



Regulatory and Other Committee

Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	Pensions Committee
Date:	9 January 2020
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 30 September 2019 and any current issues.

The report covers:

1. A Funding Level Update
2. Responsible Investments
3. TPR Checklist Dashboard
4. Risk Register Update
5. Asset Pooling Update
6. Good Governance Review
7. Conference and Training Attendance

Recommendation(s):

That the Committee note the report.

Background

1. Funding Level Update

The Committee are normally provided with a quarterly update of the funding level. This is based on a roll forward from the latest valuation. The funding level for the March 2019 valuation was reported to the October meeting of this committee, and stood at 93%. As the 2019 actuarial valuation is still in progress, the roll forward position will not be provided by the Actuary until the quarter ending 31 December 2019. This will therefore be included in this report at the March meeting.

2. Responsible Investments

Voting

2.1 Appendix A presents summarised information in respect of how external managers have voted in relation to the Fund's equity holdings. As requested at the October Committee meeting, the narrative has been expanded to include a brief rationale where voting has been different to the management recommendation.

Local Authority Pension Fund Forum Membership

2.2 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.

2.3 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 108 companies on issues ranging from human rights and Board composition to climate change reporting and environmental risk.
- Along with Sarasin, Church Commissioners and Royal London Asset Management, LAPFF has been engaging with Glencore over concerns about corruption in the Democratic Republic of Congo. The issues raised during this engagement prompted the Forum to send engagement requests to four other companies embroiled in corruption probes – Shell, ENI, Petrobras and Total.
- LAPFF issued a voting alert related to Sports Direct, a company that has recently faced the ire of investors after its latest results highlighted underwhelming performance as well as substantial unpaid taxes. These

issues led to the company's primary auditor, Grant Thornton, announcing the intention to resign ahead of the company AGM. It is clear to LAPFF that although the Board has undergone significant change in recent years - improving independent oversight at Board level - the new directors have not held Mr Ashley to account. As a result, LAPFF recommended that member funds vote to oppose the entire board, and in addition recommended opposing the report and accounts, which are unlikely to give an accurate view of the business.

- LAPFF also issued a voting alert at Ryanair. LAPFF has requested that the company improve its governance practices for a number of years. Despite signing recognition agreements with a number of unions, Ryanair management still appears to struggle to work constructively with unions and staff to negotiate mutually beneficial terms and conditions of employment. With a board lacking in independence, LAPFF considers the board should be refreshed with a greater proportion of independent directors and skill sets appropriate to address and challenge the current company positions. On this basis, LAPFF recommended that members vote to oppose all board directors who are not independent.
- Changes to secure investment in the Just Transition were discussed at the Liberal Democrat, Conservative and Labour conferences. Organised by the Smith Institute, the meetings provided a platform for LAPFF to set out what these changes should be. Both the LAPFF Chair, Cllr Doug McMurdo, and Vice-chair, Cllr Rob Chapman, identified that partnership was critical to the success of the Just Transition. So a core recommendation from LAPFF was that the UK government should establish a Just Transition Commission, along the lines of the Scottish Commission, to bring public and private sectors together.

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

3 TPR Checklist Dashboard

3.1 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 B. 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.

3.2 No areas have changed since the last quarter's report.

3.3 The Areas that are not fully completed and/or compliant are listed below.

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.

4 Risk Register Update

4.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved.

4.2 There have been no changes to the risk register since its annual review at the July meeting of this Committee. There is just one risk that remains red, as shown below. This was added in June 2016 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate.

Risk 24	Consequences	Controls	Risk Score*	
			L	I
UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board		

*As a reminder, L is Likelihood and I is Impact.

5 Asset Pooling Update

Sub Funds

- 5.1 As presented by representatives from Border to Coast at the December Committee meeting, the Fund made its first investment with Border to Coast in October, into the Global Equity Alpha Fund. The transition was managed by Blackrock, and overseen by Analytics. Generally the transition went very well, and Analytics has provided an interim report stating that they were satisfied with the transition work undertaken by Blackrock. As explained by Border to Coast, the transition incurred a higher than estimated implementation shortfall (a standard measure for transitions) as the target portfolio significantly out-performed the legacy portfolio during the transition. The final transition report will be shared with the Committee once it is available.
- 5.2 The next investments are into the Investment Grade Credit, in early 2020 and Multi Asset Credit, in the second half of 2020. An overview of both of these funds was included in the Border to Coast presentation in December.
- 5.3 The development of the Alternatives products have progressed well, with the Private Equity, Infrastructure and Private Debt sleeves open and they have made their first commitments. 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.
- 5.4 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 and planned to discuss requirements and agree structures.

