Lincolnshire
COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

6 October 2021

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 14 October 2021** in the **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Debbie Barnes OBE
Chief Executive

Membership of the Pensions Committee
(8 Members of the Council and 3 Co-Opted Members)

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), M G Allan, M A Griggs, Mrs A M Newton MBE, S R Parkin, T Smith and Dr M E Thompson

Co-Opted Members

Mr A N Antcliff, Employee Representative
Steve Larter, Small Scheduled Bodies Representative
R Waller, District Council Representative

PENSIONS COMMITTEE AGENDA
THURSDAY, 14 OCTOBER 2021

11	**Performance Measurement Annual Report** *(To receive a report by Jo Ray, Head of Pensions, which sets out the Pension Fund's longer term investment performance for the period ending 31 March 2021)*	117 - 124
12	**CONSIDERATION OF EXEMPT INFORMATION** In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda items 13, 14 and 15 have not been circulated to the press and public on the grounds that they are considered to contain exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business.	
13	**Investment Performance Report** *(To receive an Exempt report from Claire Machej, Accounting, Investments and Governance Manager, in relation to investment performance)*	125 - 192
14	**Investment Strategy Review** *(To receive an exempt report by Jo Ray, Head of Pensions, in relation to the investment strategy review)*	193 - 202
15	**Investment Consultant Tender and Appointment Recommendation** *(To receive an exempt report by Jo Ray, Head of Pensions, in relation to the Investment Consultant tender and appointment recommendation)*	203 - 210

Democratic Services Officer Contact Details

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Please Note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

Please note: This meeting will be broadcast live on the internet and access can be sought by accessing Agenda for Pensions Committee on Thursday, 14th October, 2021, 10.00 am (moderngov.co.uk)

All papers for council meetings are available on:
https://www.lincolnshire.gov.uk/council-business/search-committee-records

PENSIONS COMMITTEE
15 JULY 2021

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), M G Allan, Mrs A M Newton MBE, T Smith and Dr M E Thompson

Co-Opted Members: Mr A N Antcliff (Employee Representative) and Steve Larter (Small Scheduled Bodies Representative)

Pension Board Members: Roger Buttery and David Vickers attended the meeting as observers

Officers in attendance:-

Michelle Grady (Assistant Director – Finance), Claire Machej (Accounting, Investment and Governance Manager), Jo Ray (Head of Pensions), Rachel Wilson (Democratic Services Officer), Roger Buttery, Yunus Gajra (Assistant Director - Finance, Administration and Governance, West Yorkshire Pension Fund), Lisa Darvill (Client Relationship Manager) and Peter Jones (Independent Advisor)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors M Griggs and S Parkin.

2 DECLARATIONS OF MEMBERS' INTERESTS

Mr Steve Larter declared an interest as a deferred and active member of the Pension Fund.

Mr Andy Antcliff declared an interest as a contributing member of the fund as an employee of Lincolnshire County Council.

Councillor M G Allan declared an interest as an active member of the Pension Fund.

3 MINUTES OF THE PREVIOUS MEETING HELD ON 18 MARCH 2021

RESOLVED:

That the minutes of the meeting held on 18 March 2021 be approved as a correct record and signed by Chairman.

4 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report by the Committee's Independent Advisor which provided an update on the current state of global investment markets.

The Committee's Independent Advisor informed the Committee that his report had been written three weeks earlier, and since then there had been no significant changes. Professional investors were of the opinion that there would still be a major economic upturn, but there was still anxiety about the sharp rise in inflation in the USA. The latest US published inflation rate was 5.5%, to put this into context, at the previous meeting it had been noted that the Federal Reserve was anxious about it going above 3%. The Federal Reserve was holding its nerve and not raising interest rates at this time in response.

It was also reported that US second hand car prices had risen year on year, as there was a huge shortage of new cars due to a lack of computer chips. The price of iron had also doubled since the previous year. However, the majority still believed that market inflation would be short lived. It was noted that long term investments, such as pension funds and insurance companies, were generally growing.

In closing, the Advisor commented on the UK market, which looked quite cheap compared to other global competitors. It was also noted that there had been large increase in UK companies being taken over by overseas companies, often by overseas private equity firms. This was leading adverse comments in the media and in parliament. The UK market has been drifting upwards in response to this takeover activity and it was expected to continue to do so, if only modestly.

It was queried whether there was a risk with the takeover of companies and assets to the Council's pension fund. It was also queried whether there was a need to diversify the Fund's assets to ensure that it was not overly reliant on global companies and gilt yields. The Committee was advised that the Lincolnshire fund would benefit when stocks it held were taken over at elevated prices, however, in the long term it would reduce the attractiveness of the UK market as it would lack the high growth companies, particularly the tech companies. There would also be an issue with UK companies which were managed from abroad.

RESOLVED

That the update be noted.

5 REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD

Consideration was given to a report by the Independent Chair of the Lincolnshire Local Pension Board which updated the Pensions Committee on the work of the Board during the past few months. It was highlighted that there had been five areas of particular focus for the Pension Board at its last meeting on 18 March 2021 which were: Employer Monthly

Submission and Contribution Monitoring; the Pension Regulator's Public Service Governance Survey; Pension Benefits in Suspense – temporary bank accounts; Governance – TPR Checklist Dashboard; and Pension Board Membership.

RESOLVED

That the update be noted.

6 PENSION FUND UPDATE REPORT

Consideration was given to a report presented by the Head of Pensions which updated the Committee on Fund matters for the quarter ending 31 March 2021. Members were guided through the report and the following was noted:

- The Executive Director – Resources, as the S151 Officer, was informed of the breaches which were reported to the Pensions Regulator;
- A number of changes to the meeting timetables had been proposed, in particular the request to move the meeting scheduled for 9 December 2021 to 2.00pm 16 December 2021 due to a clash with the LAPFF Annual Conference; and
- In relation to training, it was noted that there were two new member training sessions planned for the beginning of September, hosted by Border to Coast was being. These would be held virtually. The Border to Coast annual conference on 30 September and 1 October would be face to face in Leeds.

RESOLVED

1. That the report be noted;

2. That the proposed changes to the December, January, September and October Committee meetings, as set out in section 7 of the report be approved.

7 RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a report which provided the Committee with an update on Responsible Investment activity during the fourth quarter of the financial year 2020/21 (January to March inclusive). Members were guided through the report and some of the points raised during discussion included the following:

- It was queried whether the Fund was informed about voting activity before votes took place. Members were advised that there was a voting policy for Border to Coast, which would be followed, and it would only be if Border to Coast were proposing to vote in a way that could be deemed controversial that the Funds would be consulted beforehand.
- In terms of the net zero proposal, it was queried whether there was a risk to smaller investment opportunities, or if there was a risk of stifling competition. It was noted

that the proposal would be across the entire fund, and there was not an expectation for every company or investment to be net zero.

- Guidance from MHCLG was expected in relation to Responsible Investment, as there would be a requirement for funds to record what they were doing in relation to this. This was an area it was planned to hold some training on in the future.

RESOLVED

That the report and the Responsible Investment activity undertaken during the quarter be noted.

8 PENSIONS ADMINISTRATION REPORT

Consideration was given to a report presented by the Assistant Director (Finance, Governance and Administration) from the West Yorkshire Pension Fund, who updated the Committee on current administration issues. Members were guided through the report and some of the points raised during discussion included the following:

- In relation to the performance indicators, it was queried whether the targets were too lenient as they had been relatively easy to achieve. The Committee was advised that this had been discussed at the Shared Services Management Meeting and a working group would be set up to examine all the performance indicators and whether they needed to be revised.
- In relation to the Shared Services Budget, it was queried whether any savings had arisen from the changes to working arrangements over the past 16 months, and if it was likely that these changes would remain in place. Members were advised that there had been investment in items such as computers, screens, mobile phones as well a large investment in the IT systems to enable the workforce to continue working full time during this period. The option to bring some staff back into the office on hybrid working arrangements was being explored. The savings planned would come from the review of the Members Pensions Portal, which would reduce the cost of printing and postage.
- It was commented that there was a need for the administrators of the Pension Fund to do a good job and provide good value cost per member. It was positive to see that the Fund was getting a £3 rebate per member, and there were no outstanding appeals or cases with the Ombudsman. It was commented that the West Yorkshire Pension Fund was doing a good job as the Fund's administrator.

RESOLVED

That the report be noted.

9 EMPLOYER MONTHLY SUBMISSIONS UPDATE

Consideration was given to a report which provided the committee with information on Employer Monthly Submissions for the fourth quarter of the financial year 2020/21 (January

to March inclusive). Members were guided through the report and it reported that generally there were very few employers who paid their contributions late, issues were more likely to occur around late or inaccurate data returns.

RESOLVED

That the report be noted and no further actions be taken against employers submitting late or inaccurate payments or data.

10 LINCOLNSHIRE PENSION FUND RISK REGISTER

Consideration was given to a report which presented the Pension Fund Risk Register and Risk Policy to the Committee for annual review and approval. Members were guided through the report and it was noted that there were no changes to the policy which needed to be brought to the attention of the Committee. It was also reported that there were currently no red risks, and assurance across the risks was generally substantial or high. Work was still underway on the risk appetite.

RESOLVED

1. That the risk management policy be approved;

2. That the risk register be approved.

11 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY

Consideration was given to a report which set out the training policy and the annual training plan for the Pensions Committee members for the year to June 2022. It was reported that all new members of the Committee had now completed the initial training with the Head of Pensions.

It was requested that once members had completed the TPR online training, certificates should be sent to the Head of Pensions so they could be added to the members' training record.

RESOLVED

1. That the training policy be approved;

2. That the proposed areas for training at the September and February meetings be agreed as set out in the report;

3. That the annual training plan be approved.

12 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

The Committee received the draft Annual Report and Accounts for the Pension Fund. The draft Annual Report and Accounts for the year ended 31 March 2021 had been completed and were being independently audited by the Council's external auditors, Mazars. It was noted that the Accounts element of the report may be subject to change in light of outstanding valuation information relating to unquoted asset valuations as at 31 March 2021. Subject to the completion of the External Audit work the final Annual Report and Accounts would be presented to the Pensions Committee in October.

It was commented that the previous year, the main LCC accounts had had a challenging audit and it was queried whether the same issues were likely to be experienced for this year's accounts. Members were advised that the work on the audit for the Pension Fund had commenced in June 2021, and by the end of July the majority of the work should be completed. Some further audit time was planned for the beginning of September and to review any further unquoted valuations received. It was not anticipated that there would be any problems in relation to the Pension Fund accounts.

It was clarified that the previous year, there had been a particular issue around the Energy from Waste facility, however, Mazars were content with the work that had been completed around this and had given no indication that there would be any issues this year.

RESOLVED

That the draft Pension Fund Annual Report and Accounts be approved.

13 ANNUAL REPORT ON THE FUND'S PROPERTY AND INFRASTRUCTURE INVESTMENTS

Consideration was given to a report which outlined the performances of the Fund's property and infrastructure investments for the year ended 31 March 2021. Members were guided through the report and some of the points raised during discussion included the following:

- In relation to property investment, it was commented that this could be quite volatile, and it was believed that the Chancellor was keen to encourage pension funds to make infrastructure investments. It was queried whether there had been any engagement between the Chancellor and pension funds. It was confirmed that there had been discussion, but pension funds needed to be invested for the benefit of its members. However, infrastructure could be a good investment for pension funds, but it would be important to ensure that it was the right opportunity for the Fund.
- It was suggested that there may be a need for something to be brought to the Committee on this subject, however, members were advised that a good opportunity to discuss this further would be alongside the strategic asset allocation training scheduled for September, and any points raised would be brought forward to the Committee meeting in October.

- A query was raised in relation to the market value of property, and members were advised that the valuations were provided by independent property experts in commercial property.

RESOLVED

That the report be noted.

14 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That in accordance with Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that if they were present there could be a disclosure of exempt information as defined in Paragraph 3 of Part 1 of Section 12A of the Local Government Act 1972, as amended.

15 INVESTMENT PERFORMANCE REPORT

Consideration was given to a report which covered investment performance. A number of questions were asked and answered.

RESOLVED

That the exempt report be noted.

The meeting closed at 11.33 am

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Lincolnshire COUNTY COUNCIL
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Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Independent Advisor's Report**

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee note the report.

Background

<u>Investment Commentary – October 2021</u>

Clouds gathering on the Economic Horizon? Stock markets, so far, seem oblivious.

As autumn approaches, the economic clouds are darkening in most developed economies of the northern hemisphere. Growth rates of output are losing momentum and inflation rates are still rising in most, but not all, countries. No economic collapse is yet forecast. But the certainty about prospects of a steady recovery from the Covid-19 pandemic (with which investors have viewed the world for most of this year) is certainly ebbing away, to be replaced by more uncertain times. How will markets – both equities and bonds – react?

Supply shortages and inflationary impact

Committee members will be familiar with media reports of empty supermarket shelves, of shortages of lorry drivers and general problems with the global supply chain of goods to the developed world. Job vacancies have also risen sharply and many companies report major difficulties in recruitment of staff. The latest such anxiety is over gas supplies, where there is a global shortage – exacerbated by insufficient tanker and pipeline capacity to quickly remedy the situation. An immediate result is a sharp rise in other energy prices such as electricity. The consequence of an insufficient supply of any such product is obviously the ability of providers to push prices higher. In other words, an attempt to ration supplies by price rises rather than physical control.

This increase in prices generally has been evident for some months now in published inflation data. Up until now, the major Central Banks of the world (e.g. the Bank of England, US Federal Reserve, the European Central Bank) have been resolute in arguing that the rise in inflation was a short term phenomenon and did not require remedial action from them, for example, by a rise in short term interest rates. Recent inflation numbers have been modest by long term historical standards (under 6% recently in the USA and under 5% for example in the UK and Germany) and there have been signs of them reaching a peak in the near future. A key component of the rise in inflation globally has been the amazing rise in second hand car prices because of a dearth of new vehicle supply caused by shortages of essential computer chips. These increases in second hand prices were as high as 15%; they may now be easing back a little. So, investors – and investors in bonds in particular – have generally agreed with the views of the central bankers that the rise in inflation was a temporary phenomenon. The major central bankers have all talked about their intention to raise short term interest rates in the future – but have held back from actually doing so. Now that a sharp rise in energy prices is almost certain as the northern hemisphere winter approaches, will this consensus still hold?

Squeeze on living standards

It is an old adage that a rise in energy prices acts as a tax increase (because of the unavoidable effects on us all through the costs of heating, fuel costs for our cars and transport costs in the goods that we buy). If these rises are to be accompanied by tax increases to pay for the costs that governments incurred during Covid, then the impact on ordinary people could be severe. So, in the UK at least, the economy could face a pretty drastic impact on living standards, especially for the lower paid. I hesitate to use the word "stagflation" i.e. no economic growth but an uncomfortably high level of price inflation, but I no longer think it is impossible. I doubt that other developed economies will be immune from such a tendency.

Stock market prospects

So far, global equity markets have remained firm. Cash flows into the coffers of institutional investors remain strong. The US equity market has risen some 5% across the summer, and most others are up modestly. The UK market has lagged. Bond markets have traded pretty much sideways - with yields remaining very low. And therein lies investors' dilemma. If bonds are unattractive (and that view is certainly widely held) what are the easily investible alternatives? The short answer is only equities. They can be freely traded, in large size, in contrast to most other investments.

If the equity markets are to weaken materially, then such a movement often starts with the "bears" shorting stock that they do not own, with a view to buying it back at lower prices. Such bears have been absent from markets for most of 2021. Daily falls in equity indices of say 2% are not uncommon in most years. They have been in 2021. A global economic crisis could certainly put equities into a tailspin. The huge increase in global gas

prices may have the potential to do so – but has not so far. For the time being, the mantra "there is no alternative" to equities still holds.

Peter Jones
26 September 2021

Consultation

a) Risks and Impact Analysis

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

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 Peter Jones, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Lincolnshire COUNTY COUNCIL
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Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Report by the Independent Chair of the Lincolnshire Local Pension Board**

Summary:

The purpose of this report is:

A) To update the Pensions Committee on the work of the Pension Board (PB) during the last few months;

B) For the Pensions Committee to receive assurances gained from the PB's work; and

C) For the Pensions Committee to consider recommendations from the PB.

Recommendation(s):

The Pensions Committee is requested to note the report.

Background

1.0 <u>OUTCOMES FROM PENSION BOARD MEETING ON 15 JULY 2021</u>

1.1 The PB met on the 15 July and a particular focus was on the following:

a) Employer Monthly Submissions and Contribution Monitoring;

b) Data Quality;

c) Prudential AVCs; and

d) Draft Annual Report and Accounts.

1.2 **Employer Monthly Submissions and Contribution Monitoring** - the PB considered the standard report on employer monthly submissions for the final quarter of the financial year 2020/2021. Performance during the final quarter was generally

good. The issue identified earlier in the year with one of the Fund's larger payroll providers had been resolved and no fines were issued during the quarter. During the financial year, there were 20 cases of the late payment of contributions and 111 cases of the late submission of monthly returns. Arising from the discussion on late payments, etc., I was requested to write to the Scheme Advisory Board – a copy of the letter and response is attached at **Appendix A**.

1.3 **Data Quality** – the PB considered a further update from WYPF on the data scores for the Lincolnshire Pension Fund as reported to the Pensions Regulator; these were Common 95.86% and Scheme Specific 84.32%. Both scores show only a marginal improvement over those recorded six months previously, namely 95.66% and 84.03%, respectively. The target is 100%, particularly for Common Data. WYPF is currently working on a data improvement plan, using a tracing company in an attempt to track lost members. WYPF expect that the data quality report will show a bigger improvement when the report is next considered by the Board as work is underway to address some of the bigger outstanding numbers within the improvement plan. The PB will continue to monitor the position because the Pensions Regulator expects an improvement in data quality for all public sector schemes.

