

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	08 January 2015
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on current issues and Fund matters over the quarter ending 30th September 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 £28.3m (1.7%) to £1,646.9m on 30th September 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 30th September. 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 1.3%

UK Equities underweight by 0.6%

Global Equities overweight by 1.9%

Underweight Alternatives by 0.7%

Underweight Property by 0.2%

Underweight Bonds by 1.2%

Overweight Cash by 0.9%

Cash balances have been increased over the quarter to build a balance of £29m by December, to fund the transfer of Probation assets to Greater Manchester Pension Fund. This follows the transfer of Probation liabilities earlier in June. Other 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 30th September 2014.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 30th September, accounting for 9.5% 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.

	Company	Total Value £M	% of Fund
1	ROYAL DUTCH SHELL	25.1	1.5
2	HSBC	21.1	1.3
3	BRITISH AMERICAN TOBACCO	18.7	1.1
4	NESTLE	14.2	0.9
5	BP	14.1	0.9
6	APPLE	13.0	0.8
7	UNILEVER	12.9	0.8
8	RECKITT BENCKISER	12.8	0.8
9	GLAXOSMITHKLINE	11.8	0.7
10	VODAFONE	11.0	0.7
	TOTAL	154.7	9.5

- 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 96 company meetings and cast votes in respect of 1,422 resolutions. Of these resolutions, the Fund voted 'For' 1,186, 'Against' 228 and abstained on 3 and withheld votes on 5.

- 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 9th January 2014 meeting of this Committee, and effective from 1st 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. Highlights during the quarter included:

- Attended **Vodafone, BT Group** and **Burberry** Annual General Meetings (AGM) to challenge the companies over executive remuneration.
- Questioned the **Betfair** chairman at the company AGM over illegal dividends and share buybacks after LAPFF issued a voting alert on this topic.
- Asked about the links between executive pay and climate risk management at the **British Land** AGM and continued engagement on carbon management with the chairman of **National Grid** at its AGM.
- After collaborative engagement on sustainable palm oil practices, four companies announced an immediate moratorium on clearance of high carbon stock forests.

- Engaged with companies in eleven country domiciles on a wide range of governance and risk management concerns.

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 £6.9m. The invested cash has outperformed the benchmark from 1st April 2014 by 0.25%, annualised, as shown in the table below, and earned interest of £23.7k.

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.

Pension Fund Pooled Balance – to September 2014				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised %	Cumulative Weighted Benchmark Annualised %	Performance %
6,935.7	23.7	0.65	0.40	0.25

4 Pensions Administration

4.1 The contract with Mouchel to provide Pensions Administration services to the Fund ends on 31st March 2015. Committee members were notified in May that West Yorkshire Pension Fund (WYPF) was the preferred provider for pensions administration services from 1st April 2015. A paper updating the Committee is included at paper 8 on this agenda.

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.

6 Asset Allocation

- 6.1 The asset allocation working group met on 11th December, following the Pensions Committee manager presentations. The objective of the meeting was to consider whether any changes might be considered to the Fund's equity mandates. Two papers produced by Hymans had been circulated prior to the meeting:
- Analysis of Global Equity Managers
 - Alternative approaches to capturing equity market returns – an overview
- 6.2 The Fund's 60% allocation to equities includes a 20% UK allocation, which is managed internally using a low risk "enhanced index" type basis – (target of +/-0.5% p.a. relative return), and a 20% overseas allocation managed by Invesco on a "low risk" basis (target +1% p.a. relative return).
- 6.3 There are no concerns with either of these mandates. The internal mandate is managed with satisfactory returns at very low cost and Invesco have met their performance target net of fees, though 20% of assets is regarded as a maximum to invest with any individual manager.
- 6.4 Given the low risk approaches above, it was felt perfectly reasonable to have the remaining 20% of equities managed on a high conviction fully active basis. However, this assumes / requires a high level of confidence in the managers to deliver added value net of fees commensurate with the levels of risk which they are taking. Discussion was had regarding the performance of the current active managers and whether changes would be beneficial in terms of increasing expected return with the same level of risk or maintaining expected return whilst reducing risk.
- 6.5 The 'Style Analysis' carried out on the Fund's combined actively managed global equities suggested that the four existing managers do not cancel each other out in terms of positioning. However, it also suggested that – in aggregate – there was a bias away from stocks displaying traditional 'value' characteristics and modestly in favour of 'mega cap' companies. There would be advantages in considering a passive approach which might help compensate for these biases within the Fund.
- 6.6 It was agreed that additional work would be carried out on low cost, passive investments in global equities with a broad bias towards 'value' stocks – and

how they might combine with the current investments. Pooled fund options are required in order to avoid a full OJEU procurement process.

- 6.7 There is currently much uncertainty surrounding the awaited response from the DCLG's 'Call for Evidence' consultation, as to whether funds should be mandated to invest passively or otherwise. The response is expected early in 2015. A further meeting of the working group will be held following that response, and a paper will be brought to the April Committee, detailing the research that Hymans have completed and providing any recommendations on changes within the Fund's active global equity allocation.

7 Diary Dates

- 7.1 A reminder that the next Committee training session is on Thursday 5th February commencing at 10am. Sessions will cover an introduction from the WYPF team and an overview of the Local Pensions Board requirements.
- 7.2 The annual employer meeting is being held in the Council Chamber on the morning of Tuesday 24th February, and all Committee members are welcome to attend.

Conclusion

- 8.1 This reporting period saw the value of the Fund grow, increasing by £28.3m to close at £1,646.9m. 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.
- 8.2 The transition of the pensions administration service to WYPF continues to progress. It is being managed as part of the Council's Future Delivery of Support Services programme (FDSSP).
- 8.3 The asset allocation working group are currently reviewing the active global equity strategy and will have further meetings once the outcome of the DCLG's 'Call for Evidence' consultation is known.

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.

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