Joint Committee Meetings

- 5.5 Prior to the Joint Committee (JC) meeting held on 20 November, members of the JC were given a briefing on Responsible Investment (RI) by Jane Firth, Head of RI at Border to Coast. This provided members with an overview of the work that had been done on RI to date, and also sought to obtain views from the Partner Funds on the future direction. It was agreed that a further meeting solely on RI would be useful, and this is being organised for the new year.
- 5.6 The papers of the November JC were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:
- Election results for the Role of Chairman and Vice Chairman of the Joint Committee and for the Border to Coast Board
 - Joint Committee Budget
 - Responsible Investment Policies – Annual Review 2019
 - Performance Report
 - Border to Coast Asset Transfer Planning 2020-2023
 - Border to Coast ACS – Multi Asset Credit (MAC) Offering
 - Chief Executive Officer (CEO) Report
- 5.6 The election for the second Partner Fund Director (replacing Cllr Sue Ellis - South Yorks) was held and, following a postal ballot, Cllr Jeff Watson (Northumberland) was selected to be put forward to the Border to Coast Board
- 5.7 The next JC meeting is being held on 9 March 2020 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.

Shareholder Matters

- 5.7 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.

- 5.8 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.
- 5.9 There was just one shareholder resolution since the last report. This was a request to extend the office space for Border to Coast by entering into a lease to secure an additional floor within the current building at Toronto Square. This was passed with the required majority of 75%.
- 5.10 Border to Coast held its annual conference in Leeds on 10 and 11 October. This was well attended with some excellent feedback. The dates for the 2020 conference will be 1 and 2 October.

6 Good Governance Review – Phase II

- 6.1 Following on from the phase I of the Good Governance Review detailed at the July meeting of this Committee, phase II has now been completed, and the report was published in November (attached at appendix C). The Scheme Advisory Board (SAB) had agreed to constitute two working groups to take forward the proposals included in the original report. Hymans Robertson was appointed to assist the working groups in this next phase of the good governance project.
- 6.2 The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wished to see achieved by Funds under the proposed approach, and how these outcomes should be evidenced.
- 6.3 The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that would be required to independently assess funds against this framework.
- 6.4 The phase II report includes detailed implementation proposals from the workstreams, including a list of the changes required to guidance to implement this framework.
- 6.5 The table below summarises the proposed changes.

Area	Proposal	
A. General	A1	MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
	A2	Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the

		LGPS senior officer”).
	A3	Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.
B. Conflicts of interest	B1	Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance
	B2	The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
C. Representation	C1	Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
D. Knowledge and understanding	D1	Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D2	Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
	D3	Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D4	CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.
E. Service delivery for the LGPS function	E1	Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution and be consistent with role descriptions and business processes.
	E2	Each administering authority must publish an

		administration strategy.
	E3	Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	E4	Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
	E5	Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
F. Compliance and improvement	F1	Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F2	LGA to consider establishing a peer review process for LGPS Funds.

6.6 Should SAB and MHCLG accept the proposals contained in the report, phase III of the project will be initiated. This is expected to contain the elements listed below:

- MHCLG to draft the required changes to the Guidance.
- SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
- SAB to establish the 10-15 KPIs referred to within proposal E.3.
- It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.

6.7 As the Committee can see, there are a number of proposals that the Fund already does, and a number where additional work will have to be

completed to meet the new standards. Officers will bring further detail to the Committee in the new year once it is available.

7 Conference and Training Attendance

- 7.1 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.
- 7.2 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

Conclusion

- 8 The work with Border to Coast continues and the first transition to the Global Alpha sub-fund has completed successfully. Planning is already underway for the next transitions into Investment Grade Credit and Multi-Asset Credit.
- 9 The phase II report of the Good Governance review was published in November and contains a list of proposals for SAB and MHCLG to consider. Should they be accepted, phase III of the review will begin, which will create the framework for the improved governance requirements.

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	Equity Voting Activity
Appendix B	TPR Checklist Dashboard
Appendix C	Good Governance in the LGPS

Background Papers

No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

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