1.4 **Prudential AVCs** – for many years, Prudential has provided an excellent service for members with AVC funds. However, Prudential's administration platform has been changed recently resulting in major problems and a poor service to members. Both Lincolnshire and WYPF reported Prudential to the Pensions Regulator and are monitoring their performance closely. West Yorkshire has reported a slight improvement in services to members in recent months, and Prudential are awarding members a payment for poor service, inconvenience and distress. A further update will be given as part of the Fund Update Report.

1.5 **Draft Annual Report & Accounts** – the PB also considered the Pension Fund draft Annual Report & Accounts and congratulated the Head of Pensions on an excellent document. The PB raised a few queries which were satisfactorily resolved.

Conclusion

ASSURANCES GAINED BY THE BOARD

2.1 The vast majority of employers pay their contributions on time and submit the required documentation.

2.2 The PB has some concerns about the data scores and cannot provide full assurance on this aspect.

2.3 Services from Prudential continue to cause concern, although it is pleasing to see some improvement in services to members. The PB and Officers will continue to monitor progress in the coming months.

2.4 The draft Report & Accounts demonstrates excellent stewardship.

Roger Buttery
Independent Chairman

September 2021

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	Letter from the Chairman of the Pensions Board to the Scheme Advisory Board regarding Employer Contribution Concerns

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 Roger Buttery, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Lincolnshire
COUNTY COUNCIL
Working for a better future

Councillor R. Phillips
Chair, Scheme Advisory Board
Local Government Association
18 Smith Square
Westminster
LONDON
SW19 3HZ

Lincolnshire County Council
County Offices
Newland
Lincoln LN1 1YL

Tel: [redacted]

Ref: EmpConts

Date: 27 July 2021

Dear Councillor Phillips

EMPLOYER CONTRIBUTIONS

I am writing to you in my role as Independent Chair of the Lincolnshire Local Pension Board. One area that our Board takes a very keen interest in is in ensuring that all employers in the Lincolnshire Pension Fund are meeting their statutory requirements in terms of paying over contributions and submitting correct data to the administrator. Generally compliance is very good, however there are a very small number of employers that appear to be incapable of towing the line.

Officers of the Fund have been in meetings with other partner funds within the Border to Coast asset pool to discuss the common issues they have with this very small number of problem employers, some of which are common across funds. I have detailed below the issues that they are finding, and would expect this to be an issue across all funds within the LGPS, as they are within the funds of Border to Coast.

I thought it would be useful to bring this to your attention so that you could consider whether there is any guidance or additional actions that could be taken to assist funds in dealing with this small minority of employers that take up a disproportionate amount of the administrator's time and that can leave their members without access to up-to-date information on their pension record.

These are generally companies that have taken staff through TUPE from academies, when outsourcing their catering or cleaning, therefore are generally just a few members transferring to the new admitted body.

The common issues are:

1) Late payment of contributions
2) Late submission of monthly or year-end data
3) Late payment of secondary (deficit) contributions

4) Late/delayed signing of the admission agreement
5) Late/delayed bond agreements being put in place

Despite regular contact, training offered, reminders of their responsibilities and even threats of reporting to TPR, there is often little or no improvement, and just an on-going battle each month.

Within the regulations, aside the nuclear option of termination of the admission agreement, the only option that funds have is in regulation 70, as set out below:

Additional costs arising from Scheme employer's level of performance

70.—(1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating—

> *(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);*
>
> *(b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and*
>
> *(c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).*

Some funds do and have issued fines, however employers have at times refused to pay, and the cost of taking it through the court system is disproportionate to the amount of the fine, therefore we funds are somewhat limited in the stick that they can wield.

The funds will be taking this to the National Technical group for discussion, and also taking legal advice as to whether charges can be made to the ceding employer when their contractor fails to fulfil their responsibilities.

As mentioned above, I should be grateful if you would give this some consideration, to see if there was some scheme wide guidance or advice that could assist funds with this concern.

Yours sincerely

Roger Buttery
Independent Chair of the Lincolnshire Local Pension Board

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Lincolnshire COUNTY COUNCIL
Working for a better future

Open Report on behalf of Andrew Crookham Executive Director – Resources

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters for the quarter ending 30 June 2021 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. Conference and Training Attendance

Recommendation(s):

That the Committee:

1) consider and note the report; and

2) agree to a full days training in February, in place of the normal half day session.

Background

1. Funding and Performance Update

1.1 Over the period covered by this report, the value of the Fund increased in value by £136.2m (+5%) to £2,870.8m on 30 June 2021.

Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 30 June. At an asset class level, property is below its lower tolerance and cash is above its upper tolerance.

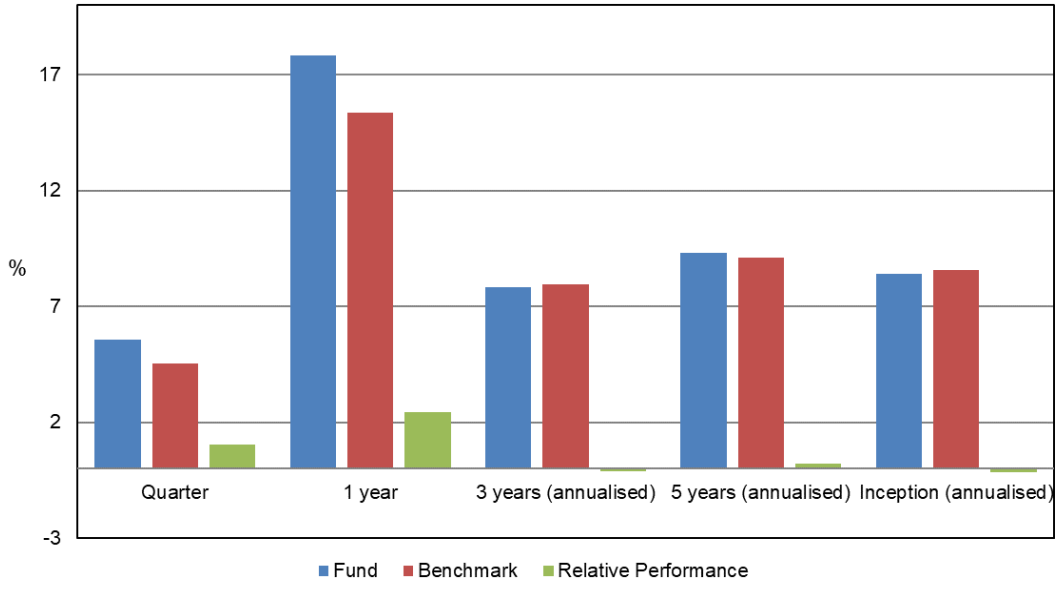
Commitments made to residential property funds in 2020 and 2021 are beginning to be drawn down, however the property allocation will still be underweight once these are fully drawn. Following the training session on Investment Strategy held on 16 September, a further paper on the property allocation is at agenda item 13 of this meeting. The higher cash level is a result of the rebalancing undertaken during the transition from Invesco into the LGIM Future World Fund and the Border to Coast Global Equity Alpha Fund. This additional cash is being invested to fund expected drawdowns in property and infrastructure investments.

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

Asset Class	Q2 2021 £m	Q1 2021 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	466.1	442.9	16.2	15.0	1.2
Global Equities	1,200.0	1,124.6	42.0	40.0	2.0
Alternatives	552.4	516.7	19.1	21.0	(1.9)
Property	211.0	203.8	7.3	10.0	(2.7)
Fixed Interest	356.9	349.4	12.5	13.0	(0.5)
Cash	84.4	97.1	2.9	1.0	1.9
Total	**2,870.8**	**2,734.6**	**100.0**	**100.0**	

Fund Performance

1.4 The graph and table below shows 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	5.58	4.55	1.03
1 year	17.83	15.37	2.46
3 years*	7.84	7.96	(0.12)
5 years*	9.32	9.11	0.21
Inception**	8.39	8.56	(0.17)

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

1.5 Over the quarter, the Fund produced a positive return of 5.58% (as measured by Northern Trust), outperforming the benchmark by 1.03%. The Fund was also ahead of the benchmark on the one year and 5 year periods, but slightly underperformed on the three year period and since inception.

1.6 Appendix B shows the market returns over the three and twelve months to 30 June 2021.

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 2019, to the current quarter end, 30 June 2021. The accuracy of this type of funding update is expected to 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 100% funding level.

1.8 At the last formal valuation, reworked under the methodology of Barnet Waddingham, the funding level was 97.5%, with assets and liabilities measured at £2.33bn and £2.39bn respectively. Since the valuation date, the funding level has increased by 1.3% to 98.8%. The graph below shows the volatility of the changes over the period since then, both on a smoothed and unsmoothed basis.

1.9 Over the period 31 March 2019 to 31 March 2021 the deficit, in real money, has fallen from £60m to £36m. The biggest impactor is the investment gain, although this has been partially offset by the change in discount rate over the period. Since the valuation, contributions and transfers have been greater than the accrual of new benefits. The table below shows the analysis of the change in deficit.

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 C. 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 – It is the intention that all PB and PC members carry this out, and provide copies of the completion certificate to the Pension Fund Manager. However, whilst all Board members have completed this training, due to the change in Pensions Committee membership following the May elections, certificates have not yet been received from the new Committee members. As set out in the training policy, members do have a six month window to complete this training, which should therefore be completed by November.

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.

2.3 Members will be aware that TPR have been consulting on a new combined Code of Practice. The draft Code combined 10 Codes into one, including encompassing the dedicated public service Code of Practice 14 with those covering private sector schemes.

2.4 TPR received a strong response to the consultation with 103 respondents submitting over 10,000 individual answers. It is therefore taking them time to work through and fully consider the responses in detail. In doing so TPR note that they will be able to further develop their policy positions, as well as potentially incorporating the Pension Schemes Act 2021 into the first issue of the new Code, and, for the public service schemes, clarifying some of the key confusions arising in the draft Code.

2.5 Importantly, the key messages for the public service schemes are that TPR:

- do not now expect to lay the new Code before Parliament before spring 2022, and so it is unlikely to become effective before summer 2022;

- will explore ways to make the audience for each module clearer;

- will examine how to resolve the difficulties of using the term Governing Body for the public service schemes;

2.6 No date has been given for when the full consultation response will be issued addressing these key issues, as well as the many others raised across the consultation responses. TPR's commitment to clarify these key issues of concern raised by the public service sector is much welcomed.

3. Breaches Reporting - update

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

- **Late payment of contributions** – a separate paper is presented to the Committee at paper 9, updating the Committee on all monthly employer contribution breaches over quarter.

3.2 Prudential, the Fund's AVC provider, have been contacted for an update on their situation, which was causing issues with processing contributions and resulted in late provision of AVC cash to retiring members, delaying their final pension

calculations and payment. However, at the point of writing this report, no response had been received.

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 amendments to the risk register since the last Committee meeting and there are currently no red risks.

5. Asset Pooling Update

Sub Funds

5.1 The investment with Border to Coast into the Multi Asset Credit (MAC) Fund is still expected to be completed in the second half of 2021. Ahead of this, the Fund invested 3.5% of the Fund with the MAC Fund's core manager, Pimco, in two tranches in July 2020. This will transfer to the Border to Coast Fund once that is launched, with an additional 1.5% of the Fund being invested in the new sub-fund.

5.2 Since the last Committee meeting, Border to Coast has held a number of workshops and meetings with officers and advisors covering property an alternatives fund design, performance, and Responsible Investment.

5.3 In addition, Border to Coast have held two new member virtual training sessions in September. Slides from these sessions and links to the recordings of them were circulated to Committee members on 20 September.

Joint Committee Meetings

5.4 The latest Joint Committee meeting was held on the morning of the annual Border to Coast Conference, on 30 September. Minutes of the Joint Committee meeting held on 13 July, and the agenda items for the latest meeting were shared with Committee and Board members. Below are the agenda items for the meeting and the minutes will be circulated with the next JC agenda:

- Covid 19
- Proposed Meeting Dates
- Elections and Nominations 2021
- Joint Committee Budget
- Responsible Investment Update
- Summary of Investment Performance and Market Returns
- CEO Report
- Consideration of Climate Change Transition Benchmarks
- Alternatives – Annual Review

- Performance Reports
    - UK Listed Equity
    - Overseas Developed Equity
    - Emerging Markets Equity
    - UK Listed Equity Alpha
    - Global Equity Alpha
    - Investment Grade Credit
- Update on Emerging Matters

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

5.6 Border to Coast facilitated a second Joint Committee Responsible Investment Workshop on 7 September, following up on questions raised at the workshop held in July, to ensure that all Partner Funds' views can feed into the annual review of the RI policies of Border to Coast.

Senior Officers Meetings

5.7 As part of the regular communications between Partner Funds and Border to Coast, senior officers (S151's) have bi-monthly calls with Rachel Elwell, CEO of Border to Coast. In addition to this, strategy meetings are held at various times throughout the year, to ensure that all parties are aligned.

5.8 The next strategy meeting of the Senior Officers of the Partner Funds is being held with Border to Coast on 23 November.

Shareholder Matters

5.9 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.

5.10 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.

5.11 There has been one shareholder resolutions since the last report, which Lincolnshire voted in favour of:

- To approve additional resources for Real Estate.

6. Conference and Training Attendance

6.1 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 recommended it for others to attend.

6.2 Conferences attended by Officers and Councillors since the last meeting are:

- LGC Investments and Pensions Summit – 9-10 September, Leeds
  Conference highlights, provided by Hymans Robertson, are attached at appendix E

- Border to Coast Annual Conference – 30 September – 1 October, Leeds
  Topic highlights included:
  - What makes an effective investment strategy;
  - How asset classes work;
  - Pooling in perspective;
  - Delivering for Partner Funds;
  - RI oversight;
  - The road to Net Zero; and
  - The next 12 months.

6.3 The Committee and officers are therefore requested to share information on relevant events they have participated in since the last Committee meeting.

6.4 Following the training day held on 16 September, it was agreed that the investment beliefs would be reviewed and considered at the next training meeting to be held in February 2022. As there will also be a training session on the triennial valuation, given that the next valuation falls on 31 March 2022, it is suggested that the February training be extended to a full day, to ensure that both subjects are given enough time for consideration. Officers will identify a suitable date and invitations will be issued in the coming weeks.

Conclusion

7. The Fund has maintained its recovery from the falls last year, and is 98.8% funded as at the end of June, with an asset value of £2,870.8m.

8. Given the detailed topics to be considered at the next Committee training meeting, of investment beliefs and the triennial valuation, the Committee are asked to agree to a full days training in February, in place of the normal half day session.

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	Distribution of Investments
Appendix B	Market Returns (31 March 2021)
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register
Appendix E	Hymans Robertson LGC Conference Highlights

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.

DISTRIBUTION OF INVESTMENTS

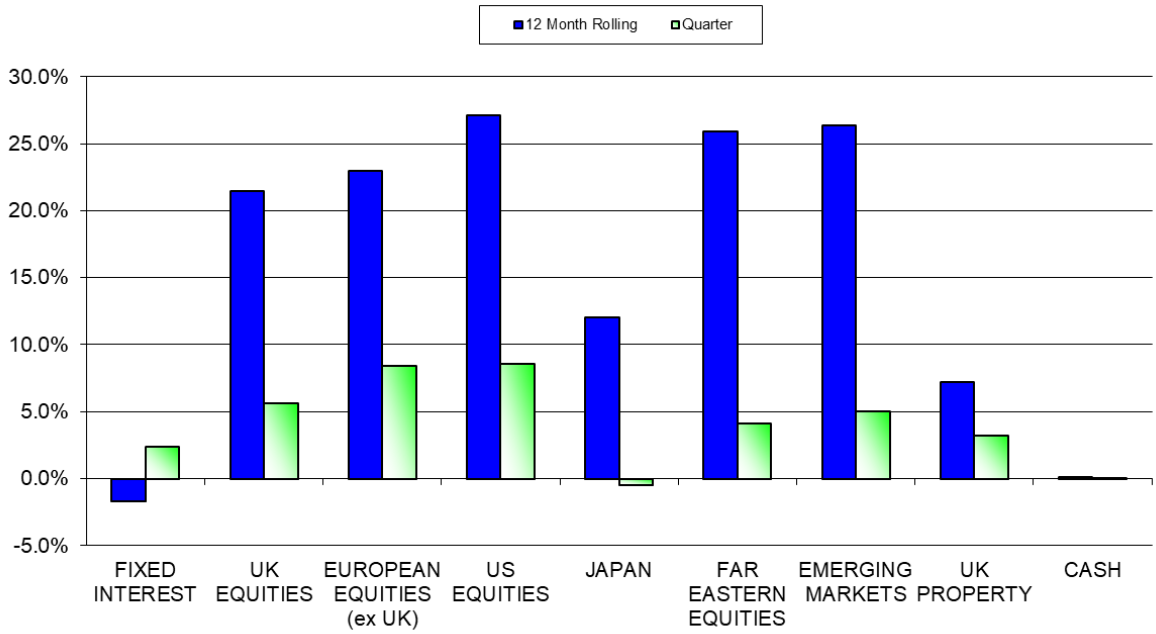
INVESTMENT	30 June 2021			31 March 2021			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
Border to Coast UK Listed Equity	466,129,316	28.0%	16.2%	442,899,015	28.3%	16.1%	15.0%	+/- 2.0%
TOTAL UK EQUITIES	**466,129,316**		**16.2%**	**442,899,015**		**16.1%**	**15.0%**	
GLOBAL EQUITIES								
Invesco				2,258,708	0.1%	0.1%		
LGIM Future World	438,022,283	26.3%	15.3%	410,865,161	26.2%	15.0%	15.0%	+/- 2.0%
Border to Coast Global Equity Alpha	761,955,142	45.7%	26.7%	711,480,312	45.4%	25.9%	25.0%	+/- 2.5%
TOTAL GLOBAL EQUITIES	**1,199,977,425**		**42.0%**	**1,124,604,181**		**41.0%**	**40.0%**	
TOTAL EQUITIES	**1,666,106,741**	**100.0%**	**58.2%**	**1,567,503,196**	**100.0%**	**57.1%**	**55.0%**	
ALTERNATIVES *	**552,409,852**		**19.1%**	**516,717,240**		**19.0%**	**21.0%**	**+/- 3.0%**
PROPERTY	**210,958,805**		**7.3%**	**203,822,424**		**7.5%**	**10.0%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock	157,169,174	44.0%	5.5%	153,513,311	43.9%	5.6%	6.0%	+/- 1.0%
Border to Coast Investment Grade Credit	199,772,112	56.0%	7.0%	195,898,414	56.1%	7.2%	7.5%	+/- 1.0%
TOTAL FIXED INTEREST	**356,941,286**	**100.0%**	**12.5%**	**349,411,725**	**100.0%**	**12.8%**	**13.5%**	**+/- 1.5%**
TOTAL INVESTED CASH	**84,339,841**		**2.9%**	**97,111,525**		**3.6%**	**0.5%**	**+ 0.5%**
TOTAL INVESTED ASSETS	**2,870,756,525**		**100%**	**2,734,566,110**		**100%**	**100.0%**	

