



Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director - Resources

Report to:	Pensions Committee
Date:	21 March 2024
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters for the quarter ending 31 December 2023 and any other current issues.

The report covers:

1. Funding and Performance Update
2. TPR Checklist Dashboard and Code of Practice
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. Regulatory Update
7. Conference and Training Attendance

Recommendation(s):

That the Committee consider and discuss the report and agree whether any action or additional information is required.

Background

1. Funding and Performance Update

- 1.1 Over the period covered by this report, the value of the Fund's invested assets increased by £112.7m (+3.6%) to £3,233.7m on 31 December 2023.

Asset Allocation

- 1.2 Appendix A shows the Fund's distribution as at 31 December. At an asset class level, property is below its tolerance level. Funds being committed to the Border to Coast Global Property Fund will help rebalance this underweight, but this will take a period of time. Cash is overweight, as this is being used to fund expected property drawdowns.

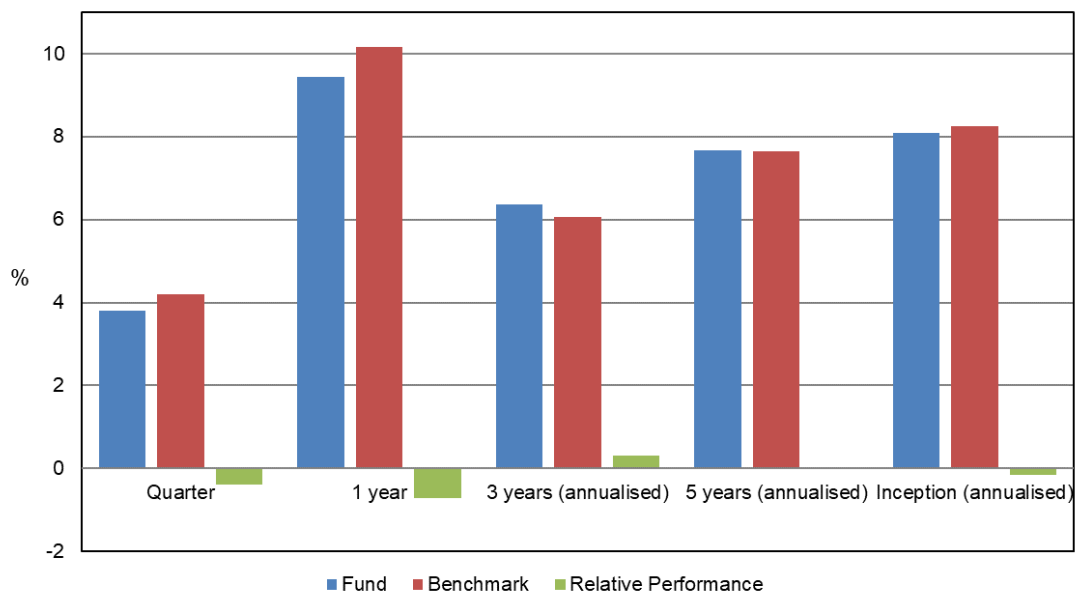
1.3 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q4 2023 £m	Q3 2023 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	395.1	442.8	12.2	11.5	0.7
Global Equities	1,308.6	1,237.6	40.5	40.0	0.5
Alternatives	835.0	780.0	25.8	25.5	0.3
Property	232.6	233.9	7.2	10.0	(2.8)
Fixed Interest	399.7	356.8	12.4	12.0	0.4
Cash	62.8	56.1	1.9	1.0	0.9
Total *	3,233.7	3,121.0	100.0	100.0	

(* Excludes transactional cash and Border to Coast shareholding)

Fund Performance

1.4 The graph and table below show the Fund's performance against the benchmark over the quarter, one year, three years, five years and since inception. The Fund has a target to outperform the strategic benchmark by 0.75% per annum.



	Fund %	Benchmark %	Relative Performance %
Quarter	3.80	4.19	-0.39
1 year	9.44	10.15	-0.71
3 years*	6.37	6.07	0.30
5 years*	7.67	7.65	0.02
Inception**	8.09	8.25	-0.16

*Annualised from 3yrs. **Since Inception figures are from March 1987

- 1.5 Over the quarter, the Fund produced a positive return of 3.80% (as measured by Northern Trust) but underperformed the benchmark by (0.39%). The Fund was also slightly behind the benchmark over the since inception period but was ahead on the five- and three-year periods. Details of individual managers' performance are covered at the Investment and Responsible Investment meetings of the Pensions Committee.
- 1.6 Appendix B shows the market returns over the three and twelve months to 31 December 2023.

