

Regulatory and Other Committee

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

Report to:	Pensions Committee
Date:	09 April 2015
Subject:	Pension Fund Update Report

Summary:

This report updates the Committee on Fund matters over the quarter ending 31st December 2014 and any current issues.

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 £22.8m (1.4%) to £1,669.8m on 31st December 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 31st December. 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 1.9%

UK Equities underweight by 1.1%

Global Equities overweight by 3.1%

Underweight Alternatives by 0.8%

Underweight Property by 0.1%

Underweight Bonds by 1.1%

Overweight Cash by 0.2%

Movements in weight are due to the relative performance of the different asset classes. A rebalancing exercise took place in January/February to bring the asset weights into line with their benchmark weights.

- 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 31st December 2014.
- 1.5 The table below shows the Fund's ten largest single company investments (equity only and includes pooled investments) at 31st December, accounting for 9.3% of the Fund, which compares with 9.5% 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	23.0	1.4
2	HSBC	20.3	1.2
3	BRITISH AMERICAN TOBACCO	18.9	1.1
4	NESTLE	15.1	0.9
5	APPLE	14.4	0.9
6	UNILEVER	13.1	0.8
7	DIAGEO	13.1	0.8
8	RECKITT BENCKISER	12.8	0.8
9	BP	12.7	0.7
10	VODAFONE	12.2	0.7
	TOTAL	155.6	9.3

- 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 89 company meetings and cast votes in respect of 766 resolutions. Of these resolutions, the Fund voted 'For' 616, 'Against' 139 and abstained on 11 and withheld votes on 0.
- 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:

- Met with Shell to discuss the company's approach to carbon management, including the proposed shareholder resolution calling on Shell to disclose a longer-term carbon strategy. This resolution has now been filed for the 2015 AGM next year. LAPFF representatives also attended a shareholder roundtable with the company.
- Met with the BP chairman, also to discuss the company's carbon management strategy and proposed shareholder resolution. Worked with the company to file a shareholder resolution regarding carbon management that has now reached the necessary threshold of co-filers to go to a vote.
- Following up on member concern about companies involved in the production and sale of cluster munitions, LAPFF held conference calls with Singapore Technologies (Singapore), Textron (US) and Lockheed Martin (US) that clarified the position of these companies in relation to cluster munitions.

- Met with construction firms Kier and Carillion to discuss labour relations in light of assertions that these companies engaged in blacklisting of trade union employees.
- Met with the National Express Chairman and CEO to continue dialogue around concerns that the company's US unit, Durham School Services, engages in poor labour practices at some of its US sites. LAPFF has engaged extensively with National Express in the past, and the fact that the company continues to meet with LAPFF is encouraging.
- Met with Trinity Mirror, another company with which LAPFF has engaged extensively. Discussions are continuing in relation to the company's role in the hacking scandal, but there are signs that Trinity Mirror is responding to engagement.
- Issued a draft voting alert to BG Group over the company's proposed executive remuneration package for incoming CEO. Along with other investor groups, LAPFF voiced concern to the company about the excessiveness of the package and its potential to undermine the new binding remuneration vote. The company eventually capitulated and re-worked the package to fit within the company's remuneration policy.

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 £10.2m. 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 £51.6k.

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 end December 2014				
Pension Fund Average Balance £'000	Interest Earned £'000	Cumulative Average Yield Annualised	Cumulative Weighted Benchmark Annualised	Performance
		%	%	%
10,187.5	51.6	0.65	0.40	0.25

4 Pensions Administration

- 4.1 The contract with Mouchel to provide Pensions Administration services to the Fund ended 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. WYPF will be presenting their first Pensions Administration paper at item 7 on this agenda.
- 4.2 At the time of writing this report, the final stages of the transition were going according to plan and there were no concerns.
- 4.3 As part of the reconciliation and data cleansing work that has been done ahead of the transition, a small number of over and under payments to pensioners have been identified. Underpayments have been corrected and legal advice has been taken on how best to approach the over payments, and to ensure that they are being handled in a sympathetic manner.