* including Infrastructure

APPENDIX A

APPENDIX B

CHANGES IN MARKET INDICES
MARKET RETURNS TO 31 MARCH 2021



INDEX RETURNS	12 Months to Jun 2021 %	Apr-Jun 2021 %
FIXED INTEREST	-1.7%	2.4%
UK EQUITIES	21.5%	5.6%
EUROPEAN EQUITIES	23.0%	8.4%
US EQUITIES	27.1%	8.6%
JAPANESE EQUITIES	12.0%	-0.5%
FAR EASTERN EQUITIES	25.9%	4.1%
EMERGING MARKETS	26.4%	5.0%
UK PROPERTY	7.2%	3.2%
CASH	0.1%	0.0%

Appendix C

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

No	Completed	Compliant
	Reporting Duties	
A1	G	G
A2	G	G
A3	G	G
A4	G	G
	Knowledge & Understanding	
B1	G	G
B2	G	G
B3	G	G
B4	G	G
B5	G	G
B6	G	G
B7	G	G
B8	G	G
B9	G	G
B10	G	G
B11	G	G
B12	A	A
	Conflicts of Interest	
C1	G	G
C2	G	G
C3	G	G

No	Completed	Compliant
C4	G	G
C5	G	G
C6	G	G
C7	G	G
C8	G	G
C9	G	G
C10	G	G
C11	G	G
	Publishing Scheme Information	
D1	G	G
D2	G	G
D3	G	G
D4	G	G
	Risk and Internal Controls	
E1	G	G
E2	G	G
E3	G	G
E4	G	G
E5	G	G
E6	G	G
E7	G	G
E8	G	G

No	Completed	Compliant
	Maintaining Accurate Member Data	
F1	A	A
F2	G	G
F3	G	G
F4	G	G
F5		
F6	G	G
F7	G	G
F8	G	G
F9	G	G
F10	G	G
F11	G	G
	Maintaining Contributions	
G1	G	G
G2	G	G
G3	G	G
G4	G	G
G5	G	G
G6	G	G
G7	G	G
G8	G	G
G9	G	G

No	Completed	Compliant
	Providing Information to Members and Others	
H1	G	G
H2	G	G
H3	G	G
H4	G	G
H5	G	G
H6	G	G
H7	G	A
H8	G	G
H9	G	G
H10	G	G
H11	G	G
H12	G	G
H13	G	G
	Internal Dispute Resolution	
I1	G	G
I2	G	G
I3	G	G
I4	G	G
I5	G	G
I6	G	G
I7	G	G

No	Completed	Compliant
I8	G	G
I9	G	G
	Reporting Breaches	
J1	G	G
J2	G	G
J3	G	G
	Scheme Advisory Board Requirements	
K1	G	G
K2	G	G
K3	G	G
K4	G	G
K5	G	G
K6	G	G
K7	A	A
K8	G	G
K9	G	G
K10	G	G
K11	G	G
K12	G	G
K13	G	G
K14	G	G
K15	G	G

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Appendix D

Lincolnshire Pension Board Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions
Dec 20	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process
March 21	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process
May 21	Administration - AVC's	Prudential - issues with new IT systems causing late payments of pensions	Retirees are unable to make decisions on their pensions due to late information and transfer of AVC pots from Prudential	Some explanation provided but not regular in updates. Additional resources appointed. Latest information is that it is expected to be BAU by the end	Reported 24/5	TPR noted and require update following end of June	Update breach details following end of June.

Appendix D

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions
				of June (initially April).			
June 21	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process
Sept 21	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process

HYMANS ROBERTSON

Conference highlights

LGC Investment & Pensions Summit 9-10 September 2021

Douglas Green
Partner & Actuary

This was the first totally in-person LGPS conference since the beginning of lockdown – and this Summit had moved from Celtic Manor to Leeds Armouries. If there is something in the following summaries of all sessions over the day and a half, which you would like to discuss further, then do get in touch with your usual contact.

Chair's welcome – Rachel Elwell, Border to Coast Pensions Partnership

- LGPS has weathered the pandemic admirably, across administration, funding, governance & investment
- Audience poll on biggest investment concern in next few years – c.50% voted inflation, c.25% voted geopolitics

Implications of the economic outlook in the UK and globally for the LGPS

Richard Gwilliam, M&C Real Estate & James Ashley, Goldman Sachs Asset Management

- Dramatic price increases over the past 18 months across eg oil, shipping (and puppies!), but expect inflation rates to quickly revert to "norm"
- Interest rate increases will still be low in historical terms (markets not pricing in any significant rises)
- Most major economies expected to see 2-3% fall in real GDP growth rate, but thereafter the world's economic centre of gravity is shifting eastwards – therefore expect Asian allocations to increase over next 20-30 years
- "Freedom" from COVID will be the foundation for strong & sustainable economic recovery – projections suggest very strong recovery over next two years – eg real estate yields strong by historical standards, partly due to residential supply/demand imbalance

Discussing society's attitudes towards the supply chain – circular economy or take-make-waste

Dawn Turner, Independent Adviser & Non-Executive

- Increased engagement & visibility by organisations in the supply chain, to be more responsive to customers

- Impacts still being felt from eg lorry driver shortage (not restricted to UK) & Suez Canal blockage holding up $9bn goods per day; customers starting to see this and have to adjust
- Horse meat scandal showed the importance of monitoring supply chain, and by analogy some buyers of green energy are disappointed to discover this is by offsetting as opposed to means of production.

Councillor and pensions board member session: Scheme Advisory Board update and keeping on top of the latest developments

Bob Holloway, Local Government Association & Roger Phillips, LGPS Scheme Advisory Board

[Apologies – our attendees weren't able to attend this session]

Pool and fund officer session: Working in partnership

Laura Chappell, Brunel Pension Partnership; Kevin McDonald, ACCESS; Anthony Parnell, Carmarthenshire County Council; Jo Ray, Lincolnshire Pension Fund; Chris Rule, Local Pensions Partnership Investment

- Pooling map in England & Wales has been firmly established in last five years, and this has genuinely led to more collaborative & closer working across Funds
- Asset allocation is a sovereign decision for the Funds, and Pool drives innovation in its offerings on the basis of achieved fee savings
- Pooling is a journey, eg approach to climate change continuing to evolve
- Funds should have correlated, not contradictory, investment beliefs, otherwise Pool could just be the manager of a series of mandates.

Global equities – still your best friend?

Peter Wallach, Merseyside Pension Fund & Paul Markham, Newton Investment Management

- Equities have been on a very long bull run. At the same time, bonds have had a very long period of reducing yields. As both are looking expensive, why equities?
- Bonds cannot create new value, whereas companies can create new product lines, seek efficiencies or new markets. So there is an argument that equities still have room to grow in value, but this may be limited with bonds.
- However, inflationary and other cashflow pressures may push funds towards more illiquid investments or private markets. These come with their own risk and return profiles which may or may not deliver the "oomph" that's needed to grow.

Investment opportunities in affordable housing

Alex Greaves, M&G Real Estate & Tim Sankey, Border to Coast Pensions Partnership

- The Housing Cycle: private rented student accommodation, then to housing close to their networks (town centres, work etc), then to more spacious dwellings, before moving to retirement housing (private home or care home)
- Significant supply problem across housing (demand on average 2.5 x supply across England, but 7.5 x in London), and the affordable housing with greatest demand also has greatest management obligations (eg homeless shelters, social rented)
- Shared Ownership aims to allow easier access to housing ladder with lower deposit requirement – leasehold/freehold issues can cause problems (eg as per recent Panorama programme) but not due to Shared Ownership status.

The global search for yield – opportunities in liquid fixed income

Mark Lyon, Border to Coast Pensions Partnership & Michael Walsh, T. Rowe Price

- The traditional reasons for holding high quality fixed income assets (hedging, diversification) conflict with reduced growth expectations and income
- Emerging Market debt market is almost as big as EM equity, and larger than US Investment Grade market.

How the LGPS can invest with impact

Rosie Rankin, Baillie Gifford & Co

- Measuring impact is a big challenge, eg assessing a company's contribution to the specific targets underpinning the UN Sustainable Development Goals (SDGs)
- Estimated that $5-7trn investment every year through 2030 to deliver the SDGs. Not all are investible by private capital, but still lots of investment opportunities exist
- Listed equities can provide a good way of accessing impact opportunities

Keeping on top of the deluge of administration changes and challenges

Phil Triggs, Tri-Borough (Westminster City Council) & Abigail Leech, Local Pension Partnership Administration

- Staff adapted to home working – albeit training is harder to do remotely
- Helpdesk peak demand during pandemic was very challenging (more retirements than expected, as well as deaths) – however, not a great increase in online member access
- Necessity was the mother of invention with technology, new tools etc
- Do not think that any pooling of admin should be mandated centrally.

Member and employer communication: adapting to a new environment

Sara Maxey, Essex Pension Fund & Jill Davys, London Borough of Sutton

- Level of engagement from members is still too little, too late
- Technology provides lots of tools to improve engagement - member portals, YouTube, virtual surgeries etc
- Vital to continue offering people-based contact options
- Pandemic has accelerated innovation - a silver lining perhaps.

Administration: the next area to be pooled?

Mark Gayler, Devon Finance Services & Neil Mason, Surrey Pension Fund

- Peninsula Pensions provides shared service to both Devon & Somerset Funds, and Mark needs to ensure shared service works for the Devon Fund without having managerial control – updated systems and increasingly paperless processes have improved service quality (was not intended to save costs), albeit this took material effort
- Accuracy of data greatly depends on quality of data provided by employers, which in turn depends on employer relationships – relationships could suffer if employer numbers rose too much, eg through pooling too many Funds
- However, not all shared administrations have been successful and there are useful lessons to be learned such as the need to align partner's service standards and ensuring a shared vision for service delivery at outset.

- In general, it was broadly agreed that enforced pooling of administration would be unwelcome. In particular, Pools should be focussed on the investment aspects, not be distracted by admin provision
- Need to ensure admin is suitably high on Committee agendas.

Why cyber security might be the biggest risk your pension faces?

Matthew Cain, London Borough of Hackney & Jill Davys, London Borough of Sutton

- Salutary tale of the impact of a ransomware attack on an LGPS Fund (LB Hackney)
- The statistics on the frequency of such attacks and the direct costs are frightening. Indirect impacts on the services provided by Funds are even larger.
- Cyber criminals are one step ahead of their targets, even well-prepared funds need to continuously strengthen defences
- Data is the key. Helpful for funds to ask three key Qs: 1. Where is my data? 2. Is it encrypted at all times? 3. Who has access, and do they need it?

Committing to Net Zero by 2045: Practical experience of how the Environment Agency Pension Fund has set this goal

Marion Maloney, Environment Agency Pension Fund

- Not trying to save the world, aiming to protect the Fund from financial risk due to climate change
- The EAPF has different climate targets from the Agency: the latter has direct relationships with stakeholders which the Fund doesn't with the 2,000 companies it invests in
- Strategic asset allocation delivered the great majority of decrease in emissions
- Measure emissions, move to Paris-aligned benchmarks, deny debt if company not appropriately committed
- Invest in whole economy so all sectors turn greener, engage with companies via asset managers / Pools, using all votes and joining shareholder actions – improved company disclosures will also help

Climate risk: tackling the stewardship, governance, measurement and reporting challenges

Teresa Clay, MHCLG; Victoria Tarr, Canada Life Asset Management; Ben Yeoh, RBC Global Asset Management; Jacqueline Jackson, London CIV; Ed Baker, PRI

- Teresa started with an update on the impending consultation on LGPS TCFD requirements: this should be in October, ideally ahead of COP26 – will be broadly in line with those coming into effect 1 Oct 2021 for private sector schemes – analysis on two scenarios incl one Paris-aligned, three metrics, target based on one of the metrics
- Differences from DWP requirements for private schemes:
  (a) Propose that all LGPS Funds will move together, not phased by size
  (b) First year of application: 2022-23, first report due by end of 2023
  (c) Funds required to report on data quality in line with greenhouse gas protocol, as third metric
  (d) SAB will report on all Funds' compliance, data quality etc
- Proposals aimed to be as consistent as possible; for more ambitious Funds, they could use a 4th metric
- All the above is subject to final ministerial approval etc. There was then a panel discussion: key themes included:
  - the need for engagement with companies;
  - benefits of collaboration across the Pools for that engagement (which also assists in the resource requirements);

- consideration across the whole portfolio (eg including sovereign debt);
- understand risks & opportunities and hence set targets;
- appreciation that this can be a long process;
- line up the stakeholders & actions to enable the reporting.

The great debate: Pooling was a great idea and we will never look back

George Graham, South Yorkshire Pensions Authority; Mike O'Donnell, London CIV; William Bourne, Independent Adviser

- Important for Pools to continue to deliver savings, to have close relationships with their Funds, and to have governance & ownership by the Funds
- LGPS has long history of collaboration, including areas such as responsible investment
- Pooling is here to stay, but is there a gap between where the Pools are, and where they need to be, to deliver net benefits in the long term?
- Are there barriers to getting the right Pool officers and governance involving multiple Funds?
- Will there be fewer Pools in say 10 years' time?
- The vote among the delegates was c.55% **against** the motion.

Searching for income

Jill Davys, London Borough of Sutton, & Mark Lyon, Border to Coast Pensions Partnership

- Active element of whole E&W LGPS has fallen as a % of total membership, average active members' age has risen, pay restraint being applied to actives while deferreds and pensioners seeing CPI increases: all pointing to greater maturity and more cashflow challenges – c.40% of Funds are cashflow negative even allowing for investment income
- Illiquid assets can provide income to help fill the gap, but needs preparatory time & effort: need to plan how to "get money into the ground"
- Potential sources include private debt, infrastructure, however watch less certain timing of cashflows and peculiarities of Private Markets (J-Curve etc) which can be mitigated through co-investments

Birds of a feather discussion sessions on 6 x hot topics

A. Political involvement in investment decisions – generally concluded that politics often make it difficult to reconcile with fiduciary duties

B. "Greenwashing" – it is an issue but in the main managers/companies seem to want to do the right thing, however would need better regulation & data

C. Reporting requirements on Funds – necessary for transparency and consistent data across the LGPS, even if it is a burden on officers, as long as it is being used

D. Communication to beneficiaries – pandemic has hastened improvements which would have happened anyway, eg member surgeries, submission of documents, triggering greater interest in the Fund

E. Sustainability of resources for the LGPS – there are significant challenges but surmountable: LGPS ethos can be a positive draw, need to explore moving outside council pay scales, can collaborate more

F. Funds' role in creating a more equal society – increased profile of ESG etc will help build AUM momentum which in turn will help deliver strong returns.

Preparing for the next actuarial valuation

Douglas Green, Hymans Robertson

- Flaw 1: “Jeff Bezos walks into the room … and everyone immediately becomes a billionaire on average” – big numbers can obscure small ones, eg whole Fund valuation results basically reflect the Councils’ position, may disguise huge variation in funding positions of other employers and their contribution requirements
- Flaw 2: “The average family has 2.4 children” – there will be various different scenarios co-existing in your Fund already, eg the same investment return will have different impacts on different employers due to their different funding levels, cashflow positions & time horizons
- Flaw 3: The “matching DNA” conundrum – small numbers can obscure bigger ones, eg some employers will be much more affected by McCloud changes and ill-health early retirement strain costs.
- [NB Look out for a separate communication with some more detail on this]

Final keynote session: MHCLG and SAB update

Teresa Clay, MHCLG, & Joanne Donnelly, LGPS Scheme Advisory Board

- McCloud – GAD estimate £1.8bn impact for the LGPS spread over future years, amendments expected to the July Bill, aiming for completion early 2022, coming into force from spring 2023
- Climate risk (NB see details in Climate Risk session above)
- Pooling – developing proposals for stronger governance, improved reporting, and greater asset performance transparency – will draw on extensive engagement with funds, new data from pools, and research on overseas comparators
- Exit pay – MHCLG aim to publish final guidance shortly, with consultation on next steps
- Good Governance – SAB team working on data and will approach funds for more information
- Planning for the post-CIPFA Pensions Panel world (as the Panel no longer exists) – replaced by a new SAB Committee, will include some existing Panel members plus more s151 officers (NB any future guidance will not be behind a paywall)
- 2020 Stewardship Code – FRC announced further windows in October 2021 & April 2022 to apply (100% success for LGPS in last window)
- Pensions Dashboard – public sector schemes likely to only be required to participate from the end of this overall process (2024/25) due to current McCloud etc workloads
- Cost Transparency – aware that the Byhiras system is not the easiest to use, so there is LGA resource available to assist.