Funding Level

- 1.7 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31 March 2022, to the current quarter end, 31 December 2023. The accuracy of this type of funding update will decline over time, as the period since the last valuation increases. This is because the funding update does not allow for changes in individual members' data since the last valuation. It is, however, a useful tool to assist the Committee to identify whether the time is right to reduce the overall risk in the asset allocation of the Fund, as it approaches a higher funding level.
- 1.8 The latest funding update from Barnett Waddingham (BW) is attached at appendix C. This report details:
- the roll forward method used;
 - the assumptions, both now and at the last valuation; and
 - the results.
- 1.9 Over the period 31 March 2022 to 31 December 2023 the funding level, in real money, has fallen from a surplus of £18m to a deficit of £181m deficit, reflecting the outcome of the changed approach. Since the valuation, contributions and transfers have been slightly greater than the accrual of new benefits, but investment returns and inflation impacts have been negative. The funding level has moved from 101% to 94.6%.

2. TPR Checklist Dashboard and Code of Practice

- 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 D. 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 There have been no changes since the last quarter's report. 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 – As set out in the Fund’s Training policy, it is a mandatory requirement that all PC members complete this in addition to the PB members and provide copies of the completion certificate to the Head of Pensions. However, there has been some turnover of members on the Committee who all have a period of six months to complete their training. Two members were due to have completed it before December, but certificates have yet to be received, and one member still has until June to meet the completion deadline.

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. 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 from the previous administrator. The mass correction of these data issues has been investigated, and it has been found that it is not cost effective to amend, and as they do not impact the benefit entitlement of members, these are rectified on an individual basis as and when a member has an event.

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 – Training is a standing agenda item and opportunities are shared with the Pension Board as they arise. Pension Board members all complete a training log annually to record all training undertaken.

3. Breaches Reporting - update

3.1 The Fund and those charged with its governance have a requirement to log and, where necessary, report breaches to the Pensions Regulator. The Breaches Register attached at appendix E shows those breaches logged over the last twelve months. Since the last quarter end, one breach has been added, detailed below:

- **Late payment of contributions** – there have been some late employers over the quarter, but nothing of significance that requires reporting to TPR. An annual paper on employer monitoring is taken to the January meeting of this Committee.

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 each October to be approved. There have been no changes to the risk register in this quarter.

5. Asset Pooling Update

Sub Funds

5.1 Work has continued with the development of the real estate funds, with the next transition for Lincolnshire expected to be into the Core Global Property fund, which launched in December. This transition will be managed over a period of time as cash is invested and redemptions are received from existing overseas property funds.

5.2 Work is underway on the completion of the UK Property offerings, and it is expected that a paper will be brought to the June meeting of this Committee to detail the proposals for the Lincolnshire Fund's investment in Border to Coast's UK Property funds.

5.3 Officers are working with Border to Coast on a potential multi-factor global equity fund, that would offer a similar solution to the current investment with LGIM, but would potentially offer a better net of fee performance, and would also meet the pooling requirements. Proposals on this will be brought to a future meeting of this Committee.

5.4 Since the last Committee meeting, Border to Coast has held workshops and meetings with officers and advisors covering quarterly external and internal funds, property, UK opportunities, responsible investment, multi-factor equity and TCFD reporting.

Joint Committee Meetings

5.5 The next meeting of the Joint Committee is being held on 26 March and papers will be shared with this Committee once they become available. Any questions or

comments on the papers should be directed to Cllr Strengiel, Chairman of the Pensions Committee, who can raise them at the meeting.

