate has not been received from one remaining Committee member.

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.

5 Risk Register Update

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

6 Asset Pooling Update

Sub Funds

- 6.1 Representatives from Border to Coast presented to the June meeting of this Committee, updating on progress of the sub funds for Global Equity Alpha, Investment Grade Credit and Multi Asset Credit.
- 6.2 The Fund will be making its first investment with Border to Coast in the coming months, into the Global Equity Alpha Fund. The next investments are expected to be into the Investment Grade Credit and the Multi Asset Credit funds.
- 6.3 The development of the Alternatives products have progressed well, with the Private Equity sleeve open and soon to be making its first investments. Work is progressing on the Infrastructure sleeve, with commitments expected to be made in the next few months, with Private Credit following after that. Discussion is still being had with Funds and advisors on the other alternative requirements. As the Committee are aware, Lincolnshire Pension Fund will not be transitioning across to the Alternatives offering until all sleeves are available, and the Committee is satisfied that Border to Coast are able to offer a fully managed solution, akin to the Morgan Stanley mandate currently held.
- 6.4 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast on the development of the sub-fund products, with a number of workshops attended to discuss requirements and agree structures.

Joint Committee Meetings

- 6.5 The Joint Committee (JC) last met on 4 June 2019, and the papers were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:
 - Elections for the Role of Chair and Vice Chair of the Joint Committee and Nominee for the Directorship of Border to Coast Pensions Partnership Limited
 - Future Meeting Dates
 - Joint Committee Budget
 - Update from the Climate Change Working Party
 - Chief Executive Officer (CEO) Report

- Border to Coast Alternatives Capability – PE, Infrastructure and Private Credit
- Border to Coast ACS Fixed Income Fund – Investment Grade and Multi Asset Credit

6.6 The next JC meeting is being held on 11 September 2019 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengiel, who can raise them at the meeting.

AGM and Shareholder Approvals

6.7 As the Committee are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor, and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Resources, and fulfils the role as set out in the Shareholder Agreement, which was approved by Full Council in February 2017.

6.8 Ahead of any shareholder approvals, officers, including S151 officers, work closely with Border to Coast to ensure full understanding of the resolution, the impact of it not being approved and discuss this with the JC ahead of any resolution being sent for approval. An informal shareholder meeting is also held on the date of each Joint Committee meeting.

6.9 Two shareholder approvals were completed since the last Committee:

- Chief Executive remuneration – following the annual pay review of the CEO, undertaken by the Border to Coast Remuneration Committee, shareholders were asked to approve the proposal. Approval was received from the required 75% of shareholders.
- Chief Operating Officer remuneration – following the annual pay review of the COO, undertaken by the Border to Coast Remuneration Committee, shareholders were asked to approve the proposal. Approval was received from the required 75% of shareholders.

Visit to Border to Coast Offices

6.10 The planned visit on 11 July was cancelled due to a low take-up, therefore officers will be looking to rearrange later in the year, when more members are available.

7 Good Governance Project

7.1 The Scheme Advisory Board (SAB) appointed Hymans Robertson earlier this year to consider options for enhancing LGPS governance arrangements

to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Their role was to facilitate an investigation of the issues and work with key stakeholders to develop options for change which will improve LGPS governance. Hymans have consulted widely and captured a wide range of views from those working within the LGPS. This included carrying out a number of related activities including issuing surveys, arranging interviews, organising seminars and discussing at various LGPS events including the PLSA conference in May.

- 7.2 The survey, which was open to all stakeholders, requested views on four example governance models, each with increasing changes to the current model. The options were to be considered against the criteria of standards, conflict, representation, clarity, consistency and cost.

Option 1 – Improved practice

Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 - Greater ring fencing of the LGPS within existing structures

Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 - Joint Committee (JC)

Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

- 7.3 Highlights of the emerging themes from the survey responses and the discussions that have been had with stakeholders are shown below, across the six criteria:

Standards	Greater risk of Regulator intervention, strengthen KPI use, extend audit to cover adequacy/suitability of governance arrangement.
Conflict	Potential conflicts for S151 officers and elected members, high professional standards of S151's, schemes of delegation to reduce conflicts.
Representation	Many different views on employer/member representation, good employer engagement in some cases but needs to improve, voting rights for non-elected members.
Clarity	Roles and responsibilities clearly documented, what's statutory vs. fiduciary vs. locally decided.
Consistency	Update existing guidance and signpost better, strengthen

	training e.g. CIPFA S151 training, S101 training (same regulatory requirement as Local Pension Boards).
Cost	Strong desire that approach is not disproportionately onerous to implement and does not add unnecessary cost, some funds have difficulties paying market rates for pensions/investment specialists within the authorities pay structures.

- 7.4 Hymans will report their findings to SAB in July, detailing proposals to improve governance for them to consider. Following that, SAB will make recommendations to MHCLG where appropriate.

8 Actuarial Services Contract

- 8.1 The contract for Actuarial services was awarded to Hymans Robertson in December 2012, with an expiry date of 31 December 2019. As 2019 is a valuation year, the Fund will still be in the process of agreeing rates with employers and finalising the Funding Strategy Statement at that date, all of which require input from the Actuary.
- 8.2 The valuation process has to be finished by 31 March 2020, however at that time the process for the employers accounting reports has started, and continues across different groups of employers until the final reports are issued to academies in September/October.
- 8.3 Therefore to limit any impact to the Fund or the employers should the provider change, officers request that the Committee approve a ten month extension to the contract to 31 October 2020. This will also realign the contract end date for any subsequent appointments.

9 Conference and Training Attendance

- 9.1 It is stated in the Committee's Training Policy, approved each July, that following attendance at any conferences, seminars or external training events, members of the Committee and officers will share their thoughts on the event, including whether they recommended it for others to attend.
- 9.2 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

Conclusion

- 10 This reporting period saw the value of the Fund increase by £151.8m to £2,351.7m. 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.
- 11 The work with Border to Coast continues and the first transition from the Fund's global equity managers to the Global Alpha sub-fund is expected in the next few months.
 - 12 The Scheme Advisory Board's (SAB) is undertaking a review of governance across LGPS Funds, with Hymans Robertson appointed to manage the Good Governance Project and to report their findings to SAB, with proposals for improvements, in July.
 - 13 The Actuarial contract expires in December 2019, and to reduce any potential impact to the Fund and employers should there be a change of provider, officers request that the Committee approve a ten month extension to the contract to 31 October 2020.

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

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