If you would like to pick up these topics in any more detail, please get in touch.

Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Responsible Investment Update**

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the first quarter of the financial year 2021/22 (April to June inclusive).

Recommendation(s):

The Committee note the report and and discuss the Responsible Investment activity undertaken during the quarter.

Background

1.1 This report provides a summary of various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter, and updates the Committee on any new initiatives relating to good stewardship. This includes work by Local Authority Pension Fund Forum (LAPFF), Border to Coast Pensions Partnership (BCPP) and Robeco, who are appointed by Border to Coast to provide voting and engagement services.

<u>Local Authority Pension Fund Forum Membership</u>

1.2 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.

Outcomes Achieved through LAPFF Company Engagement

1.3 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 undertook engagements with 59 companies, on issues ranging from human rights and employment standards, to climate change reporting and environmental risk, to general governance and board issues. The outcomes of these engagements are shown in the progress report, included in their quarterly engagement report.

- LAPFF Vice-Chair, Cllr Rob Chapman, met with National Grid representatives as part of the Environmental, Social and Governance (ESG) roadshow the company is undertaking prior to the July AGM. The primary objective for LAPFF was to assess company progress against the Climate Action 100+ benchmark in anticipation of questions to put to the chair prior to the 2021 AGM. National Grid has now set a new Scope 3 targets to reduce carbon emissions to 37.5% below the 1990 baseline by 2034. Scope 3 emissions are by far the largest proportion of the company's emissions. A follow up meeting is scheduled with the company's new chair in July prior to the AGM.

- During the quarter, LAPFF worked to raise the profile of the link between human rights and financial performance at mining companies. The impetus for this engagement has come from speaking with mining companies for whom law suits and fines spanning many years persist and grow while human rights issues remain unresolved. Consequently, LAPFF asked a question at the Rio Tinto AGM about whether the company would be willing to quantify the financial cost of its social failures. Noting the complexities in doing so, it would be helpful for investors to understand some of the financial consequences of mining companies' social failings in order to make clear that they are losing money when companies do not respect human rights and broader social issues in their operations. LAPFF has also raised this issue with BHP and Vale in engagement meetings. LAPFF will continue to drive home the link between social and environmental failures by mining companies and poor or reduced long term financial returns for investors.

- Collaborative engagements have progressed with Investors for Opioid and Pharmaceutical Accountability (IOPA). The group has run a number of Vote No campaigns, notably at Cardinal and AmerisourceBergen. The group also wrote

to the chairs of compensation committees at eleven companies, scrutinising how executive compensation had been handled in light of charges being brought for opioids settlements. Other collaborations during the quarter have included: on climate initiatives, co-signing letters to the U.S. Securities and Exchange Commission on climate related financial disclosure requirements and an investor call for methane and flaring regulations at a federal level in the U.S.

- The Forum responded to a number of consultations during the quarter, including: the DWP Consultation – 'S' in ESG. Although the consultation did not cover LGPS funds, as pension regulation and legislation for the sector tends to mirror DWP's in the end. LAPFF also submitted a response to HM Treasury's Consultation on Aviation Tax Reform. With aviation expected to grow to be the biggest source of UK emissions by 2050, it is a significant contributor to the material financial risks of climate change with the potential for loss of shareholder value.

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

Border to Coast Pensions Partnership and Robeco

1.5 Border to Coast is the pooling company chosen by Lincolnshire Pension Fund. Border to Coast are a strong advocate of RI and believe that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. As a representative of asset owners, they practice active ownership by holding companies and asset managers to account on Environmental, Social and Governance (ESG) issues that have the potential to impact corporate value. They also use shareholder rights by voting at company meetings, monitoring companies, engagement and litigation.

1.6 Their approach to RI and stewardship is set out in their RI Policy and Corporate Governance and Voting Guidelines. These documents can be viewed on the Border to Coast website (Border to Coast Sustainability). They also publish a quarterly stewardship newsletter detailing the activity they have undertaken during the quarter. A copy of the report for the latest quarter can be found at on their website (Quarterly Stewardship Report Q2 2021). Highlights from their work during the quarter include:

- Border to Coast has published their Responsible Investment (RI) and Stewardship Report, and their Taskforce on Climate related Financial Disclosures (TCFD) Report for 2020/21. The RI report provides a detailed view of Border to Coast's approach to stewardship and the management of the investment risks and opportunities associated with ESG factors and demonstrates their commitment to the UK Stewardship Code. The TCFD

Report illustrates their approach to managing climate related risks and opportunities.

- High level information on voting activity for the quarter across all Border to Coast funds.

- Engagement activity, which included 315 engagements carried out by: external managers appointed by Border to Coast; Robeco, as the Pool's engagement and voting manager; internal portfolio managers and by LAPFF.

- Work undertaken through collaborations. Border to Coast has carefully selected the partners to collaborate with. During the quarter activity has included: Workforce Disclosure Initiative have launched a findings report from its 2020 survey on wage levels, staff turnover and workers' rights.

1.7 In addition to the direct RI work undertaken by Border to Coast they have appointed Robeco to provide voting and engagement services. During the quarter Robeco have voted at 551 AGM's, the percentage of meetings where they have at least one vote against management is 74%. During the quarter they have engaged with companies on 78 occasions on topics including: corporate governance, environmental management and human rights. A copy of their quarterly activity report can be found on the Border to Coast website (Robeco Quarterly Engagement Report Q2 2021).

1.8 From this quarter Border to Coast have also published ESG reports for their equity sub-funds. These reports are included in the Investment Management Report at Item 12 on this agenda.

Voting

1.9 To enable the Fund to fulfil its stewardship responsibilities as an active shareholder, the active equity managers are required to report on their voting on a quarterly basis.

1.10 Border to Coast has produced detailed proxy voting reports, which are attached at appendix A (Global Equity Alpha) and B (UK Listed Equities).

1.11 Please contact the author of this report if you wish to see full detail of all votes cast over the quarter.

Financial Reporting Council (FRC) – new Stewardship Code

1.12 The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to

create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. The Code has 12 principles under the headings:

- Purpose and governance;
- Investment approach;
- Engagement; and
- Exercising rights and responsibilities.

1.13 To become a signatory to the Code, organisations must submit, to the FRC, a Stewardship Report demonstrating how they have applied the Code's Principles in the previous 12 months. The report may cover any 12-month period beginning after 1 January 2020. The FRC will assess the report and if it meets their reporting expectations, the organisation will be listed as a signatory to the Code. Once listed, organisations must annually report to remain signatories.

1.14 During the quarter Border to Coast published their Border to Coast Responsible Investment & Stewardship Report 2020/21. This will be submitted for review by the FRC by the end of October. The Fund is currently working on its report for the financial year 2020/21, a copy of this will be submitted to FRC for their review and brought to the Pensions Committee later in the year.

Investment and Responsible Investment beliefs

1.15 At the training session held in September the Committee and Board received a presentation from Hymans Robertson on the Fund's Investment Strategy. At this training it was agreed that the Committee would like to review the existing Investment and Responsible Investment beliefs, which have been in place for a number of years, in advance of the review of the Investment Strategy linked to the 2022 Triennial Review. The existing beliefs are published on the Pension Fund website:

- Investment Beliefs
- Responsible Investment Beliefs

1.16 A further training session will be held in February 2022 to review and propose revised beliefs, these will then be formally approved at the Committee meeting in March 2022.

Conclusion

2.1 This report brings to the Committee information on the various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter.

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	Border to Coast Global Equity Alpha Voting Activity
Appendix B	Border to Coast UK Listed 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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Border to Coast Global Equity Alpha Fund

Proxy Voting Report

Period: April 01, 2021 – June 30, 2021

Votes Cast	**1829**	**Number of Meetings**	**113**

For	1636	With Management	1576
Abstain	11	Against Management	247
Against	177	Other	6
Other	5		
Total	**1829**	**Total**	**1829**

In 75% of meetings we have cast one or more votes against management recommendation.

General Highlight

A new frontier in the fight against climate change

Climate change is now a cornerstone of investor stewardship but addressing this topic through votes at shareholder meetings is relatively novel. However, the 2021 proxy voting season has demonstrated that boards will be held accountable for their climate-related oversight by proxy advisors, activist groups, and institutional investors alike.

Historically, shareholders have addressed their climate change concerns to boards through filing shareholder proposals. In the US for instance, the number of climate-related shareholder proposals filed has steadily risen over the years, from 34 in 2012 to over 140 in 2020. Of the proposals filed, many get withdrawn if the request is adopted by the company, but some proposals are also challenged by companies and omitted from the AGM. Although these challenges are intended for poorly drafted or immaterial proposals, companies lagging in climate action often use this mechanism to skirt the concerns raised by shareholders. In these cases, shareholders may escalate their climate-concerns by voting against the nomination of board directors such as the chairman or members of the audit or sustainability committees.

Holding directors accountable for a company's (inadequate) approach to climate change could become the norm. Just recently, Majority Action – an ESG focused shareholder activist group – published their 'Proxy Voting for a 1.5°C World' campaign, which outlines a list of systemically important companies in the three key industries that have not set emissions targets aligned to limiting warming to 1.5°C. The campaign calls on institutional investors to use their voting rights to vote against company directors that have failed in their oversight responsibilities to address escalating climate change.

One of the challenges in adopting such a voting approach is consistently identifying which companies are not in line with a 1.5°C or Paris-aligned scenario. Companies and international organizations often use different methods to calculate their long-term 2050 climate change scenarios, which is then reflected by the discrepancies in short-term targets. Nonetheless, there are several resources like the Climate Action 100+ Net-Zero Benchmark or the Transition Pathway Initiative (TPI) that investors can use to help track the climate change targets set by companies. The Border to Coast voting guidelines incorporate the toolkit of the TPI to flag companies where a vote against the chairman of the board is warranted due to climate-related concerns. These benchmarks also enable investors to monitor the annual progress made by companies, and to determine whether to escalate their approach to voting and engagement.

These new guidelines for proxy voting underscore that, where companies are failing to develop effective climate transition plans, boards will appropriately be held accountable. While institutional investors' definitions of what is appropriate may vary, the importance and urgency of holding directors accountable are clear.

Market Highlight

Japan – Catching up on Corporate Governance

Japan is historically a laggard when it comes to corporate governance practices compared to other developed market peers. However, it is taking strides to catch up. The Tokyo Stock Exchange (TSE), Japan's major stock exchange, has announced a market restructuring plan to take effect in the spring of 2022. The goal is to make the Japanese market more attractive for international institutional investors. TSE intends to create different market segments where the new Prime Market will consist of only large-cap companies and require higher standards of corporate governance.

To achieve this higher standard of corporate governance, the council of Japan's Corporate Governance Code initiated a revision of the code. The revision focused on several key topics: ensuring board independence, promoting diversity, the inclusion of sustainability and ESG. The council held a public consultation round for institutional investors. Robeco participated in this consultation in April and some of our recommendations were reflected in the final version of the code that was published in June.

The code further incorporates the importance of sustainability, referencing the UN Sustainable Development Goals (SDG) and the Taskforce for Climate-related Financial Disclosures (TCFD). It pushes companies to improve disclosures on specific sustainability issues such as climate, diversity, and risk management. Specifically for the Prime Market, it asks companies to make relevant disclosures available in English and support electronic voting, further aligning with global best practices. Furthermore, the code pushes for an increase in independence both within the board as well as specific committees. Importantly, the code now asks for an even higher level of independence of boards when there is a controlling shareholder, a majority for the Prime Market, and one-third for other markets.

Although many welcome the changes to the corporate governance code, some are skeptical of the circumstances in which the changes were made. Since these changes were instigated by the market restructuring some argue that the changes are too focused on the Prime Market leaving too low a bar for the remaining market segments. Critics argue that because of the simultaneous changes of the market as well as the corporate governance standards, both have been diluted too much to appease the different groups affected. The Prime Market was intended to be an exclusive group of a few hundred of the largest market cap Japanese companies that could compete on the global stage. The most recent outlooks seem to be watered down, with an estimated 1500 companies qualifying for the Prime Market at a market cap threshold of around JPY 10bn instead of the original JPY 100bn. Additionally, the code will remain based on the "comply or explain" rule without legal enforcement.

Since the newest version of the code was published during the 2021 annual shareholder season in Japan, the true implications of the code will not be visible until next year. For now, although the progress might be less extensive than some corporate governance experts might have hoped, it is undeniably moving in the right direction.

Voting Highlights

Johnson & Johnson - 04/22/2021 - United States
Proposal: Shareholder Proposals Regarding Report on Access to COVID-19 Products, Independent Chair, Racial Impact Audit, and Bonus Deferral Policy

Johnson & Johnson researches and develops, manufactures, and sells various products in the health care field worldwide. It operates in three segments: Consumer, Pharmaceutical, and Medical Devices.

Johnson & Johnson (J&J) had four shareholder proposals (SHP) filed at this year's AGM. Perhaps the doubling of the number of SHPs filed at its AGMs compared to recent years was due to J&J's successful creation of a Covid-19 vaccine which put it in the limelight. Alternatively, the high number of SHPs might be a sign of the diverse topics of importance to shareholders during this AGM season. We expect shareholder resolutions to continue to grow in number in the coming years, reflecting the increased focus on ESG topics by investors.

Historically, SHPs at J&J have focused on governance topics of remuneration and independent oversight. These topics also returned at this year's AGM and received sizeable support with one SHP asking for an independent chair (43%) and another for a bonus deferral policy (22%). We supported both these proposals since they are in line with best practices.

This year's AGM also saw the introduction of two new SHPs with topics closely tied to recent events. The first SHP was filed at several pharmaceutical companies who were successful in creating a Covid-19 vaccine. It asked the company to report on how public financial support for development of a vaccine or therapeutics for COVID-19 is being taken into account in access to such products, such as price-setting. We believe this proposal helps ensure that any medical breakthroughs derived from the public's contribution will be priced in an accessible way so that communities of all income levels will benefit equally. Therefore, we supported the proposal which gained support of nearly 32% of the shareholders.

The final SHP filed at the AGM appears to be closely linked to the global support gained by the BLM movement during 2020. The proposal asks the company to conduct and publish a third-party audit to review the racial impact of its policies and practices, to provide recommendations for improving the company's racial impact. The company has already made a commitment to address certain racial issues within its products and product development and we believe this proposal would further promote the integration of diversity and inclusion. Over a third of all shareholders shared this sentiment and supported the proposal.

The wide spread of SHP topics indicates that companies need to increasingly broaden their scope of attention to meet shareholder and community expectations of good corporate responsibility.

Amazon.com Inc. - 05/26/2021 - United States
Proposal: Shareholder Proposals Asking for the Company to Act on Issues related to Climate Change, Working Conditions, Inclusivity.

Amazon.com Inc. is a U.S. multinational technology company that engages in the retail sale of consumer products and subscriptions, in North America and internationally. The company focuses on e-commerce, cloud computing, digital streaming, and artificial intelligence.

The shareholder proposals up for vote at the company's annual shareholder meeting largely concerned racial and equity issues, as well as antitrust topics, and responsible use of the company's facial recognition technology. We supported all of the 11 shareholder proposals, asking the company to take action on these topics, aiming to make the company a more transparent and conscientious corporate citizen. Even though the shareholder resolutions were non-binding, they were a way to raise our concerns on certain corporate policies and put pressure on improving Amazon's practices related to civil rights, equity, diversity, and inclusion.

Among the 11 proposals submitted by shareholders, we supported the one asking from the company's board to adopt a policy to require that the chair of the board shall be an independent director who has not previously served as an executive officer. From a shareholder's point of view, we believe that an independent chair strengthens corporate governance and has a better oversight of management practices, leading to shareholder value creation.

We also supported the resolution asking the company to report on plastic packaging and setting goals to reduce the impact of plastic pollution. According to the proponent's statement, Amazon approximately generates 465 million pounds of plastic packaging waste, of which 22 million ends in the ocean. We acknowledge the environmental risks coming from plastic pollution and we encouraged the company to take necessary action to address this issue by supporting this resolution.

Additionally, we supported the resolution asking the board to adopt a policy that promotes representation of employees' perspectives among corporate decisions, by including employees in the list of candidates put forward by the Nominating and Governance Committee. Employee representation on the board helps companies consider the views of an important stakeholder group, and is standard practice in some other markets. Even though it is not prevalent in the US yet, we believe it could play an important role in ensuring more responsible company management.

Lastly, we voted in favor of the three resolutions asking for an analysis of the company's impact on civil rights, a human rights impact report assessing the risks incurred by facial recognition technology, and a report on customer due diligence related to facial recognition products. Robeco co-filed the resolution on enhanced customer due diligence as part of our engagement with the company on the social impact of artificial intelligence. The proposal received 35% of votes in favor. Amazon was among many other companies that last year made supportive statements on the Black Lives Matter movement, and those proposals practically focus on mitigating human rights risks and violations and promoting racial equality.