5 Risk Register Update

- 5.1 There has been one new risk added to the risk register over the quarter. With the introduction of new pension freedom rules coming into effect from 6th April, this has identified a new risk to the Fund. Should a high number of members choose to release their pension pots from age 55 and transfer them out of the Fund, the impact could cause cashflow problems and potentially reduce the Funding position. The Fund can only agree to the transfers out if independent financial advice has been taken by the member. Officers will work with WYPF to agree procedures to manage the process and keep the Committee updated should any concerns arise. A paper informing the Committee of the changes is at agenda item 10.
- 5.2 A separate risk register is being kept as part of the pensions administration transition to WYPF.
- 5.3 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 It was agreed at the January meeting of this Committee that a further meeting of the working group would be held following the response to the DCLG's 'Call for Evidence' consultation, and a paper would 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.
- 6.2 As yet we are still awaiting the Government's response, and it is now unlikely that anything will be released ahead of the general election. It was agreed with the Chairman and Vice Chairman that Officers would not prepare anything ahead of the Government's response, but will continue to update the Committee with any further information that becomes available.

7 Local Pension Board

- 7.1 The consultation on the Local Pension Board, which Committee members were informed of at the training meeting held in February, closed on 16th March 2015. At the time of writing this report, the terms of reference and appointment process had yet to be agreed and approved by the Executive Director of Finance and Public Protection. This had to be completed by the 1st April 2015, to enable the Pension Board to be established by the statutory deadline.
- 7.2 Results of the consultation, the terms of reference and other papers detailing the appointment process for Board members will be published on the Pensions website in early April.

8 LGPS Collaboration

- 8.1 It was requested at the January Pensions Committee that Officers update the Committee on the various collaboration projects that are happening across the LGPS. Below is a summary of the current initiatives underway.

8.2 London Collective Investment Vehicles (CIV's)

Over the last two years, the 32 London Boroughs and the City of London have been collaborating through London Councils to establish a route through to reduced costs and overall improved investment returns for the LGPS funds across the Capital.

Work is underway to establish a Collective Investment Vehicle (specifically an FCA regulated, Authorised Contractual Scheme) through which the Boroughs will be able to invest, achieving economies of scale, providing a platform for potentially significant cost savings, and opening up opportunities to invest in alternative asset classes (e.g. direct investment in infrastructure)

that may not be easily achievable for individual funds. With over £24 billion of assets under management with 87 fund managers, across 253 mandates, and £72.8 million paid in fees in 2012/13, collaboration through the CIV is expected to deliver substantial savings on manager fees.

8.3 Pensions Administration Collaboration

In addition to the shared service that Lincolnshire is undertaking with WYPF, the following funds are sharing their pensions administration services:

- Cumbria and Lancashire
- Surrey and West Sussex
- Northamptonshire and Cambridgeshire - LGSS
- Devon and Somerset – Peninsula Pensions
- Kensington & Chelsea RBC, Hammersmith & Fulham LBC and Westminster City Council - Tri-Borough arrangement

8.4 Shared Investments

London Pension Fund Authority (LPFA) is currently working with two funds in separate investment partnerships.

- £500m infrastructure partnership with Greater Manchester Pension Fund
- Asset liability management partnership with Lancashire

8.5 National LGPS Frameworks

Lincolnshire is one of the founder members of the National LGPS Frameworks group. Procurement frameworks are now in place for:

- Custody
- Actuarial and Benefit Consultants
- Investment Consultants
- Legal Services

Conclusion

9.1 This reporting period saw the value of the Fund grow, increasing by £22.8m to close at £1,669.8m. 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.

9.2 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).

- 9.3 The asset allocation working group have put their work on hold until the outcome of the DCLG's 'Call for Evidence' consultation is known.
- 9.4 There has been one new risk added to the risk register over the quarter. The introduction of new pension freedom rules coming into effect from 1st April has identified a new risk to the Fund if a high number of members choose to release their pension pots from age 55 and transfer them out of the Fund.

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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