

**Open Report on behalf of Executive Director of Finance and Public Protection**

|            |                                   |
|------------|-----------------------------------|
| Report to: | <b>Pensions Committee</b>         |
| Date:      | <b>09 October 2014</b>            |
| Subject:   | <b>Pension Fund Update Report</b> |

**Summary:**

This report updates the Committee on current issues and Fund matters over the quarter ending 30th June 2014.

**Recommendation(s):**

That the Committee note this report.

**Background**

**1 Fund Summary**

1.1 Over the period covered by this report, the value of the Fund rose in value by £31.1m (2%) to £1,618.7m on 30<sup>th</sup> June 2014. Fund performance and individual manager returns are covered in the separate Investment Management report, item 6 on the agenda.

1.2 Appendix A shows the Fund's distribution as at 30<sup>th</sup> June. All asset classes are within the agreed tolerances. The Fund's overall position relative to its benchmark can be described as follows:

Overweight Equities by 1.7%

UK Equities overweight by 0.2%

Global Equities overweight by 1.5%

Underweight Alternatives by 0.7%

Underweight Property by 0.2%

Underweight Bonds by 1.1

Overweight Cash by 0.4%

All movements in weight are due to the relative performance of the different asset classes.

- 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 30<sup>th</sup> June 2014.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30<sup>th</sup> June, accounting for 9.4% of the Fund, which compares with 9.4% last quarter. Equity holdings in the Fund are now shown on the Pensions website, and updated on a quarterly basis.

|    | <b>Company</b>           | <b>Total Value<br/>£M</b> | <b>% of Fund</b> |
|----|--------------------------|---------------------------|------------------|
| 1  | ROYAL DUTCH SHELL        | 25.9                      | 1.6              |
| 2  | HSBC                     | 19.9                      | 1.2              |
| 3  | BRITISH AMERICAN TOBACCO | 18.7                      | 1.1              |
| 4  | BP                       | 16.0                      | 1.0              |
| 5  | GLAXOSMITHKLINE          | 13.6                      | 0.8              |
| 6  | UNILEVER                 | 13.0                      | 0.8              |
| 7  | DIAGEO                   | 13.0                      | 0.8              |
| 8  | NESTLE                   | 12.1                      | 0.7              |
| 9  | APPLE                    | 11.1                      | 0.7              |
| 10 | RECKITT BENCKISER        | 10.8                      | 0.7              |
|    |                          |                           |                  |
|    | <b>TOTAL</b>             | <b>154.1</b>              | <b>9.4</b>       |

- 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 526 company meetings and cast votes in respect of 8,532 resolutions. Of these resolutions, the Fund voted 'For' 6,175, 'Against' 2,085 and abstained on 58 and withheld votes on 216.
- 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 at the 9<sup>th</sup> January 2014 meeting of this Committee, and effective from 1<sup>st</sup> March 2014.

## 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 newsletter can be found on their website at [www.lapfforum.org](http://www.lapfforum.org). During the quarter, the Forum:

- Attended Barclays Annual General Meeting (AGM) to challenge the company over governance and executive remuneration. Executive remuneration was also a focus in questions posed at the AGMs of Glaxosmithkline, G4S, WPP and Smith & Nephew.
- Spoke in support of the resolution co-filed at the National Express AGM on human capital management at US operations.
- Met with BP and Glencore to discuss carbon management and carbon asset risk. Addressed the BP chair on diversification into low carbon energy sources at the company's AGM.
- Questioned the chair of Rio Tinto at the company AGM on business strategy regarding the risk of thermal coal becoming a stranded asset and the chair at Royal Dutch Shell's AGM on approach to carbon asset risk management.
- Asked the chair of Anglo-American at the AGM about social, economic and community risk management moving from labour intensive mining operations to surface operations.

- Issued voting alerts on Glencore and Travis Perkins due to lack of board diversity. Other alerts in the quarter focussed on executive remuneration and carbon mitigation.
- Met with Stephen Hester of RSA Insurance Group to discuss the accounting irregularities in Ireland and company proposals for strategy going forward;
- Met with the UK Listing Authority regarding Essar Energy’s proposal to delist from a premium listing and the implications for governance compliance.

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 quarterly report detailing the performance of the cash balances managed by the Treasury. This shows an average cash balance of £4.6m. The invested cash has outperformed the benchmark from 1<sup>st</sup> April 2014 by 0.24%, annualised, as shown in the table below, and earned interest of £7.8k.

3.3 A new weighted benchmark (combining both 7 day and 3 month LIBID) has been adopted by the Council, replacing the 7 Day LIBID benchmark. This new benchmark is more reflective of the investment portfolio maturity profile.

| <b>Pension Fund Pooled Balance – to June 2014</b> |                              |  |   |                    |
|---|------------------------------|--|---|--------------------|
| <b>Pension Fund Average Balance £'000</b>         | <b>Interest Earned £'000</b> | <b>Cumulative Average Yield Annualised</b> | <b>Cumulative Weighted Benchmark Annualised</b> | <b>Performance</b> |
|   |                              | <b>%</b>                                   | <b>%</b>  | <b>%</b>           |
| 4,584.6   | 7.8                          | 0.64                                       | 0.40  | 0.24               |

### 4 Pensions Administration

4.1 The contract with Mouchel to provide Pensions Administration services to the Fund ends on 31<sup>st</sup> March 2015. Committee members were notified by

email on 15<sup>th</sup> May that West Yorkshire Pension Fund (WYPF) was the preferred provider for pensions administration services from 1<sup>st</sup> April 2015.

- 4.2 The change in Pensions Administration provider is part of the Future Delivery of Support Services programme (FDSS). A project board and team have been set up to work with WYPF and manage the transition. After much work from the project and legal teams on both sides, the collaboration agreement was signed in August.
- 4.4 The partnership will be governed through a collaboration board, comprising of officers from both Funds. The first meeting of the collaboration board was held in September, agreeing the terms of reference. This Board will report back to the Pensions Committee on a regular basis.
- 4.5 WYPF will base a satellite office in Lincoln, co-locating with the LCC Pensions Team, and all staff at Mouchel transferring to WYPF will be based here. A very successful "meet and greet" session was held in September to introduce the current Mouchel staff to the WYPF team.

## **5 Risk Register Update**

- 5.1 There have been no new risks added to the risk register over the quarter. A separate risk register is being kept as part of the pensions administration transition to WYPF.
- 5.2 All controls for existing risks are being carried out and there have been no changes to the existing risk levels.

## **Conclusion**

- 7.1 This reporting period saw the value of the Fund grow, increasing by £31.1m to close at £1,618.7m. At the end of the period the asset allocation, compared to the strategic allocation, was;
  - overweight equities and cash;
  - underweight alternatives, fixed interest and property.
- 7.2 The collaboration agreement with WYPF to manage the pensions administration service from April 2015 has been signed. The transition is being managed as part of the FDSS programme.

## **Consultation**

### **a) Policy Proofing Actions Required**

n/a

## **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             |

## **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](mailto:jo.ray@lincolnshire.gov.uk).