Facebook Inc - 05/26/2021 - United States

Proposal: Shareholder Proposals Asking for Independent Chair, Recapitalization, Report on Child Exploitation, and Human Right Expertise in the Board

Facebook Inc. is a U.S. multinational conglomerate focusing on information technology. Facebook offers products and services globally through its social networking platforms, Facebook, Facebook Messenger, Instagram, WhatsApp.

At this year's Facebook AGM, there were once again many shareholder resolutions up for vote. These proposals were asking for Facebook to improve their corporate governance practices, to combat potential legal and reputational risks, and to promote human rights.

Shareholders requested that the company gradually eliminate the special class of super-voting shares that the CEO has, which gives him the majority voting control of the company. We supported this resolution since we believe that one vote per share generally operates as a safeguard for common shareholders. We also supported the shareholder resolution asking for the board chair to be independent. We believe that an independent chair is in a better position to uphold shareholders' best interest and oversee management decisions. We favored both proposals since they contribute to improved corporate governance practices and increase board accountability.

Regarding social issues, again this year two resolutions were submitted requesting human/civil rights expertise to be added to the board, and reporting on online child exploitation. We believe that the company should address the increasing sexual child exploitation issue due to the encrypted messaging services provided on their platforms. It is necessary for the company to assess, report and proactively address this sensitive issue, and to efficiently mitigate potential operational and reputational risks.

Shareholders proposed that the nominating committee will nominate at least one candidate on the board, who has human/civil rights expertise. We were among the 4.06% of the shareholders who supported this proposal. We believe that a director with this type of experience within the board, would better help face human-right-related risks and ensure accountability and oversight. We were pleased to see the company launching its corporate human rights policy in March 2021, but an independent director with experience in the field is highly important, given Facebook's preeminent role in the social media landscape and the risks this entails.

Finally, we supported the proposal asking the company to report on reducing false and divisive information. Shareholders need detailed information to assess how the company is managing and mitigating related risks by the misuse of their platforms.

Alphabet Inc - 06/02/2021 - United States

Proposal: Shareholder Proposals Asking for Recapitalization, Linking Executive Pay to Sustainability and Diversity, Report on Whistleblower Policies, and Human Right Expertise in the Board.

Alphabet Inc is a U.S. multinational conglomerate company that is the parent company of Google and several Google subsidiaries. Alphabet Inc provides online advertising services in the United States, Europe, the Middle East, Africa, the Asia-Pacific, Canada, and Latin America. The company offers performance and brand advertising services.

Alphabet was another large American tech company that was targeted by a handful of shareholder proposals (SHP) focusing on social and corporate governance topics. We supported the SHP requesting the board to initiate a 7-year recapitalization plan, that would ultimately result in one vote per share. We view this plan to be on the best interest of minority shareholders, allowing them to have an equal voice and express it with their votes when it comes to important matters.

We also supported the SHP asking the nominating committee to add at least one candidate to the board who has human and/or civil rights expertise. The company has received criticism by the media for not doing enough to protect user privacy, with numerous allegations of private data misuse, and we engage with the company on the social impact of artificial intelligence. We believe that board-level oversight of human rights considerations is a positive step and in

line with our engagement asks. Additionally, we supported the SHP asking for a third-party review of the whistleblower policy effectiveness. Taking into consideration the risks the company faces due to ineffective whistleblower protections , and given the recent controversies, we believe that the request outlined in this proposal would benefit shareholders.

Lastly, shareholders requested the company prepare a report assessing the feasibility of integrating sustainability and diversity metrics in its executive compensation program. In the prior year, the same resolution was supported by 13.1% of the votes, showcasing that shareholders do value the integration of environmental and social factors into the business strategy. We believe that the adoption of this proposal is necessary, and thus we supported this SHP also this year, and we encourage the company to introduce a bonus program that links executives' compensation to specific ESG goals.

NetEase Inc - 06/23/2021 - United States
Proposal: Election of Director

NetEase Inc is a technology company, engaged in developing and operating online game services, intelligent learning services, and other products.

The AGM season always places the roles and responsibilities of boards of directors firmly into the spotlight. Shareholders must decide if directors have properly discharged their duties over the past year, and if they are fit to represent investors' interests in the future. While it is difficult to continually monitor the performance of individual board members, shareholders should aim for the boards of their companies to reflect certain elements of best practices to encourage robust oversight.

These standards vary by market but are generally based on the same philosophy: boards where highly qualified directors represent a variety of views, can dedicate sufficient time to their role, and are regularly refreshed to ensure independence are more likely to provide a healthy challenge to the C-suite, which is in the best interests of the market.

At the AGM of NetEase, we voted against two directors, as the board fell afoul of several of the above guidelines. We voted against the former CFO (until 2007) of the company, who has served on the board for 19 years and holds five further board seats at other companies. We generally believe that this level of outside commitments will inhibit the director's ability to focus fully on their responsibilities at all of these companies. Therefore, we considered director Lee 'overboarded' and opposed his re-election.

We had further structural concerns about the composition of the board. The average board tenure is excessive, with the last director having been appointed 14 years ago. Meanwhile, the board is composed of 5 male directors, with only one woman serving on the board. We believe that companies listed on large US exchanges like the Nasdaq should have at least 30% gender diversity (rounding down to account for board size). Finally, no independent Chair or lead director has been appointed, leaving the board with insufficient outside leadership.

For the above reasons, we voted against the longest-serving member of the Nominating Committee, in the absence of a committee Chair, as we believe he is responsible for the poor board composition.

Disclaimer

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Border to Coast UK Listed Equity Fund

Proxy Voting Report

Period: April 01, 2021 – June 30, 2021

Votes Cast	**1559**	**Number of Meetings**	**82**

For	1460	With Management	1459
Abstain	3	Against Management	100
Against	96	Other	0
Other	0		
Total	**1559**	**Total**	**1559**

In 65% of meetings we have cast one or more votes against management recommendation.

ROBECO
The Investment Engineers

General Highlight

A new frontier in the fight against climate change

Climate change is now a cornerstone of investor stewardship but addressing this topic through votes at shareholder meetings is relatively novel. However, the 2021 proxy voting season has demonstrated that boards will be held accountable for their climate-related oversight by proxy advisors, activist groups, and institutional investors alike.

Historically, shareholders have addressed their climate change concerns to boards through filing shareholder proposals. In the US for instance, the number of climate-related shareholder proposals filed has steadily risen over the years, from 34 in 2012 to over 140 in 2020. Of the proposals filed, many get withdrawn if the request is adopted by the company, but some proposals are also challenged by companies and omitted from the AGM. Although these challenges are intended for poorly drafted or immaterial proposals, companies lagging in climate action often use this mechanism to skirt the concerns raised by shareholders. In these cases, shareholders may escalate their climate-concerns by voting against the nomination of board directors such as the chairman or members of the audit or sustainability committees.

Holding directors accountable for a company's (inadequate) approach to climate change could become the norm. Just recently, Majority Action – an ESG focused shareholder activist group – published their 'Proxy Voting for a 1.5°C World' campaign, which outlines a list of systemically important companies in the three key industries that have not set emissions targets aligned to limiting warming to 1.5°C. The campaign calls on institutional investors to use their voting rights to vote against company directors that have failed in their oversight responsibilities to address escalating climate change.

One of the challenges in adopting such a voting approach is consistently identifying which companies are not in line with a 1.5°C or Paris-aligned scenario. Companies and international organizations often use different methods to calculate their long-term 2050 climate change scenarios, which is then reflected by the discrepancies in short-term targets. Nonetheless, there are several resources like the Climate Action 100+ Net-Zero Benchmark or the Transition Pathway Initiative (TPI) that investors can use to help track the climate change targets set by companies. The Border to Coast voting guidelines incorporate the toolkit of the TPI to flag companies where a vote against the chairman of the board is warranted due to climate-related concerns. These benchmarks also enable investors to monitor the annual progress made by companies, and to determine whether to escalate their approach to voting and engagement.

These new guidelines for proxy voting underscore that, where companies are failing to develop effective climate transition plans, boards will appropriately be held accountable. While institutional investors' definitions of what is appropriate may vary, the importance and urgency of holding directors accountable are clear.

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Voting Highlights

BP plc - 05/12/2021 - United Kingdom
Proposal: Shareholder Proposal Regarding GHG Reduction Targets

BP plc is an oil and petrochemicals company. The Company explores for and produces oil and natural gas, refines, markets, and supplies petroleum products, generates solar energy, and manufactures and markets chemicals.

BP was one of several oil and gas companies in 2021 where shareholder activism organisation Follow This filed resolutions requesting Paris-aligned GHG reduction targets. The proposals are important gauges of investor support for companies' existing climate plans, and what action shareholders believe companies should take to ensure they contribute to the goals of the Paris agreement.

We supported the shareholder proposal at BP, since it requested the company to set Scope 1,2, and 3 emission reduction targets over the short, medium, and long term. The proposal is also asking for the company to report annually on the GHG emissions reduction plan, which we believe should be tied to a non-binding shareholder vote on progress. The reason that the proposal adds value in the case of BP is that the company did not put forward a Say on Climate resolution in 2021. Supporting the resolution acts as an important signal that formalized progress reporting and shareholder feedback mechanisms are a vital component of climate leadership.

Recognizing the targets that BP had already set, we saw further room for improvement on coverage of all emissions scopes and board accountability for implementation. Our support for this resolution was primarily meant to foster accountability via reporting and feedback mechanisms. We believe that Say on Climate resolutions (e.g. periodically on strategy, annually on disclosure) are key elements of climate leadership in the sector. In our vote we also considered the findings of the Climate Action 100+ Net Zero Benchmark.

The shareholder proposal received just over 20% support from shareholders at the AGM. We believe this sends a clear message, and the board has committed to continuing engagement with shareholders on its climate plans, and to report on the progress of this engagement regularly, in line with the UK Corporate Governance Code.

Royal Dutch Shell Plc - 05/18/2021 - United Kingdom
Proposal: Approval of the Energy Transition Strategy and Shareholder Proposal Regarding GHG Reduction Targets

Royal Dutch Shell PLC, through subsidiaries, explores, produces, and refines petroleum. The Company produces fuels, chemicals, and lubricants. Royal Dutch Shell owns and operates gasoline filling stations worldwide.

Shell's 2021 AGM saw two important climate-related proposals on the agenda. Resolution 20 represented an industry first, as Shell put forward its own climate transition plan for a shareholder vote. Resolution 21 was a shareholder proposal on greenhouse gas reduction targets.

Shell's climate plan is currently one of the most elaborate and advanced plans in the oil and gas sector. We do however recognise that certain aspects of the plan (carbon capture and storage and nature-based solutions) have been challenged and will require them to make more disclosure to enable investors to assess the feasibility and scalability. Shell's proposal for approval of the Energy Transition Strategy will be re-submitted every three years with a yearly progress report put to the shareholder vote each year. Shareholders can monitor and raise concerns in relation to progress on the strategy on an annual basis. We supported the proposal with 78% of our voting rights. At the AGM, we expressed our desire for Shell to increase pace and take significant steps in the near future. This aligns with the progress we have expected and seen from Shell during our engagement under the Climate Action 100+ initiative. Following the AGM and a court ruling regarding its transition plan in The Hague, Shell has already further advanced its plans and ambitions.

Resolution 21 was a shareholder proposal for Shell to set climate-related targets in the long, medium, and short term. In our assessment, Shell has set one of the most advanced targets in their sector, and the company should focus on implementation in its next steps. Therefore, we abstained from voting on this resolution with 78% of our holding. We recognise the value of this shareholder proposal in providing positive impetus to Shell to advance its position in making its net zero commitment as concrete as possible.

Shell's own Say on Climate vote received the support of c. 89% of votes cast. Meanwhile, shareholders also voiced their view on the further development of Shell's targets, with resolution 21 receiving 30% of votes in favour. We will continue to engage with the company with a focus on Shell reaching alignment with the Climate Action 100+ Net Zero Benchmark criteria by 2023.

HSBC Holdings plc - 05/28/2021 - United Kingdom
Proposal: Approval of Climate Policy

HSBC Holdings plc (HSBC) is a banking and financial services company. The Company manages its products and services through three businesses: Wealth and Personal Banking (WPB), Commercial Banking (CMB), and Global Banking and Markets (GBM).

HSBC put its climate policy to vote at its recent AGM and received 99% support. We also voted in favor of the resolution, given the significant strides taken by the company. The result was preceded by pressure from a shareholder resolution filed by a USD 2.4 trillion investor coalition led by ShareAction that was ultimately withdrawn. ShareAction expressed its support for HSBC's own proposal instead.

HSBC has committed to phase out financing (project finance, corporate finance, and underwriting) of coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. This is an important move by the bank given its exposure to Asia, and HSBC's global rank as the world's 15th largest coal power financer. To date, HSBC has been one of the only European banks with no corporate financing restriction for companies exposed to the thermal coal sector and has provided more than USD 15 bn of financing to coal developers from October 2018 to 2020.

HSBC acknowledged that expansion of coal-fired power is incompatible with the goals of the Paris agreement. This is a relatively big turnaround given the company's previous stance and financing of coal-related activities. HSBC has also committed to set, disclose, and implement a strategy with short- and medium-term targets to align its financing across all sectors with the goals of the Paris climate agreement, starting with oil & gas and power & utilities sectors. It will use 1.5°C pathways that are not overly reliant on negative emissions technologies.

The company will publish a new coal policy by the end of 2021 which is expected to include several elements, namely: 1.) a prohibition of general corporate financing and underwriting to companies that are highly dependent on coal mining and/or coal power, as well as companies planning new coal mines, coal plants and coal infrastructure, 2.) commitment to help clients develop, publish and implement coal phase-out plans in line with the 2030/2040 timelines by a specific date and no later than December 2023, 3.) a commitment to focus on the entire coal supply chain, including coal equipment manufacturers and any other coal supply chain function that contributes to the expansion of coal-related activities. Following the AGM, we will continue to monitor how HSBC upholds their new commitments.

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Lincolnshire COUNTY COUNCIL
Working for a better future

Open Report on behalf of Andrew Crookham - Executive Director of Resources

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Pensions Administration Report**

Summary:

This is the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund (WYPF).

Yunus Gajra, Assistant Director (Finance, Administration and Governance) from WYPF, will update the Committee on current administration issues.

Recommendation(s):

That the Committee note the report.

Background

1.0 Performance and Benchmarking

1.1 WYPF uses workflow processes developed internally to organise their daily work with target dates and performance measures built into the system. The performance measures ensure tasks are prioritised on a daily basis, however Team Managers have the flexibility to re-schedule work should time pressure demand.

1.2 The table below shows the performance against key areas of work for the period 1 April 2021 to 30 June 2021.

KPI's for the period 01.04.21 to 30.06.21						
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
AVC In-house (General)	35	20	34	85	97.14	2.14
Change of Address	302	10	296	85	98.01	1.74
Change of Bank Details	44	10	39	85	88.64	4.41
DWP request for Information	6	20	6	85	100	8.67
Death Grant Nomination Form Received	316	20	310	85	98.1	5.29
Death Grant to Set Up	33	5	31	85	93.94	1.12
Death In Retirement	136	5	131	85	96.32	5
Death In Service	5	5	5	85	100	4
Death on Deferred	11	5	11	85	100	5
Deferred Benefits Into Payment Actual	320	5	299	90	93.44	1.14
Deferred Benefits Into Payment Quote	463	35	428	85	92.44	19.46
Deferred Benefits Set Up on Leaving	552	20	526	85	95.29	11.38
Divorce Quote	27	20	25	85	92.59	13
Divorce Settlement Pension Sharing order Implemented	1	80	1	100	100	1
Enquiry	6	5	6	85	100	2.67
Estimates for Deferred Benefits into Payment	2	10	2	90	100	5
General Payroll Changes	89	10	89	85	100	1
Initial Letter Death in Service	5	5	5	85	100	1
Initial letter Death in Retirement	136	5	128	85	94.12	2.14
Initial letter Death on Deferred	11	5	10	85	90.91	1.45
Monthly Posting	747	10	704	95	95	4.27
NI adjustment to Pension at State Pension Age	10	Next payroll	10	85	100	19.3
Payment of Spouses _Child Benefits	76	5	68	90	90	4
Pension Estimate	231	10	216	75	93.51	3.24
Phone Call Received	1182	3	1166	95	98.65	1
Refund Actual	105	10	105	95	100	1
Refund Quote	166	35	160	85	96.39	3.33

Retirement Actual	167	3	166	90	99.4	1
Spouse Potential	5	20	5	85	100	15.4
Transfer In Actual	25	35	25	85	100	2.64
Transfer In Quote	38	35	38	85	100	2.03
Transfer Out Payment	8	35	8	85	100	7.38
Transfer Out Quote	80	20	71	85	88.75	9.53
Update Member Details	632	20	632	100	100	1

2.0 Scheme Information

2.1 Membership numbers in the Lincolnshire Fund are as follows:

Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	22,867	25,575	543	25,239	2,446
Percentage of Membership	29.83	33.36	0.70	32.92	3.19
Change from Last Quarter	-48	-426	+173	+357	-48

2.2 Age Profile of the Scheme

	Age Groups												
Status	U20	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	70+	TOTAL
Active	216	1,503	1,566	1,964	2,509	2,758	3,449	3,801	3,049	1,685	293	74	22,867

2.3 Employer Activity - During 1 April 2021 to 30 June 2021

New Academies and Education Trusts	2
New Town and Parish Council	1
New Admission Bodies	0
Total of New Employer	**3**
Employers Exited	0
Total Numbers of employers	**296**

3.0 Member and Employer Contact

3.1 Over the quarter April to June we received **5** online customer responses.

Over the quarter April to June **96** Lincolnshire member's sample survey letters were sent out and **10 (10.5%)** returned:

Overall Customer Satisfaction Score:

April to June 2020	July to September 2020	October to December 2020	January to March 2021	April to June 2021
92.7%	94.9%	82.1%	86.8%	81.7%

Appendix A – Customer surveys

3.2 Employer Training

Over the quarter 1 April 2021 to 30 June 2021 we held the following webcasts which were attended by employers across all four Funds that WYPF administer:

- Processing pension statement blocks and quarantines
- Online forms and when to use them
- Ill health for deferred members
- Understanding term time only members

4.0 Internal Disputes Resolution Procedures

4.1 All occupational pension schemes are required to operate an IDRP. The LGPS has a 2-stage procedure. Stage 1 appeals, which relate to employer decisions or actions, are considered by a person specified by each employer to review decisions (the 'Adjudicator'). Stage 1 appeals relating to appeals against administering authority decisions or actions are considered the Pension Fund Manager. Stage 2 appeals are considered by WYPF.