Shareholder Matters

- 5.6 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 recently updated following review and approved by Full Council in February 2023.
- 5.7 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.
- 5.8 There has been one shareholder resolution since the last Committee meeting, which all partner funds approved:
- Approving the Border to Coast Strategic Plan for 2024-27

6 Regulatory Update

- 6.1 The Economic Activities of Public Bodies (Overseas Matters) Bill cleared the House of Commons and had its second reading in the House of Lords on 20 February 2024, and is now approaching the final stages of approval. The Bill covers both procurement and investment decisions and seeks to prohibit certain actions by public authorities. There is the potential this could result in the risk of legal challenge to LGPS funds, so when it becomes law, LGPS funds will need to ensure both their investment decisions, and the governance process leading to them, take account of the provisions of the Bill.
- 6.2 The Bill will:
- prohibit public authorities from making a decision to invest or divest based on its moral or political opinion (or the opinion of any pressure groups which are seeking to influence it) of the actions of foreign states abroad.
 - prohibit the authority going on record saying it would have made that investment or divestment decision if not for the existence of this legislation.
 - include a number of exemptions, although these are in the main restricted to actions which are illegal.

- provide for sufficiently interested parties to bring about legal proceedings against the authority and/or report the authority to the Pensions Regulator (TPR) if they consider an investment decision to be, or likely to be, in contravention of the above prohibitions.
- mean LGPS authorities should carefully consider not only the potential for decisions actually being in contravention of the legislation, but also the potential for third parties to bring about costly and time-consuming legal proceedings in relation to decisions they do not agree with, and in doing so, authorities may want to revisit their governance arrangements particularly in relation to investment decisions in order to minimise the risk of challenge.

6.3 In summary, the Bill is designed to prevent public authorities making decisions or statements of intent about investment which results from political or moral disapproval of the actions of a foreign state which has an overseas impact. The stated purpose of the Bill is to catch both open participation in boycotts or divestment campaigns, and more subtle ways of singling out countries or territories that could produce similar results. An example of this would be expressing support for engaging in boycotts and divestment campaigns. The Bill will not, however, prevent public authorities from complying with formal UK Government legal sanctions, embargoes and restrictions.

6.4 To mitigate the possibility for, and the impact of, any such proceedings, it is suggested that:

- the Committee receives clear, independent and documented advice on the implications of potentially contentious decisions prior to the meetings at which they are to be considered.
- officers ensure minutes in respect of investment decisions include clear references to the grounds on which they were taken and the advice received in connection with them.
- such decisions, which would in the main constitute the implementation rather than the strategy of investments, are delegated to officers and/or their pool.

6.5 Officers will work with the investment consultant to ensure any potentially contentious decisions are not open to challenge and are made based on valid investment reasons and that this is properly documented.

7 Conference and Training Attendance

7.1 It is stated in the Committee's Training Policy, approved each July, that following attendance (virtual or otherwise) at any conferences, seminars, webinars or external

training events, members of the Committee and officers will share their thoughts on the event, including whether they recommend it for others to attend.

7.2 There have been two conferences since the last meeting:

- The LGA Governance Conference was held on 18/19 January and covered a wide range of topics, including Scheme Advisory Board, LGPC and DLUHC updates, the employer landscape, responsible investment, de-risking, and cyber security. Conference notes produced by Hymans Robertson are attached at appendix F.
- The LGC Investment Seminar was held on 14/15 March and covered the following:
 - Economic market scene-setter discussing the latest trends and future outlook
 - Run up to the Valuation 2025 - providing the latest thinking
 - Workshops focusing on innovation in investment with returns
 - Examining the fiduciary duty – is it the cornerstone of the LGPS or something to hide behind
 - Being bold and leading the way – how the LGPS is more than just a pension scheme
 - Discussing the next steps on investments (and the pooling consultation)
 - Considering how we can boost investment in the UK
 - Looking ahead to the future – what the political landscape tells usConference notes are not available at the time of writing, but can be shared following the meeting if requested.

7.3 The Committee are requested to share information on relevant events they have participated in since the last Committee meeting.

7.4 Upcoming training opportunities are shared in the weekly and monthly email. Any member wishing to attend or require more information should contact Jon Haw (jonathan.haw@lincolnshire.gov.uk).

Conclusion

8. The Fund is 94.6% funded (on a roll-forward basis, following the adjustments made to the Barnet Waddingham funding model) as at the end of December, with an overall value of invested assets of £3,233.7m.
9. There are three members who have still to complete TPR's toolkit, as part of the mandatory training agreed by this Committee. Certificates of completion should be forwarded to the Head of Pensions as soon as possible.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Market Returns
Appendix C	BW Funding Update
Appendix D	TPR Checklist Dashboard
Appendix E	Breaches Register
Appendix F	Conference Highlights – LGA Governance Conference

Background Papers

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

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