Stage 1 appeals against the fund

No appeals currently outstanding.

Stage 1 appeals against scheme employers

Two appeals are currently outstanding.

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
02/12/2020	Appeal against being refused an ill health pension.	Referred to Serco as the scheme employer. 2nd medical review being arranged. Reminder sent and response received stating obtaining medical records.	
28/04/2021	Appeal against being refused an ill health pension	Referred to Lincoln College as the scheme employer. Member contacted WYPF on 24/08/2021 regarding the IDRP process. From this call it was established that the member is still employed. Lincoln College should therefore have turned down the appeal as no pensions decision was made.	

Stage 2 appeals

No cases

Ombudsman

No cases

5.0 Administration Update

5.1 Prudential

Lincolnshire's AVC providers are the Prudential who have been excellent in the service they have provided to our members over the years.

However, since late last year there have been a number of issues with their administration which has impacted on members resulting in delays in processing retirements and allocating contributions to member's records. The issues are affecting the whole of the LGPS sector.

WYPF have been in touch with Prudential and escalated the issues to their senior management.

As a result of continuing issues both WYPF and LPF have reported the issues to The Pensions Regulator and we await the outcome of their investigations. A recent update from TPR said 'The situation is being monitored accordingly'.

We are still experiencing delays for some members but there has been a slight improvement over the recent months. Prudential are also awarding members a payment of £175 for poor service, distress and inconvenience. We will continue to monitor the situation carefully.

5.2 Employer Work

During this period WYPF worked on 7 new Academies/Prime account schools and 6 new admission bodies.

5.3 Annual Benefit Statements (ABS) and Deferred Benefit Statements (DBS)

This year's statements have been issued electronically. Members have been asked to sign up to the secure 'MyPension' portal to access their statements. However, members who still prefer a paper version will be able to opt out and receive one.

As at 31 August 2021 98.7% of ABS's and 99.9% of DBS's have been produced for Lincolnshire members who are eligible to receive one. The remaining ABS's are due to queries on records with Employers and outstanding transfers and linkings which are being worked on.

5.4 Audits undertaken by Bradford Councils Internal Audit

No internal audits were undertaken during this period.

6.0 Current Technical Issues

See Appendix B.

7.0 Web Registrations

The number of members registered for online member web are:

Active	7,207	31.52%
Deferred	5,497	21.49%
Pensioner	4,933	19.55%

8.0 Shared Service Budget

8.1 For 2021/22 a budget of £15.43m was approved for all WYPF operational activities, including the shared services, with a budget of £6.86m as set out below.

WYPF PENSION ADMIN	2020/21 OUTTURN PD13 £000	2021/22 BUDGET £000	2021/22 FORECAST PD03 £000
Accommodation	288	365	248
Actuary	0	168	0
Computer	453	485	524
Contingency	0	0	0
Employees	5,314	5,936	3,588
Internal Recharge	-691	-784	1,754
Other Running Costs	211	165	122
Transaction Costs	0	0	0
Printing & Stationery	495	529	458
Admin strategy	0	0	0
TOTAL EXPENDITURE	**6,070**	**6,864**	**6,694**
Member number	467,795	467,795	467,795
PARTNER MEMBERS	168,523		467,795
WYPF MEMBERS	299,272		-
Cost per member	**£12.98**	**£14.67**	**£14.31**
Charge to WYPF Account	-4,046	-4,528	-4,114
Other Income	-396	-36	-80
Shared Service Income	-1,628	-2,300	-2,500
TOTAL INCOME	**-6,070**	**-6,864**	**-6,694**

8.2 Cost per member

Lincolnshire LGPS	MEMBER No	NUMBER OF MONTHS	FACTORED MEMBER No	BUDGET PER MEMBER	2021/22 BUDGET	FORECAST COST PER MEMBER	2021/22 FORECAST PD10
Lincolnshire LGPS	76,716	12	76,716	£14.67	£1,125,662	£14.31	£1,097,806

9.0 Awards

WYPF was shortlisted by **Pensions Age** under the following categories:

- DB Scheme of the Year
- Pension Scheme Communication Award
- Pension Administration Award

Winners were announced at a ceremony in London on 15 July 2021. Whilst we did not win any of the awards, which all went to big private sector funds, it's a great achievement to be shortlisted with such strong competition both from the public & private sector and we are proud of our efforts to gain the recognition.

We have also been shortlisted by the **European Pensions Age** under the following categories:

- European Pension Fund of the Year
- Pension Fund Communication Award
- Pension Fund Innovation Award

Winners will be announced at a ceremony in London on 20 October 2021.

Conclusion

WYPF and LPF continue to work closely as shared service partners to provide an efficient and effective service to all stakeholders within the Lincolnshire Pension Fund.

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	Customer Surveys
Appendix B	Current Technical Issues

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 Yunus Gajra, who can be contacted on 01274 432343 or yunus.gajra@wypf.org.uk

Customer Survey Results - Lincolnshire Members
(1st April to 30 June 2021)

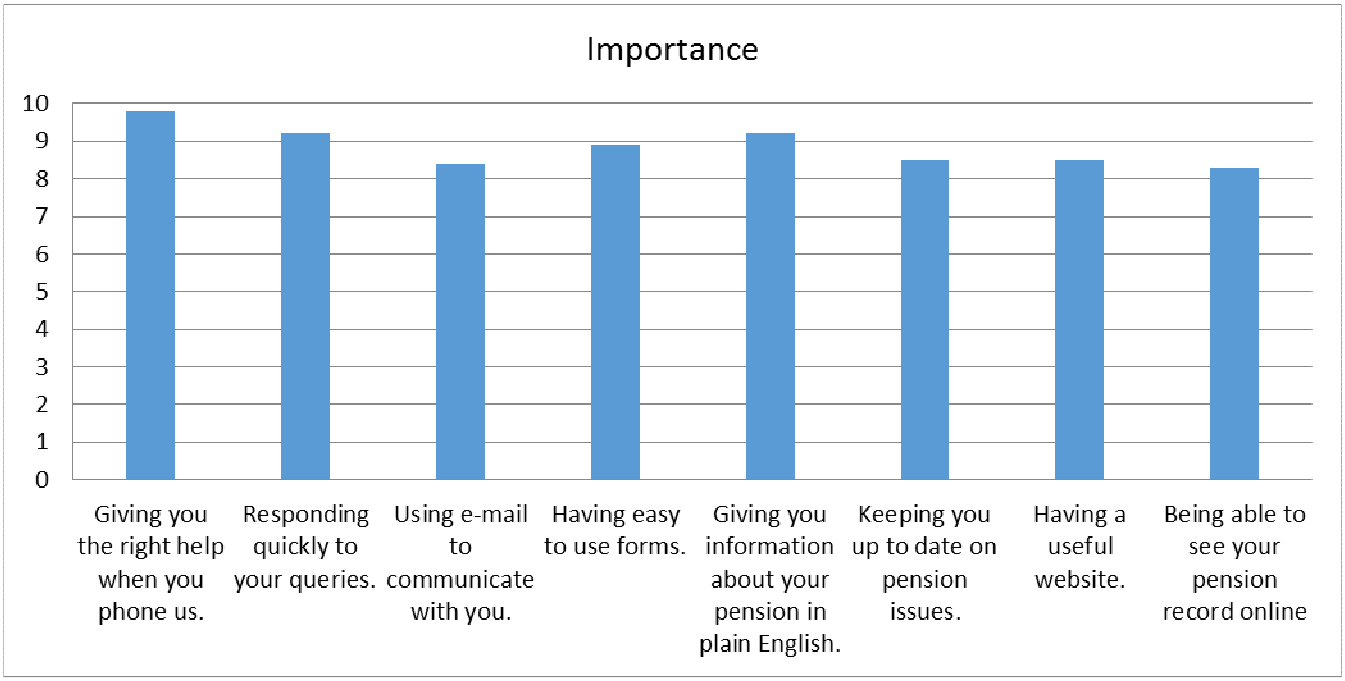
Over the quarter April to June we received **5** online customer responses.

Over the quarter April to June **96** Lincolnshire member's sample survey letters were sent out and **10 (10.5%)** returned:

Overall Customer Satisfaction Score;

April to June 2020	July to September 2020	October to December 2020	January to March 2021	April to June 2021
92.7%	94.9%	82.1%	86.8%	81.7%

The charts below give a picture of the customers overall views about our services;



Sample of positive comments:

Member Number	Comments
8000662	Good. informative and quick service
8134971	Very efficient, clear and helpful during difficult time. Very happy with the service received.
8018283	Apart from waiting 35 minutes for someone to answer the young ladies who helped me were truly excellent. The service I received was excellent.
8106197	quick and efficient

Complaints/Suggestions:

Member Number	Comments	Summary of Acknowledgement Letter Sent to Member
None		

APPENDIX B

Current Technical Issues

MHCLG letter about new requirement for exit payment data

MHCLG wrote to chief financial officers of councils and combined authorities in England on 9 April 2021, letting them know about a new requirement to provide data on exit payments.

Councils were asked to provide data on all redundancy payments, pension strain payments and other special payments made in consequence of an exit for 2014/15 to 2020/21 by the end of May 2021. We expect that a similar request will be made for subsequent years.

The data will be used to inform delivery of the Government's policy to end excessively high exit payments in the public sector.

The letter included a draft specification and invited comments by 26 April 2021 on the clarity of the data requirements and the practicality of providing this.

High Court judgment on exit credits

On 27 May 2021, the High Court handed down its judgment in the case of EMS & Amey v Secretary of State for MHCLG. The case relates to the non-payment of a £6.5 million exit credit.

The Court found in favour of MHCLG and upheld the retrospective effect of the LGPS (Amendment) Regulations 2020. The judge noted that 'there were compelling public interest reasons for making the regulations retroactive', and that 'the aim of avoiding windfall payments and protecting the pension funds was legitimate'.

Background

From 14 May 2018, the LGPS (Amendment) Regulations 2018 introduced a requirement on administering authorities to pay any surplus (exit credit) to exiting employers.

EMS exited the Scheme in June 2018. The surplus at leaving was £6.5 million. However, the administering authority had concerns about paying this amount to EMS because a 'pass-through arrangement' had been in place.

MHCLG made the LGPS (Amendment) Regulations 2020, which came into force on 20 March 2020. The regulations amended the exit credit rules, requiring administering authorities to decide the amount of an exit credit after taking into account relevant factors. The regulations do not apply to credits paid before

20 March 2020. Therefore, as the administering authority in this case had yet to pay EMS the exit credit, the new rules applied to it.

The claimants brought a judicial review against the 2020 Regulations applying retrospectively.

Clarification on the exit credit discretion

The claimants also raised concern about how administering authorities are applying the new rules; in particular, suggesting that some administering authorities are excluding the possibility of paying an exit credit because a pass-through arrangement is in place. All parties accepted that this is incorrect, and the regulations do not give primacy to any single factor. In paragraph 161, the Court clarified the parameters of the discretion to award exit credits:

"i) The essential obligation of the decision maker is to make a rational and fair application of regulation 64(2ZAB) and (2ZC), giving the words their clear meaning.

Paragraph 7.2 of the explanatory memorandum could give the impression that no exit credit can or should be paid in the circumstances described in that paragraph. That impression would be misleading, because the regulation requires a multi-factorial discretion to be applied, having regard to all relevant facts of which the decision maker is made aware. The regulation does not make any single factor conclusive.

Regard may always be had to the fact that, by the legislation as amended by both the 2018 Regulations and the 2020 Regulations, the Defendant provided for the possibility of exit credits.

Regard also may always be had to the fact that, by the legislation as amended by the 2020 Regulations, a multi-factorial discretion was provided to replace, and no doubt was thought to be fairer than, an absolute entitlement.

Regard must be had to the relevant factors stipulated at paragraphs (a) to (c) of regulation 64(2ZC).

The regulation does not give primacy to any single factor. The weight given to any relevant factors therefore will always depend on the facts of the individual case."

TPO publishes three member factsheets

In March 2021, the Pensions Ombudsman (TPO) published three factsheets aimed at members, covering the Early Resolution Service, how TPO investigates complaints and complaining to the party at fault.

The factsheet on the Early Resolution service explains what the service is, how it operates and what the member's options are.

The factsheet on how TPO investigates complaints explains the investigation process, what is meant by a determination, how TPO will communicate during the investigation, how TPO will share information and how the member can help the process.

The factsheet on complaining to the party at fault explains the need for members to have first tried to resolve the matter with the party at fault before TPO can investigate. This includes explaining how the member can complain to the party at fault, time limits, and what happens after then.

Pension scams webinar

On 31 March 2021, TPR hosted a webinar on the pledge to combat pension scams.

The webinar included speakers from TPR, the Pensions Scams Industry Group, the Money and Pension Service and the City of London Police. It also included recordings of calls from victims of scams.

TPR has published a recording of the webinar on their website.

TPR addresses concerns about new criminal offences powers

On 19 April 2021, David Fairs from TPR published a blog addressing concerns raised about TPR's new criminal offences powers.

The Pension Schemes Act 2021 includes two new criminal offences, which are expected to come into force in autumn 2021. The offences cover avoiding employer pension debts and risking savers' pensions. TPR has recently consulted on their policy setting out their approach to the investigation and prosecution of these new powers.

Many industry commentators have raised concerns about the reach of the new powers. Some have speculated that the new powers could lead to competent trustees resigning in fear of inadvertently committing an offence.

David Fairs confirms in the blog that TPR will not overstretch the intent and purpose behind the new powers.

Direction on GMP indexation updated

The Government had decided to discount conversion as a long-term policy solution and make the interim solution the permanent solution for indexing guaranteed minimum pensions (GMPs) in public service pension schemes.

HMT has updated their direction under section 59A of the Social Security Pensions Act 1975, implementing the decision. The updated direction commenced on 6 April 2021 and applies in England, Scotland and Wales.

LGPC responds to NMPA consultation

On 19 April 2021, the Local Government Pension Committee (LGPC) responded to the consultation on increasing the normal minimum pension age (NMPA).

HM Treasury consulted on increasing the NMPA. The consultation reconfirmed an earlier decision to increase the NMPA from 55 to 57 from 6 April 2028. The consultation also sought views on proposals to implement the increase.

Supreme Court refuses to hear claim against SPA changes

The Supreme Court has recently confirmed that it will not hear the claim against the State Pension age (SPA) changes. The claim was supported by the campaign group, Backto60.

In the claim, Backto60 argued that the increase in the SPA affecting women born in the 1950s was discriminatory and that government did not give the women enough notice. Both the High Court and Court of Appeal had previously dismissed the claim.

PSIG publishes new version of Code of Good Practice

The Pensions Scams Industry Group (PSIG) has published version 2.2 of its 'Code of Good Practice on Combating Pension Scams'.

The new version is effective from 1 April 2021 and is updated to improve usability and to reflect recent regulatory changes as well as the evolving nature of pension scams. The code includes a section outlining the key changes.

Action Fraud launches awareness campaign about pension scams

On 20 April 2021, Action Fraud launched a national awareness campaign to remind the public about the importance of doing their research before making changes to their pension, including a warning to remain vigilant against pension scams.

The press release announcing the launch contains some simple steps for members to protect themselves against scams and advice on what to do if they suspect a scam.

PDP progress update

The PDP April 2021 progress update report includes information updates on the programme achievements over the last six months. You can read more about the PDP timetable for delivering pensions dashboards in the Programme timeline.

On 13 April 2021, the Pensions Dashboards Programme (PDP) issued an invitation to tender (ITT) for a supplier to provide the digital architecture for pension dashboards.

The chosen supplier will provide the main parts of the digital architecture. This will include the pension finder service, the consent and authorisation service and the governance register.

Prudential announce update to their brand

Prudential has announced that they will be updating their brand with a fresh new look and feel (including a new logo). This will include updating their websites, social media, brochures, letters and emails.

Prudential will roll out the updates to their communications gradually from mid-May 2021. So, you may receive information from them in the old and new brand over the next 12 months.

Prudential has said that the brand update will have no impact on either their contact details or login details to their online services.

Prudential has set up a webpage about their brand update giving more information.

Written Ministerial Statement on McCloud

On 13 May 2021, Luke Hall, Minister for Regional Growth and Local Government, made a Written Ministerial Statement on McCloud and the LGPS. The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirms that:

- the age requirement for underpin protection will be removed
- a member will not need to leave with an immediate entitlement to
- benefits to qualify for underpin protection
- the remedy period will end on 31 March 2022
- the underpin calculation will be based on final pay at the underpin date,
- even when this is after 31 March 2022
- there will be two stages to the underpin calculation:
- the first on the underpin date – the date of leaving or on the normal
- pension age in the 2008 Scheme, if earlier
- the second when the benefits are paid
- the regulations will be retrospective to 1 April 2014.

We expect MHCLG to issue a full response to the consultation and to publish draft regulations later this year.

Call for input on improving the pensions journey

TPR and the Financial Conduct Authority have launched a call for input on improving the consumer pensions journey. They are seeking views from interested parties such as pension providers and employers on how consumers make decisions about their pension at key points throughout their working lives. The responses to the call for input will be used to find better ways to support individuals and help them to achieve better pensions outcomes.

The Pensions consumer journey: Call for input closed on 29 June 2021.

Call for input on improving the pensions journey: Blog and extension

On 1 June 2021, the Pensions Regulator (TPR) published a blog setting out the reasons for the call for input on improving the pensions.

The blog highlights how the world of pensions has changed. Life expectancy has risen significantly over the last 60 years, the demographic of membership has altered

and savers in defined contribution schemes outnumber their defined benefit counterparts by 15 to one.

The Queen's Speech

The Government's legislative programme was laid out in the Queen's Speech delivered on 11 May 2021. The Government announced:

- a Public Service Pensions and Judicial Offices Bill that will introduce amendments to incorporate the McCloud judgment into public service pension schemes including the LGPS, and
- a Boycotts, Divestment and Sanctions Bill which aims to stop public bodies imposing their own views about international relations by preventing boycott, divestments or sanctions against foreign countries.

The Scheme Advisory Board plans to update its summary of the Supreme Court Boycotts case next month to reflect the contents of the Bill. You can find a link to the current version of the summary on the Legal opinions and summaries page of the Board website www.lgpsboard.org.

PLSA launches LGPS research project

On 18 May 2021, the Pensions and Lifetime Savings Association (PLSA) announced an LGPS research project at its Local Authority Conference. The research will look at areas of best practice, the future challenges faced by the LGPS and identify areas where additional clarity is needed.

SAB Annual Report 2019/20 launched

Councillor Jim Goodfellow, the Chair of the Scheme Advisory Board (SAB), recently launched the fifth Annual Report. The Report aims to provide a primary source of information about the Board's work over the last financial year (2019/20) for members, employers and other stakeholders.

Finance Act 2021 receives Royal Assent

On 10 June 2021, the Finance Act 2021 received Royal Assent.

The Act gives legal effect to the Government's decision to freeze the lifetime allowance at £1,073,100 for tax years 2021/22 to 2025/26, as announced at the last budget. The Government used budget resolutions to freeze the allowance from 6 April 2021 to the date the Act received Royal Assent.

Treasury launches consultation on cost control mechanism

On 24 June 2021, HM Treasury launched a consultation on proposed changes to the cost control mechanism alongside a written ministerial statement.

The consultation follows a review of the mechanism by GAD, which was published on 15 June 2021. HM Treasury requested the review amidst concern that the mechanism was not operating in line with its original objectives, in particular that it would only be triggered by extraordinary, unpredictable events.

The consultation sets out Treasury's response to GAD's findings and proposes making the following three changes, all of which were recommended in GAD's review:

- only considering past and future service in the reformed CARE schemes in the mechanism (so, removing any allowance for final salary schemes)
- widening the 2 per cent corridor to 3 per cent
- introducing an economic check so that a breach of the mechanism would only be implemented if it would still have occurred had long-term economic assumptions been considered.

The outcome of the consultation will not impact on the 2016 cost control valuations.

The consultation recognises that there are differences between the LGPS and other public service schemes, especially in the way in which employer contributions are set. The Government welcomes views on how the economic check would apply to the LGPS.

The consultation does not cover schemes in Northern Ireland, though Treasury welcomes feedback from all stakeholders across all UK public service schemes.

The consultation closes at 11:45pm on 19 August 2021. We intend to respond and will share our response before the closing date.

The consultation is available to view on the:

- Non-scheme consultations page of www.lgpsregs.org and

Treasury launches consultation on the SCAPE discount rate methodology

On 24 June 2021, H M Treasury launched a consultation on the methodology the Government uses to set the SCAPE discount rate alongside a written ministerial statement.

The SCAPE (Superannuation Contributions Adjusted for Past Experience) discount rate is used in the valuation of unfunded public service pension schemes (such as the NHS scheme) to set employer contribution rates. The discount rate is also used to set actuarial factors in the LGPS and other schemes.

Subject to the consultation on the cost control mechanism (see previous article), the rate may also become relevant to the outcome of the mechanism in the future. This is because the Government proposes to base the 'economic check' on the SCAPE discount rate, or an alternative measure, such as expected long-term GDP.

The consultation seeks views on the objectives for the SCAPE discount rate and the most appropriate methodology for setting it.

The current level of the rate will not be changed by this consultation; the Government will carry out a separate exercise to set a new rate in line with the chosen methodology following this consultation.

The consultation closes at 11:45pm on 19 August 2021.

The consultation is available to view on the:

- Non-scheme consultation page of www.lgpsregs.org

Commons committee publishes report on public sector pensions

In June 2021, the House of Commons Committee of Public Accounts published

a report on public sector pensions, after taking evidence earlier this year from HM Treasury and the Government Actuary's Department.

The report includes the Committee's conclusions:

- HM Treasury focuses on affordability to the taxpayer, but this is often at the expense of its other objectives, such as ensuring a decent income in retirement and supporting employers in recruiting and retaining staff.
- Public service pensions are affecting the delivery of frontline services in some areas, due to increased employer contributions.
- HM Treasury has not done enough to ensure people understand the value of their pensions.
- HM Treasury has done little to identify and manage the stark differences in average pensions between genders and other groups.
- HM Treasury has had to revisit key elements of the 2014/15 reforms due to the McCloud judgment and the cost control process not working as intended. These issues may take decades to resolve fully.
- HM Treasury has not yet performed an evaluation of the 2014/15 reforms and the Committee is not convinced that it is on track to meet its objectives.

LGPS mortality data

On 15 June 2021, the Scheme Advisory Board (SAB) in England and Wales updated its LGPS mortality data to the end of March 2021. The data covers all LGPS administering authorities in England, Wales, Scotland and Northern Ireland.

On the same day, the SAB published updated reports from Aon and Barnett Waddingham. Each report sets out analysis of the mortality data of a single LGPS fund during the pandemic.

Making ABSs for active members available on a website

In accordance with the Public Service Pensions (Information about Benefits) Directions 2014, administering authorities may provide annual benefit statements (ABS) to active members by making them available on a website. The Directions set out requirements that must be complied with when doing so. As a result of a question we have received, we would like to reiterate what those requirements are:

- if the member requests a copy of the ABS, the administering authority must provide a paper copy (or a copy in a similar form capable of being read) free of charge
- the administering authority must be satisfied that members will be able to get access to, and store or print, the ABSs
- the administering authority has taken into account the requirements of disabled persons
- each time the authority uses a website to provide an ABS to an active member, the authority must first have told the member that fact, explaining how the member will be able to access and read the statement
- where the authority is using a website for the first time to provide an ABS to the member, the authority must give the information mentioned in the last bullet by giving it to the member by hand or by sending it to the member's last known postal or email address. Each subsequent time, the authority must give that information in such manner as the administering authority considers will bring that information to the member's attention (including by sending it to the member's last known email address).

In our view, one of the ways it would be acceptable for the administering authority to bring the information to the member's attention is via the Scheme employer. The administering authority should satisfy themselves that the employer is able and willing to contact all relevant employees.

MaPS MoneyHelper goes live

On 18 March 2021, the Money and Pensions Service (MaPS) revealed plans to launch a single offering for consumers called MoneyHelper. This will replace the Money Advice Service, the Pensions Advisory Service and Pension Wise. Though, Pension Wise will continue as a named service under the MoneyHelper umbrella.

Roll out began on 7 June 2021 with the launch of the Beta MoneyHelper website, ahead of a working date of 30 June for the full launch of MoneyHelper. The Beta launch allowed MaPS to continue testing and to gather vital feedback ahead of the full launch.

Next steps

As part of the consolidation of three brands into one, MaPS has decided to discontinue some of their content. This will enable them to provide a better and enhanced consumer experience, a single source of information and guidance where information can easily be found in one place.

As of 30 June 2021, links to the legacy websites (Money Advice Service, The Pensions Advisory Service and Pension Wise) will automatically redirect to the relevant new location on MoneyHelper. If the article(s) or tool(s) no longer exist, itwill redirect to a relevant landing page on the broader topic.

Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Committee with up-to-date information on Employer Monthly Submissions for the first quarter of the financial year 2021/22 (April to June inclusive).

Recommendation(s):

The Committee note the report and consider if there are any further actions they wish to take against employers submitting late or inaccurate payments or data.

Background

1.1 There are approximately 270 employers within the Lincolnshire Pension Fund. All employers have a statutory responsibility, as set out within the Pensions Act 1995, to ensure that they pay over contributions due to the Fund on a timely basis. The date these are due is set out in the Fund's Administration Strategy, which all employers have signed up to, and has been set as the 19th of the month following their payroll. The Fund considers an employer a 'late payer' if either the cash and/or the data is received after this date.

1.2 The Fund has in place robust processes for monitoring the receipt of payments and data from employers. Within the Pensions Team, the Finance Technician is responsible for monitoring employer contributions monthly. Additional checks on the detailed data submissions and employer rates are undertaken by the West Yorkshire Finance Team. The pensions system itself also identifies errors, queries, or where further information is required from the employer (e.g. additional leavers' information).

1.3 After any late payment (including data submission) an email is sent to the employer reminding them of their responsibilities. In addition to emailing employers, both the Lincolnshire and West Yorkshire Pension Fund teams are in regular contact with employers and their payroll providers to prompt payments/data submissions and clarify any queries. Much work has been put into building a good relationship with

employers and payroll providers, to assist in understanding the monthly process they need to complete and the data they are required to supply.

1.4 A summary of all late contributions or data submissions since April 2021 is set out in table one below. Appendix A sets out the employers who were late, and details when the outstanding payment or information was received.

Table One: Late contributions and data submissions to June 2021

Month	Payment of Contributions		Submission of Data		Payment of Contributions and Submission of Data		Data and Payments do not Match / Incorrect Rate	
April	1	0.4%	4	1.5%	0	0.0%	2	0.7%
May	4	1.5%	5	1.9%	0	0.0%	0	0.0%
June	3	1.1%	4	1.5%	1	0.4%	2	0.7&
Total	**8**		**13**		**1**		**4**	

1.5 The analysis shows the number of employers making a late payment of contributions, missing both payment of contributions and data, or submitting data and payments that did not match, is a relatively small percentage of the overall number of employers. A higher number of employers submitted their data returns late. The first quarter of 2020/21 has seen good compliance from all employers, only a small number of employers missed the deadlines set and there are no specific concerns arising from the late employers during the quarter.

1.6 None of the breaches individually have been material and therefore have not been reported to the Pensions Regulator; however, they have been included en masse in the breaches register.

1.7 If any employer makes contribution payments or submits data late in three out of six months on a rolling basis, they will receive a fine, unless they are able to offer extenuating circumstances. Fines are currently set at a minimum of £136. Table two sets out the number of fines issued since April 2021. There has been one fine issued in the quarter.

Table Two: Late contributions fines to June 2021

April	May	June
1	0	0

Conclusion

2.1 This report provides quarterly monitoring information on the timeliness and accuracy of employer submissions to help the Pensions Committee understand if there are any issues arising from late payments or data submissions and any further

actions which are required to address employers not meeting their statutory responsibilities.

2.2 Employer submissions have increased in prominence as the number of employers within the scheme has increased. The Fund has responded to this by having a dedicated resource to monitor employer submissions and working closely with West Yorkshire and employers to reduce the numbers of late payers.

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	Employers late data contributions or data - quarter one 2021/22 (April to June inclusive)

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Late Contributions and Payments April to June 2021

April 2021

Employer	Late Cash Contributions	Date received	Late Data Submissions	Date received	Payment of Contributions & Submission of Data	Date received	Payment and Data Don't Match
BOURNE ACADEMY (South Lincolnshire Academy)	YES	21/05/2021					
BALFOUR BEATTY			YES	18/06/2021			
EDWARDS & BLAKE			YES	18/06/2021			
MELLORS CATERING SERVICES			YES	25/05/2021			
TAYLOR SHAW LTD (BRANSTON) (Elior)			YES	18/06/2021			
BRANSTON COMMUNITY ACADEMY							YES
ST PETER & ST PAUL CATHOLIC ACADEMY, LINCOLN (St. Therese of Lisieux)							YES
	Total = 1		Total = 4		Total = 0		Total = 2

May 2021

Employer	Late Cash Contributions	Date received	Late Data Submissions	Date received	Payment of Contributions & Submission of Data	Date received	Payment and Data Don't Match
EASY CLEAN (BASTON PRIMARY)	YES	21/06/2021					
EASY CLEAN (LINCHFIELD) (WEST GRANTHAM ACADEMY TRUST)	YES	21/06/2021					
MALCOLM SARGENT PRIMARY ACADEMY, STAMFORD	YES	23/06/2021					
SOMERCOTES ACADEMY (Tollbar MAT)	YES	29/06/2021					
BALFOUR BEATTY			YES	22/06/2021			
BLACK SLUICE INTERNAL DRAINAGE BOARD			YES	22/06/2021			
EDWARDS & BLAKE			YES	24/06/2021			
FUTURE CLEANING SERVICES (Bidvest Noonan)			YES	24/06/2021			
TAYLOR SHAW LTD (BRANSTON) (Elior)			YES	24/06/2021			
	Total = 4		Total = 5		Total = 0		Total = 0

Appendix A

June 2021

Employer	Late Cash Contributions	Date received	Late Data Submissions	Date received	Payment of Contributions & Submission of Data	Date received	Payment and Data Don't Match
ACTIVE LINCOLNSHIRE	YES	30/07/2021					
BOURNE ACADEMY (South Lincolnshire Academy)	YES	23/07/2021					
G4S	YES	20/07/2021					
BASSINGHAM PRIMARY ACADEMY (Aspire)			YES	22/07/2021			
CRANWELL COUNTY PRIMARY			YES	27/07/2021			
LITTLE GONERBY INFANT ACADEMY			YES	26/07/2021			
SIR WILLIAM ROBERTSON ACADEMY (Aspire)			YES	22/07/2021			
GRANTHAM COLLEGE					YES	21/07/2021	
PINCHBECK EAST CofE PRIMARY ACADEMY							YES
POLICE & CRIME COMMISSIONER							YES
	Total = 3		Total = 4		Total = 1		Total = 2

Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Annual Report and Accounts 2020/21: External Audit Update Report**

Summary:

This report brings to the Pensions Committee an update report from Mazars, the Funds External Auditor, on the 2020/21 audit of the financial statements. The report details the audit work outstanding and findings from the work completed to date.

Recommendation(s):

That the Committee note the report.

Background

1.1 The Pension Fund Annual Report and Accounts for the year ended 31 March 2021 have been completed and were approved by this Committee at its meeting on 16 July. They are now being independently audited by the Fund's external auditors, Mazars.

<u>Statement of Accounts</u>

1.2 The accounts presented to the Pensions Committee in July included all 31 March asset valuation information received by the Fund to the end of June. However, some of these valuations related to earlier accounting periods (e.g. 31 December 2020) rolled forward for cash flows. This is standard valuation practice for unquoted assets and is the approach set out in accounting standards. Over the summer, 31 March 2021 valuations, for these holdings have been received by the Pension Fund Officers, and after review, have been incorporated into the Pension Fund Accounts. The total impact of these updated valuations is a £33.948m increase in asset values (across alternatives, infrastructure, private equity and property venture).

1.3 The above amendments have been made to the Statement of Accounts 2020/21, plus a small of disclosure amendments identified by the External Auditor during their presentational review of the accounts document.

Audit Progress Report

1.4 A copy of the External Auditors Progress Report is attached to this report at Appendix A. This details the findings from their work on the Pension Fund financial statements completed to date and summarises the work outstanding on the Pension Fund audit.

1.5 In summary, the key points to note are:

- Status of the Audit (Section 2): The auditor still has work to complete on:
  - Third party investment information received from Fund Managers, and there are still a number of statements outstanding from Managers;
  - Final checks on the accounts and consistency checks on the Annual Report; and
  - The final review of the audit work by the Mazars Engagement Lead.

- Significant Findings (Section 4):
  - The review of management override of controls has not highlighted any issues to bring to the Committee's attention;
  - Valuation of investments within level 3 of the fair value hierarchy: highlights that a number of updated valuation statements have been received by the Fund since the date the accounts where published in draft in July.

- Internal Control Recommendations (Section 5): No material internal control recommendations have been identified to date.

- Summary of misstatements (Section 6):
  - Update to Investment Valuation Information: Once the draft accounts are formally signed and published, in accordance with the Regulations, any subsequent amendments are referred to as misstatements. This is the case even if such amendments are inevitable and result from the timing of the information available from investment fund managers as is the case this year. The change to the accounts detailed here was identified and proposed by officers from proactively tracking the asset changes from the information received.
  - A small number of minor disclosure amendments have been identified and made to the Accounts.

Conclusion

2.1 The audit of the Pension Fund Statement of Accounts for the year ended 31 March 2021 is largely complete and it is expected that the external auditor, Mazars, will issue an unqualified audit opinion in November. They also expect to issue the consistency opinion on the Annual Report by the statutory deadline.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Mazars External Audit Progress Report September 2021

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Audit Progress Report

Lincolnshire Pension Fund – Year ended 31 March 2021

September 2021

mazars

Contents

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit work to date. This section includes our conclusions so far on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and
- Valuation of investments within level 3 of the fair value hierarchy.

Based on the audit work completed to date there are no identified significant control deficiencies and no unadjusted misstatements envisaged that we are required to report to the Audit Committee.

Status and audit opinion

To-date we have completed a substantial proportion of our fieldwork on the financial statements for the year ended 31 March 2021. At this present time we envisage giving our opinion in November 2021 in line with the proposed timeframe for issuing our audit report on Lincolnshire County Council's financial statements.

At the time of preparing this report, there are some matters outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through our Audit Completion Report. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
We anticipate issuing an unqualified opinion, without modification, on the financial statements.

Consistency report
We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Lincolnshire County Council.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. No objections or questions from local electors have been received.

1. Executive summary

COVID-19 impacts

The implications of the pandemic required remote working in relation to this audit. Whilst auditing on a remote basis was challenging, we have been able to work in liaison with the finance team to deliver the audit and wish to thank them for their support.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Investments		Some information remain outstanding from fund managers. Our review of third party confirmations received to-date is not yet complete.
Consistency opinion		We have received a draft of the Pension Fund Annual Report. However, we have not yet compared the revised Pension Fund financial statements (within the Statement of Accounts of the Council) with the revised Pension Fund financial statements within the Pension Fund's Annual Report.
Finalised financial statements		The Pension Fund is revising its financial statements to reflect updated valuations it receives from fund managers. Following consideration of the revised valuations we will then complete our checks on the finalised financial statements before giving our opinion.
Audit Quality Control and Completion Procedures		Our audit work, including the specific procedures carried out in relation to the significant audit risks identified, is yet to undergo the final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including completing our internal technical consultations on the proposed audit opinion and the updated financial statements, updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in May 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £26.6 million using a benchmark of 1% of net assets available to pay benefits. We also set a separate provisional specific materiality for the fund account of £10.4 million at the planning stage of the audit using a benchmark of the higher of 10% of contributions receivable and 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using the same benchmarks:

- Statement materiality £27.4 million.
- Fund account specific materiality £11.4 million.

04

Section 04:

Significant findings

Page 106

4. Significant findings

In this section we outline the significant findings from our audit work to date. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We currently envisage concluding that the financial statements have been prepared in accordance with the financial reporting framework; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Our work to date has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

4. Significant findings

Valuation of investments within level 3 of the fair value hierarchy

Description of the risk

At 31 March 2021 the Pension Fund held investments which were not quoted on an active market with a fair value of £344.0 million, accounting for 12.5 per cent of the Fund's net investment assets. This included: Alternatives (£274.3 million), Property (£6.9 million), Infrastructure (£50.4 million) and Private Equity (£12.4 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.

As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2020/21 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- agreeing the valuation included in the Pension Fund's underlying financial systems to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;
- agreeing holdings from fund manager reports to the custodian's report;
- agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- reviewing the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required;
- where audited accounts are available, check that they are supported by a clear opinion; and

Valuation of investments within level 3 of the fair value hierarchy (cont'd)

How we addressed this risk (cont'd)

- where available, reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.

Audit conclusion

Subject to completion of the outstanding matters on page 7, our work has provided the assurance we sought in the above areas. It has however highlighted a material difference between the valuation of investments in the initial set of accounts prepared and the final version of the accounts on which we will be giving our opinion. This difference resulted from the timing of valuations received from fund managers. The adjusted misstatement involved is detailed on page 17 of this report.

4. Significant findings

Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and our work to date has concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances..

In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2021.

Draft accounts were received from the Fund on 22 June and were of a good quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. It is however worth noting that our audit work has been completed through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Fund these challenges were overcome.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not to date exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

05

Section 05:

Internal control recommendations

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5. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported in this section are limited to those deficiencies and other control recommendations that we identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our work to date has not identified any internal control issues to bring to your attention. Should any issues arise during the completion of our audit, these will be reported to the Audit Committee in a follow-up letter.

06

Section 06:

Summary of misstatements

Page 112

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit to date, above the trivial threshold for adjustment of £0.8 million. Where the draft accounts are formally signed and published in accordance with the Regulations any subsequent amendments are referred to as misstatements. This is the case even if such amendments are inevitable and result from the timing of the information available from investment fund managers as is the case this year. The change to the accounts detailed below was identified and proposed by officers from proactively tracking the asset changes from the information received. Last year we did our audit on the basis of a later set of accounts which already incorporated such changes. This explains why these valuation changes are highlighted in our report this year. It is our current understanding that there will be no unadjusted misstatements in relation to the Pension Fund's 2020/21 financial statements. The table below outlines our current understanding of the misstatements that are to be adjusted by management.

Adjusted misstatements

		Fund Account		Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Investments – Managed Funds			37.725	
	Cr: Change in Market Value		37.725		
	Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end				
	Total adjusted misstatements		37.725	37.725	

Disclosure amendments

A number of minor disclosure amendments have been made in response to the review of the Pension Fund's financial statements by our technical team. All such matters have been addressed in the final version of the Pension Fund's financial statements.

Cameron Waddell

Mazars
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Lincolnshire COUNTY COUNCIL
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Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**14 October 2021**
Subject:	**Performance Measurement Annual Report**

Summary:

This report sets out the Pension Fund's longer term investment performance for the period ending 31st March 2021.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

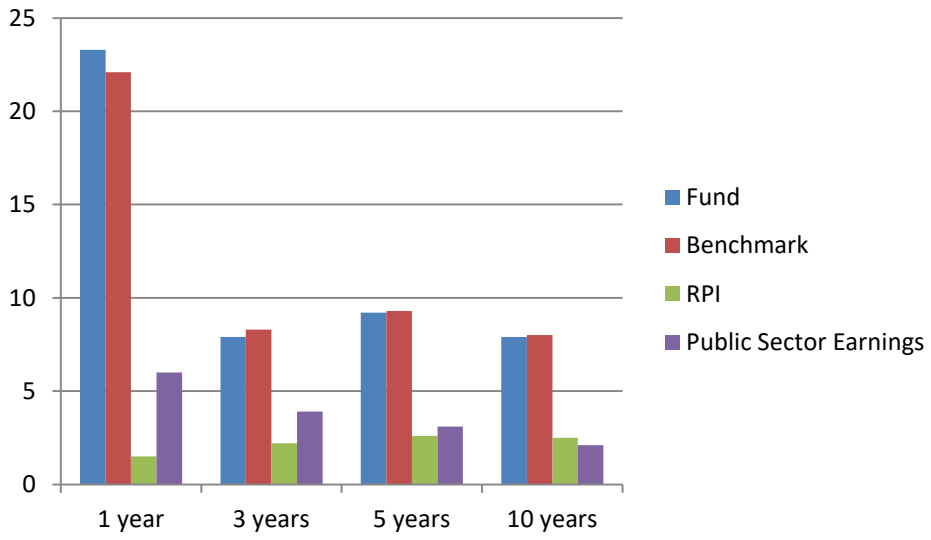
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. Northern Trust, the Fund's custodian (since 1 April 2019), calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary) and PIRC compare the Fund's performance against the average Local Authority Pension Fund. The Fund's long term aim is to outperform the strategic benchmark by 0.75% per annum.

2 LONGER TERM PERFORMANCE FOR YEAR ENDED 31 MARCH 2021

2.1 The short term performance of the Fund and the performance of its managers are reported in the quarterly Investment Management report. This report focuses on the longer term performance of the Fund overall, compared to its strategic benchmark and the pay and price increases that impact the liabilities of the Fund. At the latest valuation, as at March 2019, the Actuary has calculated the employers contribution strategy based on an assumed annual return of 4.0% over the long term.

2.2 The graph and table below shows longer term Fund and Benchmark performance, along with the increases in consumer prices and public sector earnings.

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2021



	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	1.5	2.2	2.6	3.1
Public sector average Earnings increases	6.0	3.9	3.1	2.1
LCC Fund performance	**23.3**	**7.9**	**9.2**	**7.9**
LCC Benchmark Performance	**22.1**	**8.3**	**9.3**	**8.0**
Relative Performance	**1.1**	**(0.3)**	**(0.1)**	**(0.1)**

2.3 **10 Year Returns**

The Fund's performance over ten years, at 7.9%, is slightly behind the Fund's benchmark return of 8.0%. This return is well ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 3.1% and 2.1% p.a. respectively. The biggest impact, either negative or positive in each year, generally comes from the stock selection of the managers, rather than the Fund's position against its strategic benchmark.

2.4 **5 Year Returns**

Five year returns of 9.2% per annum are ahead of both price and pay inflation. The Fund's actual performance is again marginally behind the strategic benchmark return of 9.3%. This reflects the underperforming managers in 2020.

2.5 **3 Year Returns**

Three year returns, at 7.9%, are again ahead of both inflation and average earnings, and but behind the strategic benchmark return of 8.3. This reflects the underperformance of the Global ex UK manager, who was terminated in early 2021.

3 ATTRIBUTION ANALYSIS

3.1 The attribution of the return over any period can be split between asset allocation and stock selection.

3.2 The asset allocation contribution reflects the extent to which decisions to deviate from the strategic benchmark, e.g. to be overweight cash and underweight equities, added to or detracted from performance, compared to the benchmark.

3.3 The stock selection contribution reflects the extent to which managers have or have not exceeded their benchmark index.

3.4 The Fund's annual performance over each of the last ten years compared to the Benchmark is set out in the table below. There is an equal split between stock selection and asset allocation in terms of detractors across the ten year period.

3.5 The poor performance of the Global Equity ex-UK manager was the key contributor to the Fund's underperformance in the past three and five year periods.

3.6 Under asset pooling, the Pensions Committee will remain responsible for the asset allocation, however Border to Coast will be accountable for the stock selection element of the Fund's performance, as for any appointed external manager.

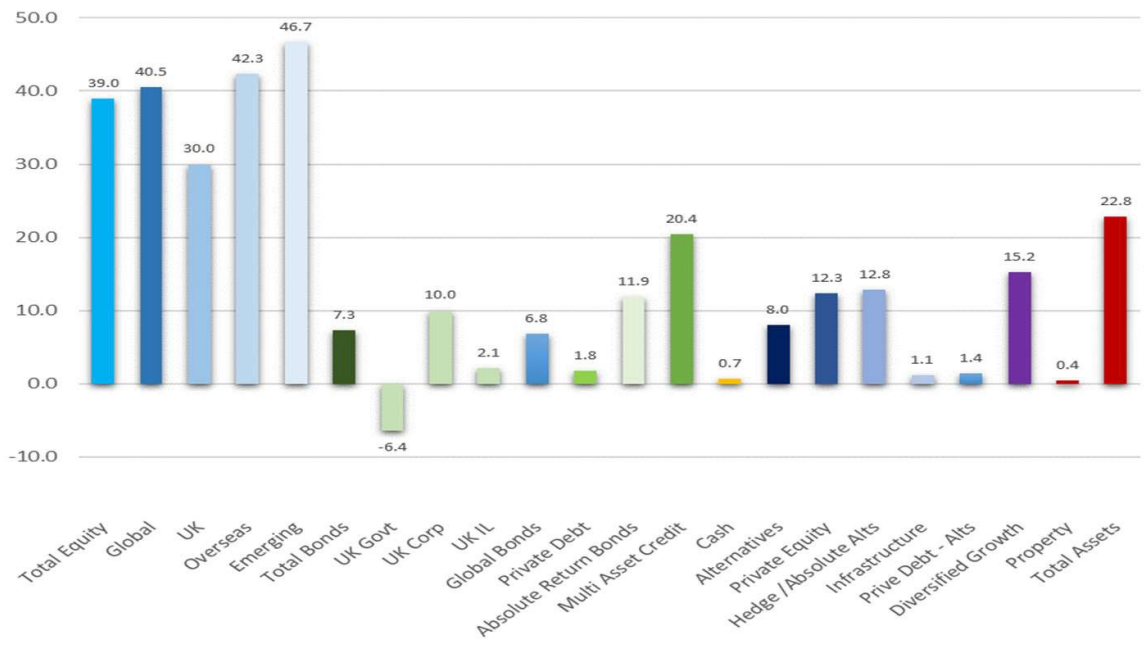
Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2012	1.5	2.4	**(0.8)**	(0.2)	(0.6)
2013	12.6	11.3	**1.2**	0.1	1.1
2014	6.3	6.2	**0.1**	0.2	(0.1)
2015	12.3	12.4	**(0.1)**	(0.1)	0.0
2016	0.0	1.4	**(1.4)**	(0.6)	(0.8)
2017	19.8	19.3	**0.3**	0.0	0.3
2018	3.3	3.0	**0.3**	(0.4)	0.7
2019	8.2	8.1	**0.1**	0.0	0.1
2020	(5.8)	(3.9)	**(2.0)**	(0.3)	(1.6)
2021	23.3	22.1	**1.1**	(1.4)	2.75

4 PIRC LOCAL AUTHORITY UNIVERSE

4.1 The PIRC Local Authority (LA) Universe is an aggregation of 64 funds covering £240bn of assets within the LGPS sector, and is used for peer group comparisons. This represents some two thirds of local authority pension fund assets.

4.2 After the sharp fall in global markets in the quarter to March 2020, returns bounced back almost immediately despite the on-going challenges of the COVID pandemic which has been larger and longer lasting than predicted. Funds returned an average of 22.7% (median of 24.5%) for the year, but the range of results was far wider than usual. Performance was dominated by extremely strong equity returns, enhanced for many by active manager outperformance. Defensive assets performed more modestly with property being the most disappointing of the major assets, only just delivering a positive result. The returns across asset classes over the last year are shown below:



4.3 Since the 1990's, Funds have been using specific strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. This means that comparison across the Universe can be misleading, as funds are trying to meet their own return requirements rather than compete for the highest return.

4.4 Given this move to fund specific strategic benchmarks, the peer group comparison is only a reference point, and not directly comparable. Strategic benchmarks, and the overall return requirement, is linked to the individual liability profile of each fund, and their funding levels. The most important performance comparison is actual performance against the individual funds strategic benchmark.

4.5 The table below shows how the strategic asset allocation for the Lincolnshire Fund (currently in transition) compares with the average Local Authority Pension Fund actual asset allocation in 2021 and 2020.

Asset Class	**Lincolnshire**	**LA Average**	
		2021	**2020**
Equities	55.0	56	51
Bonds	12.5	17	21
Property	10.5	8	10
Diversified Alternatives	21.0	14	12
Diversified Growth	0.0	4	2
Cash	1.0	3	3

4.6 Across the LA Universe, most of the change to allocations at this level came about through relative market movements, as Funds have not generally rebalanced following the strong equity returns over the year. Within Equities there was a significant switch into 'planet aware' investments. Elsewhere there was further

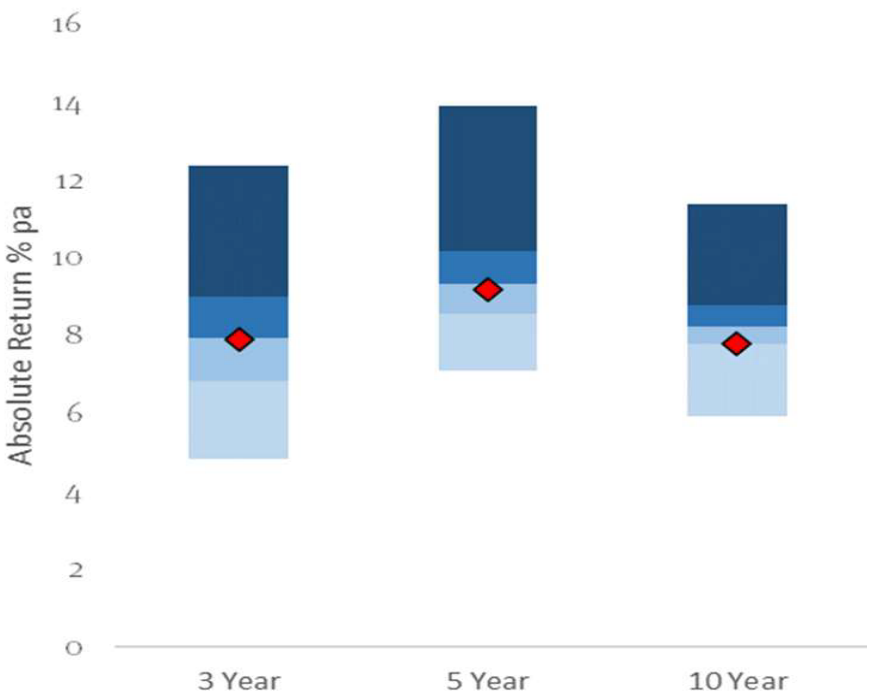
diversification into multi asset credit, private debt and alternative income strategies.

4.7 The Fund was structured quite differently from the average previously, but has come more closely in line over the year. This allocation delivered a return slightly ahead of that of the average fund.

4.8 The performance of the Fund against the average of those Funds subscribing to the Local Authority universe ranked at the 59th percentile, having been at the 70th percentile last year.

4.9 The table below shows the position of the Lincolnshire Fund over 1, 3, 5 and 10 years, and the chart shows the large dispersion in the range of results across the longer term periods.

	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
LCC Fund performance	**23.3**	**7.9**	**9.2**	**7.9**
Universe Average	**22.7**	**9.5**	**9.5**	**8.3**
Ranking	**59**	**51**	**59**	**73**



5 Conclusion

5.1 The Pension Fund's investment performance of 7.9% over the 10 year period ended 31st March 2021 was slightly behind the strategic benchmark of 8.0%. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over all periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is ahead of the current actuarial assumption for return of around 4.0% per annum.

5.2 Looking at the last year, there were positive contributions from stock selection and a negative contribution from asset allocation, and the Fund was ranked at the 59th percentile of the Local Authority Universe.

Consultation

a) Risks and Impact Analysis

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

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.

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